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June 17, 2013

TO:                    Alberta Securities Commission  
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                          Manitoba Securities Commission  
                          New Brunswick Securities Commission  
                          Nova Scotia Securities Commission  
                          Ontario Securities Commission

ATTENTION:      John Stevenson, Secretary  
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**RE:                    CSA CONSULTATION PAPER 91-407 (DERIVATIVES: REGISTRATION)**

Ladies and Gentlemen,

The Canadian Securities Administrators Derivatives Committee (the "Committee") has recommended that Canadian federal, provincial and even municipal governments should not be subject to an obligation to register or be subject to registration requirements for derivatives dealers, derivatives advisers and large derivative participants in any circumstances. Federal and provincial crown corporations, whose obligations are guaranteed by the federal or provincial government, on the other hand, will not be required to register or be subject to registration requirements only when dealing with qualified parties (i.e., registered securities or derivatives counterparties or other sophisticated participants with adequate resources to absorb losses from derivatives trades) and not intermediating any trades for clients.

The Committee recognizes that an exemption is appropriate for governments and Crown corporations whose obligations are guaranteed as they represent little risk to the market, given that they can rely on government resources to satisfy their obligations. However, no exemption is contemplated for other Crown mandated and backed entities and programs. In addition, instead of treating all Canadian Crown obligations the same, the Committee distinguishes where Crown corporations are acting as a derivatives adviser or as a derivatives dealer intermediating trades or trading with non-qualified counterparties. It is unclear why the distinction is being made or what is the substantive difference in terms of risk or policy

between different government entities whose obligations and mandates are all Crown obligations and mandates. We recommend that such distinction be removed.

It is also not clear whether employees of governments or Crown corporations that are exempted from registration would themselves be exempted from registration as derivatives advisers when acting in the course of their employment. There should be clear exemption in this regard, as the government/Crown employer is responsible and liable for the action of its employees when they are acting in the course of their business.

Having regulatory requirements for derivatives related activities by any party whose actions or obligations are guaranteed by an exempted government is not necessary to carry out the purposes of the proposed regulations, which are principally to protect other parties from risks related to derivative transactions.

Excluding swap transactions for government guaranteed programs and entities from the regulatory requirements when they are to carry out legitimate governmental purposes is desirable to ensure the governmental mandates and programs involved can continue to be carried out effectively.

Government-backed entities enter into interest rate, currency, credit default and total return swaps for hedging, portfolio management and funding purposes. The Committee appears to agree that such entities and their activities are not and should not be viewed as presenting material risk concerns to their counterparties, and certainly not risks that should cause them to be regulated the same way as other types of private sector entities. This would certainly be true in the case of Canada Mortgage and Housing Corporation (CMHC) and Canada Housing Trust (CHT), whose obligations are obligations of and by Canada or whose obligations are guaranteed by Canada. The long-term debt securities of Canada, CMHC and CHT are rated triple-A by each of Moody's Investors Service, Inc., Standard & Poor's Financial Services LLC and Fitch, Inc.

CMHC is a Canadian agent crown corporation. All acts of CMHC are acts of Canada and all obligations issued by CMHC are obligations of and by Canada. CMHC is Canada's leading provider of residential mortgage insurance. CMHC also administers a mortgage-backed securities guarantee program, funds assisted housing programs for lower-income Canadians and offers housing-related loans and investments. CMHC enters into interest-rate and cross-currency swap transactions with banks and other counterparties primarily to manage its assisted housing funding obligations.

CHT is a special purpose trust used to issue Canada Mortgage Bonds ("CMBs"). While it is not an affiliate of CMHC and does not fit within the definition of a Crown corporation or of a qualified party (as proposed by the Committee), CHT was created under a mandate approved by the Government of Canada through the Department of Finance and is consolidated on CMHC's balance sheet. CHT was created to help ensure competition in the residential mortgage market and to help ensure an adequate supply of mortgage funding to financial institutions. CHT invests in mortgaged-backed securities guaranteed as to principal and interest by CMHC, as well as other obligations issued or guaranteed by Canada. CHT issues CMB notes that are also fully guaranteed as to principal and interest by CMHC and, as such, represent obligations guaranteed by Canada.

CMHC advises CHT on its derivative transactions. CHT uses swaps with counterparties to transform the sovereign-guaranteed mortgaged-backed securities' cash inflows into the required non-amortizing bond cash flows on the CMB notes, with fixed or floating interest payments and principal at maturity, through the use of customized interest rate swaps.

Requiring CMHC and CHT to comply with all the requirements of a registrant under the contemplated derivatives regulatory regime would not be possible under CMHC's present authorities and the current CHT structure. For example, all credit support annexes that CMHC and CHT enter into are one-way agreements under which CMHC and CHT accept collateral but do not post collateral. Counterparties in these OTC derivative transactions are comfortable facing the Government of Canada exposure from a credit perspective. It should be further noted, that because CHT is a trust, which by nature has no capital, any requirement to post collateral to a counterparty would likely result in CHT sourcing collateral from that same counterparty, therefore grossing up exposures.

We, therefore, urge the Committee to expand the exemption for government and government backed entities and programs and their employees.

We are available to further discuss.

Thank you.

Sincerely,

A handwritten signature in blue ink, consisting of several large, overlapping loops and a long, horizontal tail that tapers to the right.

Sébastien Gignac  
General Counsel and Corporate Secretary