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**SUBMITTED BY EMAIL**

Bank of Canada ([PFMI-consultation@bankofcanada.ca](mailto:PFMI-consultation@bankofcanada.ca))  
234 Laurier Avenue West  
Ottawa, Ontario, Canada  
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**RE: Policy Guidance: Vertically and Horizontally Integrated FMIs**

Dear Sir or Madam:

Canadian Derivatives Clearing Corporation ("CDCC"), The Canadian Depository for Securities Limited ("CDS") and Natural Gas Exchange Inc. ("NGX") (collectively, the "TMX FMIs") appreciate the opportunity to submit their views in response to Bank of Canada's policy guidance on Vertically and Horizontally Integrated FMIs ("the Report") based on the Principles for Financial Market Infrastructures ("PFMIs"). Our primary concern relates to section (1) Measures to protect critical FMI functions of the Report and we have detailed the issues below.

**TMX Group**

The TMX FMIs are subsidiaries of TMX Group Limited ("TMX Group"). TMX Group's key subsidiaries operate cash and derivative markets for multiple asset classes including equities, fixed income and energy. Toronto Stock Exchange, TSX Venture Exchange, TMX Select, Alpha Exchange, The Canadian Depository for Securities, Montréal Exchange, Canadian Derivatives Clearing Corporation, Natural Gas Exchange, Boston Options Exchange, Shorcan, Shorcan Energy Brokers, Equicom and other TMX Group companies provide listing markets, trading markets, clearing facilities, data products and other services to the global financial community. TMX Group is headquartered in Toronto and operates offices across Canada (Montreal, Calgary and Vancouver), in key U.S. markets (New York, Houston, Boston and Chicago) as well as in London, Beijing and Sydney.

**(1) Measures to protect critical FMI functions**

Supplementary guidance contained in item 1) states that "*the FMI functions should be legally separated from other functions performed by the consolidated entity in order to maximize bankruptcy remoteness of the FMI functions*". We believe this statement does not fully align with the PFMI paragraph 3.2.6 which states "*If an FMI provides services that present a distinct risk profile from,*

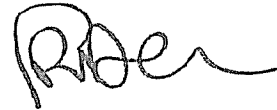
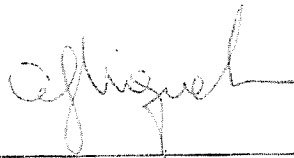
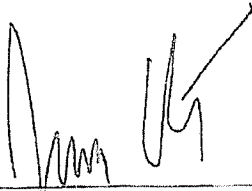
*and potentially pose significant additional risks to, its payment, clearing, settlement, or recording function, the FMI needs to manage those additional risks adequately. This may include separating the additional services that the FMI provides from its payment, clearing, settlement, and recording function legally, or taking equivalent action."*

The PFMI guidance clearly states that legal separation is a consideration when the other services provided "*present a distinct risk profile from, and potentially pose significant additional risks to, its payment, clearing, settlement, or recording function...*" This ensures that the measures taken to isolate risks are appropriate relative to the incremental risks posed by the other functions and further implies that legal separation is not necessary when the other functions do not pose significant additional risk.

Legal separation, while potentially an effective mitigant of multi-functional risk, is just one mechanism for managing risk. Other practices, including effective governance and containment of risk through contractual terms, must also be considered when managing multi-functional FMIs. The determination of the need for legal separation then must be evaluated on a case by case basis, taking into consideration the extent of "significant additional risks" and the effectiveness of other risk mitigants.

The TMX FMIs appreciate the opportunity to respond to the Report and look forward to further dialogue on the governance standards for vertically and horizontally integrated FMIs. We hope that you will consider our concerns and suggestions and would be happy to discuss these at greater length with the staff. Please feel free to contact Steve Lappin at [steve.lappin@ngx.com](mailto:steve.lappin@ngx.com), George Kormas at [gkormas@cdcc.ca](mailto:gkormas@cdcc.ca) or David Stanton at [dstanton@cds.ca](mailto:dstanton@cds.ca) if you have any questions regarding our comments.

Respectfully submitted,



Jim Oosterbaan President and CEO, Natural Gas Exchange Inc.	Alain Miquelon Managing Director, CDCC Group Head of Derivatives Markets, TMX Group	Jean Desgagne President and CEO, The Canadian Depository for Securities Limited
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