



**RBC Global  
Asset Management™**

**RBC Global Asset Management Inc.**  
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March 26, 2014

**Via Email**

John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto, ON M5H 3S8

[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Dear Sir:

**Ontario Securities Commission Proposed Rule 24-503 Clearing Agency Requirements and its related Companion Policy and Canadian Securities Administrators Notice 91-304 Model Provincial Rule - Derivatives: Customer Clearing and Protection of Customer Collateral and Positions**

We are writing on behalf of RBC Global Asset Management Inc. (RBC GAM) in response to the Ontario Securities Commission (OSC) Proposed Rule 24-503 Clearing Agency Requirements and its related companion policy as well as Canadian Securities Administrators (CSA) Notice 91-304 Model Provincial Rule - Derivatives: Customer Clearing and Protection of Customer Collateral and Positions, published on December 19, 2013 and January 16, 2014, respectively. We appreciate the opportunity to provide our comments on these important initiatives.

RBC GAM is the portfolio manager for investment funds as well as institutional clients such as pension plans (the client portfolios). The client portfolios hold assets which include Canadian federal and/or provincial bonds with both shorter and longer term maturity dates (the bonds). At present when RBC GAM engages in over-the-counter (OTC) derivatives transactions on behalf of the client portfolios, it does so pursuant to an ISDA Master Agreement and exchanges collateral with the counterparty pursuant to a Credit Support Annex. Under these arrangements, RBC GAM is able to post the bonds as collateral with its counterparty. As these bonds are already held in the client portfolios, the portfolios incur no transaction costs in respect of the exchange of collateral.

In a centrally cleared derivatives model, RBC GAM will no longer be exchanging collateral pursuant to a Credit Support Annex, but will be posting initial and variation margin to a designated clearing agency through a clearing member. It is imperative that RBC GAM be able continue to post the bonds as collateral. If not, client portfolio assets (which were intended to be invested for the medium to long term) will need to be sold or RBC GAM will have to enter into repurchase agreements on behalf of the client portfolios to raise cash for the posted collateral.

We note that the definition and use of the terms "initial margin" and "variation margin" in CSA Notice 91-304 make reference to "collateral that is required by the derivatives clearing agency". However, CSA Notice 91-304 does not stipulate the type of collateral that is required to be accepted by a derivatives clearing agency. We ask that the CSA only recognize a derivatives clearing agency that will accept a specific list of assets, including the bonds, as collateral. In addition, this list should not place any restriction on the maturity dates of the bonds which may be posted as collateral. Currently, our pension

client portfolios own Canada federal bonds with maturities as long as 2045 and provincial bonds with maturities as long as 2076.

Similarly, we note that Sections 3.7(8) and 3.7(9) of OSC Proposed Rule 24-503 lists qualifying liquid resources that recognized clearing agencies are to maintain as sufficient liquid resources. Section 3.7(8)(e) lists one of the qualifying types of resources as “highly marketable collateral held in custody and investments that are readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions” [emphasis added]

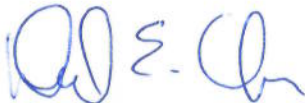
We ask that the OSC clarify as to what forms of funding arrangements would qualify as “prearranged and highly reliable, even in extreme but plausible market conditions”. If such funding arrangements are unavailable or are of limited availability for the bonds, RBC GAM’s concern is that it will not be able to post such bonds as collateral with a clearing member or similarly a clearing member will not be able to post such bonds to a recognized clearing agency as collateral.

If RBC GAM and other customers and/or if clearing members will not be able or will have constrained ability to post the bonds to a designated clearing agency as collateral because of the requirements being placed on recognized clearing agencies to have “prearranged and highly reliable funding arrangements” for “highly marketable collateral”, a likely consequence will be that customers or clearing members will be required to enter into repurchase transactions to raise cash to post as collateral.

Entering into such repurchase agreements to raise cash would impose additional costs on customers and clearing members without reducing systemic risks. In an “extreme” market event where repurchase markets cease to function, customers or clearing members would be unable to rollover expiring repurchase agreements.

We thank the OSC for considering our comments on the proposed rules. If you have any questions or require further information, please do not hesitate to contact the undersigned.

Sincerely,



Daniel E. Chornous, CFA  
Chief Investment Officer  
RBC Global Asset Management Inc.