IGM Financial

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Murray J. Taylor
Co-President and Chief Executive Officer

March 26, 2014

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

John Stevenson, Secretary
Ontario Securities Commission
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The Manitoba Securities Commission
500 – 400 St. Mary Avenue
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Attention: Secretary to the Commission
securities@gov.mb.ca

Dear Sir/Madam:

Re: **CSA Staff Notice 91-303, Proposed Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives; and**
CSA Notice 91-304, Model Provincial Rule – Derivatives: Customer Clearing and Protection of Customer Collateral and Positions
Request for Comment on Proposed MSC Rule 24-503, Clearing Agency Requirements
(the "Materials")

We are pleased to provide comments on behalf of IGM Financial Inc. ("IGM") in response to the request for comment by the Canadian Securities Administrators (the "CSA") and The Manitoba Securities Commission (the "MSC") with respect to the Materials.

IGM Financial Inc.
IGM Financial Inc. ("IGM") is a diversified financial services provider which operates through its business units Investors Group Inc., Mackenzie Inc. and Investment Planning Counsel Inc. and their respective subsidiaries. Principal subsidiaries include registered portfolio advisers and investment fund managers (I.G. Investment Management, Ltd. and Mackenzie Financial

Corporation), investment dealers and mutual fund dealers. As well, IGM, through its subsidiaries, engages in mortgage lending activities in Canada. IGM is interested in the model rules as a number of its subsidiaries use over the counter ("OTC") derivatives for the hedging of commercial risks for their own account, or on behalf of investment funds and other client accounts that they manage.

General comments

We are supportive of the objectives of the various initiatives that are being proposed with regard to the regulation of OTC derivatives. It is important that the CSA and the MSC consider how the Materials will apply to mutual funds that are regulated under National Instrument 81-102 with regard to how they use derivatives, including the existing requirements for cash cover, entities that may hold collateral/margin, etc., to ensure that the new reporting and clearing rules for derivatives will work in harmony with the current regulatory requirements on mutual funds and their use of derivatives.

CSA Staff Notice 91-303, Proposed Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives ("91-303")

We have a number of specific comments on this proposed instrument:

- although 91-903 contains an "end user exemption", "financial entities" are precluded on a blanket basis from relying on it. As we commented in our letter of June 18, 2012 in connection with Consultation Paper 91-405, we believe a more nuanced approach should be adopted. In particular, we believe that those financial services firms engaged in activities that do not pose meaningful systemic risk concerns, such as registered portfolio managers, should not be disqualified from using the end user exemption.

- the definition of "clearable derivative" should be harmonized across Canadian and international regulations rather than being determined by each local securities regulator as set out in Part 4 of 91-303. Derivatives trading is national and international in scope and differences in the definition of this crucial term among provinces do not make sense. For example, foreign exchange swaps and forwards should be excluded from the definition of "clearable derivative" reflecting what we understand is the approach that has been taken in the United States.

- the timeframe to submit transactions for clearing by end of the day of execution in subsection 4(1) of 91-303 is too short and could impact liquidity in the derivatives market by deterring trades in the hour before the data has to be submitted on each day. Time should be allowed for overnight file transfers.

- regarding subsection 4(2) of 91-303, if a counterparty is in a foreign jurisdiction that is not listed in Appendix B and that counterparty has a duty to submit the transaction for clearing in that jurisdiction and the Canadian customer has a duty to submit the transaction for clearing in its jurisdiction, it is unclear how such situations will be handled. It is not possible to clear one transaction with two different derivatives clearing agencies ("DCAs"). The rules need to address this and be harmonized across Canada and internationally.

CSA Notice 91-304, Model Provincial Rule – Derivatives: Customer Clearing and Protection of Customer Collateral and Positions ("91-304")

We have several comments on this proposal:

- the term "excess margin" should also include situations where a customer provides additional collateral in excess of the amount required by a DCA for operational efficiencies. For example, where a DCA requires $1.8 million in collateral, a customer could choose to send

$2 million in collateral to save time and cost in the event changes occur requiring further initial or variation margin.

- within each DCA (to the extent there is more than one clearing agency), the rules should allow netting of collateral requirements across cleared derivatives and across various counterparties of the customer.

- amendments to provincial personal property security legislation and federal insolvency legislation should occur prior to 91-304 being implemented, in order to ensure that security interests and insolvency laws work with the rules in 91-304 regarding segregation, collateral and consequences of insolvency.

Specific Questions in 91-304:

Question 1: **Should excess customer collateral be permitted to be held by clearing members and clearing intermediaries? Some jurisdictions believe that all collateral including excess collateral should flow directly to and be held at a derivatives clearing agency.**

All margin should be held at the DCA to allow for netting of customer positions across different clearing members and to avoid the possibility of double margining. It is unclear how the margin requirements will be translated back to the customer. If the counterparty who is also a Clearing Member requires margin from the customer for a particular clearable derivative and the DCA requires margin from the Clearing Member for such derivative, we strongly suggest the collateral requirements of a customer with the Clearing Member be considered with any margin requirements of the DCA.

Question 2: **If all customer collateral was required to be held at a derivatives clearing agency should additional requirements for the holding of excess customer collateral be applied to derivatives clearing agencies?**

All collateral, including excess customer collateral, should be treated the same and with the same level of care.

Question 4: **Should a customer's cleared derivatives collateral held at the clearing member or clearing intermediary level be permitted to be commingled with other collateral of that customer such as collateral for futures transactions?**

We would be in favour of commingling of collateral for cleared derivatives and collateral for futures transactions.

MSC Rule 24-503, Clearing Agency Requirements ("24-503")

The risk management tools in Sections 3.4 to 3.7 (Credit risk, Collateral, Margin and Liquidity risk sections) of 24-503 are not effective until March 31, 2015 which is 9 months after the planned in force date of June 30, 2014 of 24-503. Presumably clearing of clearable derivatives by a DCA under 91-303 will not be required until there is at least one DCA which has effective risk management tools in place and the rules regarding customer clearing and protection of customer collateral and positions so, similar to Section 3.14 of 24-503, Sections 3.4 to 3.7 of 24-503 should have the same effective date as 91-303 and 91-304. It would not be in the customer's best interest to be required to clear without the protection of the risk management tools.

There are significant operational implications and unknowns for customers in terms of setting up procedures to deal with DCAs and Clearing Members. There will need to be transition time once DCAs are established and before all of the clearing requirements are implemented.

It is unclear how many DCAs will exist and how they will be differentiated. We have concerns that exposures for various transactions which would net to zero will be required to clear at different DCAs which could result in the exposures not being able to be offset.

We appreciate having this opportunity to share our views regarding Materials, and would be pleased to discuss any of these concerns with you at your convenience. If you would like to do so, please either contact myself or David Cheop at (204)956-8444 or david.cheop@investorsgroup.com.

Yours truly,

IGM FINANCIAL INC.

Murray J. Taylor
Co-President and Chief Executive Officer

cc: Jeff Carney, Co-President and Chief Executive Officer