



**Credit Union  
Central of Canada**

June 17, 2013

**DELIVERED VIA ELECTRONIC MAIL:**

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

**c/o:**

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Dear Sirs/Mesdames:

**Re. Canadian Securities Administrators Consultation Paper 91-407 Derivatives - Registration**

Thank you for the opportunity to comment on Consultation Paper 91-407 Derivatives – Registration published by the Canadian Securities Administrators Derivatives Committee (the “Committee”).

Credit Union Central of Canada (“Canadian Central”) is the national trade association for its member organizations - the provincial / regional Centrals - and through them 339 Canadian credit unions. Credit unions are full service, co-operative financial institutions that are owned by their member customers. Canada’s credit unions hold about \$154 billion in assets and operate a branch network with more than 1,700 locations outside of Quebec and these branches serve more than five million members and employ almost 26,000 people. The provincial and regional Centrals provide liquidity support and centralized financial services to the individual credit unions. The Centrals facilitate access by credit unions to the over-the-counter (“OTC”) derivatives market and may themselves enter into derivatives transactions as a risk mitigation tool. In addition, Concentra Financial, provides a variety of financial and risk management services to credit unions in Canada. Therefore, our Central

members and Concentra Financial may provide their own specific comments on Consultation Paper 91-407.

Canada's credit unions are also the primary source of competition to the six large commercial banks and the importance of this network of community based and managed financial institutions cannot be overstated in helping to meet the federal government's stated policy objective of encouraging competition in the financial services sector. While we are supportive of the efforts of the Committee to develop a robust framework for the regulation of OTC derivatives in Canada, we urge the Committee to bear in mind how the evolving regulatory framework will impact smaller financial institutions, such as those within the credit union system, and to strive to ensure that the regulatory regime provides flexibility in how business risks are managed and mitigated. In particular, we ask that unnecessary regulatory burden not be imposed on low risk entities and/or transactions.

From that perspective, we offer the following comments on Consultation Paper 91-407.

#### Risk-based Approach:

We support the CSA's premise that the most appropriate method to regulate derivatives market participants is to impose standard registration requirements based on the activity conducted by the participants. This approach is consistent with our view that the CSA should be taking a risk-based approach to the regulation of OTC derivatives. As a primary goal of the proposed regulatory regime governing OTC Derivatives is to manage market risk, registration requirements should focus on those market participants who might be sources of such systemic risk. Given the considerable potential costs and burden of meeting registration requirements, it is important that any new regime apply only to those counterparties and transactions which require increased regulatory oversight. Canadian credit unions use derivative instruments for the sole purpose of hedging specific assets, liabilities, and/or future cash-flows. Despite their varying size, no credit union or Central in Canada would currently pose a systemic risk with respect to size or market presence in the OTC derivatives market. We, therefore, believe that a risk-based approach to derivatives regulation should provide some accommodation for small financial institutions that are using OTC derivatives only to hedge and manage their own business risks thus representing a minimal level of risk to the overall market.

#### Definition of "Qualified Parties"

Many of the OTC derivatives transacted by credit unions are facilitated by the provincial / regional Centrals to which most credit unions belong. Since credit unions are full service financial institutions, we want to ensure that credit unions would constitute "qualified parties" as that category becomes defined in the proposed regime. We are concerned that the categorization of credit unions as non-qualified parties will result in additional burden being placed on Centrals that transact and advise on derivative transactions with credit unions. The Centrals provide credit unions with important access to the OTC derivatives market that allows credit unions to properly manage their own business risks. Should credit unions be considered "non-qualified parties", the proposed business conduct standards would be particularly onerous for a provincial / regional Central dealing with its own members. It is noteworthy that currently OSC Rule 91-504 does include credit unions as qualified parties.

Also, we submit that while generally business conduct standards may be appropriate for transactions with non-qualified parties, a derivatives dealer should not be required to meet specified business conduct standards when dealing with a qualified party.

Derivatives Dealer Category:

With respect to the categories of "derivatives dealer" and "derivatives advisor", we look forward to further clarification of these definitions in the future. There appears to be some overlap and resulting uncertainty in these two categories and again, we support a risk-based analysis to inform the definitions. We would also submit that a risk-based approach is not diminished by the inclusion of some specific and determinable criteria and that such criteria adds certainty. Accordingly, in categorizing derivatives dealers, we would urge the Committee to re-consider a *de minimis* exemption comparable to that adopted by U.S. regulators, but appropriately calibrated for the Canadian derivatives market.

Equivalent Regulatory Regimes:

Canadian Central was pleased that the Committee has considered some exemptions for regulated parties that are subject to equivalent regulatory requirements enforced by an acceptable regulator in Canada. We remind the Committee that credit unions in Canada are provincially regulated and therefore an assessment of equivalent regulatory regimes should take into account provincial as well as federal regulators.

Exemption for Crown Corporations:

Canadian Central strongly objects to the proposed registration exemption for crown corporations. Crown corporations that are in the business of financial services and compete directly with Canadian financial institutions should be subject to all the same derivatives regulations, including registration requirements.

In conclusion, Canadian Central would like to thank the Committee for the opportunity to comment again on Consultation Paper 91-407. If you have questions regarding this letter or the Canadian credit union system, please feel free to contact me.

Regards,



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