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June 17, 2013

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Newfoundland and Labrador Superintendent of Securities, Northwest Territories
Nova Scotia Securities Commission Superintendent of Securities
Ontario Securities Commission
Registrar of Securities, Prince Edward Island
Saskatchewan Financial Services Commission
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

c/o
The Secretary
Ontario Securities Commission
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Toronto, Ontario
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e-mail: comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Secrétaire de l'Autorité
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Dear Sirs and Mesdames:

RE: Canadian Securities Administrators Discussion Paper 91-407 Derivatives – Registration

On April 18, 2013, the Canadian Securities Administrators ("the Securities Administrators") issued for comment *CSA Consultation Paper 91-407 – Derivatives: Registration* (the "Paper"). Central 1 Credit Union ("Central 1") welcomes this opportunity to provide the Securities Administrators with comment on the proposals set out in the Paper.

Central 1 is one of the largest cooperatives in Canada. It provides wholesale financial services, liquidity management, payments processing, and trade associational services to credit unions in British Columbia and Ontario, credit unions which hold $81.7 billion in assets and comprise roughly 3.1 million Canadians. In the aggregate, the Canadian credit union system comprises approximately 339 credit unions with combined assets of $140 billion, serving more than 5.1 million Canadians.

On October 26, 2010 the Canadian Over-the-Counter ("OTC") Working Group ("Working Group") published a paper that set out the preliminary recommendations for the implementation of Canada's G-20 commitments related to OTC derivatives. In that paper the Working Group stated: "reforms should be designed with a view to their potential unintended adverse consequences." It is with this in mind that we frame our response to the Paper.

Risk-Based Registration Regime
Central 1 is of the view that the Securities Administrators should adopt a risk-based registration regime that targets those market participants that pose systemic risk to the OTC derivatives market in Canada. Central 1 recognizes that the Securities Administrators are of the view that a *de minimis* exemption is not appropriate, however, Central 1 believes that an exemption based on criteria such as, notional of derivatives outstanding at any one time, value of derivatives outstanding as a percentage of an entity's capital, and the usage of derivatives to hedge banking books, would not adversely impact the OTC market in Canada and would enable the Securities Administrators to focus resources on the market participants and transactions that pose systemic risk and require increased regulatory oversight.

The Paper states "a person that is not in the business of dealing or advising in the trading of derivatives will not be required to register as a derivatives dealer or adviser." Unfortunately due to the very broad definitions of 'dealing' (equates to 'using') and 'trade' (inter alia, 'entering into a derivatives contract') employed in this section, the registration requirements contemplated by the Securities Administrators may have the unintended consequence of preventing smaller market participants from utilizing derivatives products as risk mitigation tools. As such, Central 1 cautions that the registration regime must be developed in a targeted, risk-based manner, so as to not disrupt risk management practices that do not pose systemic risk to the OTC market in Canada.

Definition of Qualified Parties
Many of the OTC derivatives transacted by British Columbia and Ontario credit unions are facilitated by Central 1. These derivatives products enable credit unions to hedge the interest rate risk and currency risk associated with their retail-oriented deposit taking and lending activities. While credit unions are full service financial institutions, it would appear unlikely that credit unions would constitute "qualified parties" as that category has been defined in the Paper. Central 1 is concerned that should credit unions be categorized as non-qualified parties this would result in additional burden as reporting obligations to those credit unions would dramatically increase.

Exemptions Based on Equivalent Regulation
Central 1 is pleased that in an effort to avoid overlap with existing regulatory regimes, the Securities Administrators have included an exemption from certain reporting requirements for 'Regulated Persons.' The paper states "persons triggering registration as a derivatives dealer, a derivatives adviser or large derivatives participant who are subject to equivalent regulatory requirements that are appropriately monitored and enforced by an acceptable regulator in Canada, should be exempted from redundant registration requirements." It is not clear based on this statement how the Securities Administrators define the term "acceptable regulator." While the Paper refers to the Office of the Superintendent of Financial Institutions as an example of an 'acceptable regulator', Central 1 would like to take this opportunity to remind the Securities Administrators that credit unions are provincially regulated financial institutions and ask that an

assessment of equivalent regulatory regimes consider both provincial and federal prudential regulators.

Exemptions for Crown Corporations
Central 1 opposes the inclusion of a blanket exemption for crown corporations, as this does not represent a risk-based approach to the oversight and regulation of the OTC market in Canada. In addition, crown corporations such as Business Development Canada and Farm Credit Canada are in the business of financial services and actively compete within the financial services sector in Canada. Consistent with the approach that is advocated above, these entities should be subject to the same registration requirements as other financial institutions, relative to the risk they pose to the OTC market in Canada.

Conclusion
In closing, Central 1 would be pleased to provide the Securities Administrators with any additional information as may be required in consideration of comments provided above with respect to the Paper.
Should you have any questions please do not hesitate to contact me at cmilne@central1.com or by telephone at 604-730-6307.

Yours truly,

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