



September 21, 2012

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Manitoba Securities Commission  
New Brunswick Securities Commission  
Nova Scotia Securities Commission  
Ontario Securities Commission

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**RE: Canadian Securities Administrators Consultation Paper 91-406  
Derivatives: OTC Central Counterparty Clearing (the “Consultation Paper”)**

Dear Sirs and Mesdames:

This submission is made by the Canada Pension Plan Investment Board (the “CPP Investment Board”) in response to the request for comments on the Consultation Paper published on June 20, 2012 by the Canadian Securities Administrators (the “CSA”).

The CPP Investment Board is a professional investment management organization based in Toronto. Our purpose is to invest the assets of the Canada Pension Plan in a way that maximizes investment returns without undue risk of loss. As at June 30, 2012, the CPP Investment Board had assets of \$165.8 billion.

As a member of the Canadian Market Infrastructure Committee (“CMIC”), the CPP Investment Board participated in CMIC’s response to the specific questions posed in the Consultation Paper. The purpose of this letter is to convey the additional comment that we believe mandatory central clearing should not apply to organizations such as the CPP Investment Board that do not increase

systemic risk. We are concerned that imposing mandatory clearing on such organizations will significantly increase costs and also reduce flexibility from a risk allocation perspective.

We support the efforts of the CSA and other regulators to reduce systemic risk in the financial system, and agree that there are many benefits to central counterparty clearing arrangements for over-the-counter derivatives. However, we believe that unleveraged asset managers such as the CPP Investment Board and pension funds are not entities that pose systemic risks to the Canadian financial system. The CPP Investment Board uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency, and other financial exposures without directly purchasing or selling the underlying instrument. Our legislated mandate is to invest our assets with a view to achieving a maximum rate of return without undue risk of loss, and we evaluate derivatives transactions carefully to determine their fit with this mandate and with our long-term investment strategy.

The CPP Investment Board and pension funds are typically end-users of derivatives and therefore enter into bilateral transactions with counterparties. As a result, we and they are not subject to the same degree of interconnectedness that banks and dealers are when acting as intermediaries, which is considered a major source of systemic risk.

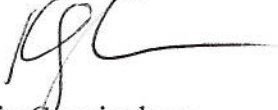
Requiring central clearing for over-the-counter derivatives transactions would result in a direct cost for organizations such as the CPP Investment Board and pension funds. Central clearing will necessitate the posting of initial margin comprised of highly liquid collateral, whereas under current bilateral relationships creditworthy entities such as the CPP Investment Board and pension funds are often not required to post collateral below a certain threshold. The collateral accepted by a central counterparty clearinghouse (a "CCP") will generally generate investment returns below those that might otherwise be realized, and furthermore is predicted to become low in supply and therefore expensive. We do not believe these costs are warranted given the very low risk posed by entities like us.

Finally, we would like to maintain the ability to allocate where our risk lies. The CPP Investment Board has a strong framework for managing the principal categories of risk it faces in connection with various investments. We acknowledge that a central clearing model is intended to reduce overall risk to the financial system. However, in certain cases we may determine that a bilateral derivatives transaction with a counterparty involves little to no risk to the CPP Investment Board or to the broader market and would prefer to proceed on the basis of a fully-collateralized bilateral trade rather than through a CCP. Requiring that such a trade be cleared through a CCP could, in the case of a default scenario, expose us to risks to which we would not otherwise have been subject.

Given these factors, we suggest the CSA should consider extending the exemption from mandatory clearing to a broader category of users. Entities such as the CPP Investment Board do not create or increase systemic risk and therefore should not be required to clear derivatives transactions through a CCP.

We appreciate the opportunity to comment on the Consultation Paper. Please do not hesitate to contact me (416.479.5771; [kcunningham@cppib.ca](mailto:kcunningham@cppib.ca)) or Andrea Jeffery, Manager, Law (416.868.8559; [ajeffery@cppib.ca](mailto:ajeffery@cppib.ca)) if you wish to discuss our comments.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'KC', with a long horizontal flourish extending to the right.

Kevin Cunningham  
Vice President – Global Capital Markets