



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

March 19, 2014

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission

To the attention of:

Mtre Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, Square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, Québec H4Z 1G3
e-mail: consultation-en-cours@lautorite.qc.ca

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8
e-mail: jstevenson@osc.gov.on.ca

Dear Mr. Stevenson and Mtre Beaudoin,

Re: CSA Staff Notice 91-303 - Proposed Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives

This submission is made by the Pension Investment Association of Canada ("PIAC") in reply to the request for comments by the Canadian Securities Administrators Derivatives Committee (the "Committee") regarding 91-303 - Proposed Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives (the "Model Rule").

Background

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

Comments on Model Rule

PIAC welcomes the opportunity to comment on the Model Rule. It is not PIAC's intention to provide comments on every point raised within the Model Rule, rather, PIAC's comments will be more general and centered on the notion of establishing the appropriate clearing regime within Canada. Specifically, PIAC is concerned with the definition of a "financial entity" and the inclusion of pension funds within such definition. PIAC submits that this is extremely burdensome for pension plans with a smaller amount of assets however the comments below are made on behalf of all pension plans.

In terms of systemic risk, it is important to understand that pension plans, whether large or small, primarily use derivatives for hedging purposes. This means that aggregate derivatives exposure will overstate the risk from derivatives positions as it will only capture one side of the investment strategy. This basic defensive orientation, combined with the pension industry's very high implicit credit ratings and long-term investment horizon, allows pension plans to assume the risks of derivatives exposures that might be more difficult for other derivatives market participants to support during periods of market stress. Pension plans, even the largest ones, are neither highly levered nor heavily reliant on short-term financing, which are key characteristics of market participants most likely to pose systemic risks. It is PIAC's opinion that the use of derivatives by pension plans is more likely to reduce systemic risk and increase liquidity for the overall market as pension plan counterparties allow derivative dealers to offset some of their risk with high-quality, low risk entities. Requiring pension plans to clear their transactions, while allowing other entities to remain outside of the clearing regime with respect to their hedged transactions could discourage participation in OTC derivatives markets, which could undermine investment risk management objectives as well as be detrimental to overall market robustness.

PIAC would also note that Canadian pension plans are subject to comprehensive regulation by federal and provincial governments, in terms of solvency, governance and risk management.

We appreciate the opportunity to comment on the Model Rule. Please do not hesitate to contact Robert Cultraro, Chair of the Investment Practices Committee (416-345-5476; Robert.cultraro@hydroone.com) if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Michael Keenan", with a stylized flourish at the end.

Michael Keenan
Chair