

**To: British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
The Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission of New Brunswick  
Superintendent of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut**

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and

**The Secretary**  
**Ontario Securities Commission**  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

and

**Me Anne-Marie Beaudoin**  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

**Dear Sirs/Mesdames :**

**RE: CSA Request for Comments on Proposed Amendments to National Instrument 45-106 *Prospectus and Registration Exemptions* Relating to the Short-term Debt Prospectus Exemption and Proposed Securitized Products Amendments (the “Proposed Amendments”)**

Canadian Tire Corporation, Limited (“CTC”) appreciates the opportunity to comment on the CSA’s Proposed Amendments. We have organized our response as answers to certain questions posed in your Proposed Amendments document, which we have inserted in bold within this letter.

## The Proposed Short-Term Debt Amendments

### Questions Posed by the CSA:

- 1. We are proposing a Modified Split Rating Condition as part of the Proposed Short-Term Debt Amendments in order to maintain minimum credit quality standards for CP that is issued through the Short-Term Debt Prospectus Exemption. Do you agree that some type of Split Rating Condition is necessary to achieve this objective, and if so, is the Modified Split Rating Condition we propose appropriate?**

CTC supports a minimum credit quality standard for CP distributed under the Short-Term Debt Prospectus Exemption and therefore offers the following suggestions to improve clarity and consistency:

- As S&P typically assigns a Global scale rating and a Canadian scale rating to the CP programs of Canadian entities, CTC believes that the CSA should clearly state which rating it is referring to when citing S&P's CP ratings. Furthermore, CTC believes that for both the Rating Threshold Condition and the Modified Split Rating Condition, the cited S&P ratings should be Canadian scale ratings.
  - Given that correlating short-term ratings across DROs is difficult, CTC suggests that short-term rating thresholds be chosen with reference to investment grade long-term ratings as there is a widely accepted view of what is "investment grade". For example, assuming that the CSA sets its minimum credit quality standard at two notches above the lowest long-term investment grade rating, the Modified Split Rating Condition should be R-2 (high) for DBRS and A-1 (low) for S&P's Canadian scale (as opposed to the proposed R-1 (low) and A-2, respectively). Note that CTC has successfully issued CP rated R-2(high) / A-1(low) pursuant to an exemptive relief Order of the Ontario Securities Commission.
- 2. Is the Rating Threshold Condition in the Proposed Short-Term Debt Amendments appropriate? Should the Short-Term Debt Prospectus Exemption have a higher or lower rating threshold? If a lower threshold were adopted, would it raise investor protection concerns that lower-rated CP would be sold to less sophisticated or knowledgeable investors? If so, how could these concerns be addressed?**

As stated above in our response to question 1, CTC supports a minimum credit quality standard for CP distributed under the Short-Term Debt Prospectus Exemption. The following suggestion is offered to improve clarity and consistency:

- As S&P typically assigns a Global scale rating and a Canadian scale rating to the CP programs of Canadian entities, CTC believes that the CSA should clearly state which rating it is referring to when citing S&P's CP ratings. Furthermore,

CTC believes that for both the Rating Threshold Condition and the Modified Split Rating Condition, the cited S&P ratings should be Canadian scale ratings.

### **The Proposed Securitized Products Amendments**

Glacier Credit Card Trust (“Glacier”) is a special purpose entity used to securitize credit card receivables originated by Canadian Tire Bank (“CTB” - an indirect, wholly owned subsidiary of CTC). CTB is the servicer, administrator and sponsor of Glacier. The “global style” liquidity line currently in place for Glacier’s ABCP program is unique in that it is provided by a number of financial institutions within a syndicate and also supports (after providing for Glacier’s preferential access) CTC’s CP program as well as CTC’s (and one of its subsidiary’s) general corporate purposes.

#### **Questions Posed by the CSA:**

##### **2. Are the credit rating requirements (two credit ratings at a prescribed minimum level) for short-term securitized products sold under the Short-Term Securitized Products Prospectus Exemption appropriate?**

CTC wishes to note that Glacier maintained continuity of its short-term funding throughout the global financial crisis of 2007-2009 with a single short-term rating on its ABCP.

CTC questions whether the proposed minimum credit ratings for short-term securitized products are too high such that the potential evolution of the ABCP market would be limited. The CSA notes the greater “complexity and liquidity risk” of ABCP (although the liquidity risk has been mitigated via “global style” liquidity and much of the complexity associated with short-term securitized products (e.g. the use of special purpose entities such as Glacier, cash trapping, overcollateralization of assets and the use of default events) are intended to reduce risks to investors); however CTC wishes to point out that although ABCP is currently issued in Canada with R-1(high)/P-1 (or equivalent) credit ratings only, historically some traditional asset ABCP programs operated with R-1(mid) and R-1(low) credit ratings, and therefore, prohibiting the prudent return of such programs potentially reduces Canadian issuers’ access to capital and investors’ access to desired additional yield. This is particularly salient given that the typical ABCP investor is predominantly a sophisticated institution.

On a minor note, the CSA may wish to specifically state “short-term credit rating” in section 2.35.2(a)(i) of its proposed amendment.

##### **3 (a) The Bank of Canada's eligibility policies for collateral under its Standing Liquidity Facility require that sponsors of ABCP conduits have certain credit ratings, as opposed to the liquidity provider. Should there also be requirements in the Short-**

**Term Securitized Products Prospectus Exemption as to the types of entities that can sponsor ABCP conduits (including credit ratings of those entities)?**

CTC believes that a credit rating requirement for the sponsors of ABCP conduits is not required for the following reasons:

1. Not all sponsors provide liquidity to their ABCP programs (e.g. CTB does not provide a liquidity line to Glacier), and
2. It is arguably redundant to have a minimum credit rating for the ABCP as well as a minimum credit rating for the sponsor as the financial strength, experience and capabilities of the sponsor are already considered by the DROs in their assessment of ABCP credit ratings, as per DRO rating methodologies.

**3(b) How common is it for a sponsor to not also be the liquidity provider?**

It is CTC's understanding that Glacier is the only Canadian ABCP issuer in which the sponsor does not provide a liquidity line to the issuing entity. Glacier's liquidity line is provided by a number of financial institutions within a syndicate.

**3 (c) In order to reduce the risk associated with relying on a single credit rating of one DRO, we are proposing that two credit ratings be required for the liquidity provider. Do you agree with this approach?**

Rather than legislate reliance on DROs, investors may be better served by increased disclosure about liquidity arrangements that support ABCP, thus enabling investors to make their own assessments and informed investment decisions.

Furthermore, and similar to our answer to question 3(a) above, it is arguably redundant to have a minimum credit rating for the ABCP as well as a minimum credit rating for the liquidity provider as the credit ratings of the liquidity provider are already considered by the DROs in their assessment of ABCP credit ratings, as per DRO rating methodologies.

CTC notes that section 2.35.2(a)(iv) of the Proposed Amendments requires that each liquidity provider meet the proposed minimum credit ratings. Should the CSA decide to require minimum credit rating levels for the liquidity provider(s), then CTC suggests that the CSA consider the operation of the proposed amendments within the context of a syndicated liquidity line provided by several financial institutions, as is the case with Glacier:

- The amount of Glacier's liquidity line typically far exceeds the amount of Glacier ABCP outstanding at any point in time. Therefore, if any one liquidity provider were to suffer, or be at risk of suffering, a credit rating downgrade to below a prescribed minimum level, Glacier would still have adequate total liquidity in place for its outstanding ABCP from the remaining liquidity providers with ratings

that meet or exceed the prescribed minimum levels.

- Under the terms of Glacier's liquidity line, a financial institution that suffers a downgrade in its ratings below the ratings specified in the liquidity agreement (which are higher than the levels required in the Proposed Amendments for liquidity providers) is required, within the time period specified in the liquidity agreement, to either (i) prefund its commitment, or (ii) assign its obligations under the liquidity agreement to another lender in accordance with the terms of the liquidity agreement. CTC believes that where such a provision exists, the liquidity risk is mitigated, and therefore, any prefunded liquidity commitment or any commitment that is required to be assigned to a liquidity provider with an appropriate rating should not be disqualified as a result of the downgrade and thus the issuance of ABCP should be allowed to continue.
- CTC believes that, where a liquidity provider suffers, or is at risk of suffering, a credit rating downgrade to below the prescribed minimum level, a reasonable grace period is appropriate to allow the liquidity commitment to be prefunded, assigned or restructured in order to comply with the Short-Term Securitized Products Prospectus Exemption.

**3 (d) Are the proposed minimum credit rating levels for the liquidity provider appropriate.**

As stated in our answer to 3(c) above, it is arguably redundant to have a minimum credit rating for the ABCP as well as a minimum credit rating for the liquidity provider as the credit ratings of the liquidity provider are already considered by the DROs in their assessment of the ABCP credit ratings.

**3 (e) We have proposed that the liquidity provider be prudentially regulated by OSFI or a provincial regulatory authority. Would this cause problems for current ABCP programs? To what extent do foreign banks, not regulated by OSFI, act as liquidity providers to Canadian conduits?**

Such a proposal would not currently pose a problem for Glacier. However, it could reduce desired flexibility needed to restructure liquidity provisions during an extreme market condition where numerous Canadian banks' ratings were downgraded.

**3 (f) If we were to allow foreign banks (not subject to OSFI oversight) to act as liquidity providers, to what extent would it be appropriate to require that they be subject to Basel III? What concerns exist with respect to allowing U.S. banks to act as liquidity providers if they are not subject to Basel III?**

CTC has no particular view on this, but notes that the DROs would very likely take this into consideration when rating the ABCP.

**3 (g) Are the proposed circumstances when a liquidity provider is permitted not to advance funds appropriate?**

CTC believes that the proposed circumstances are generally appropriate.

**5. Are there assets in addition to those listed in section 2.35.2(c) of the proposed Short-Term Securitized Products Prospectus Exemption that a conduit should be allowed to hold? Are these assets currently found in the Canadian ABCP market?**

Instead of listing “eligible” assets, which might have the unintentional impact of excluding assets that might otherwise be considered appropriate to investors, CTC believes that it would be preferable to list only assets that are “ineligible”, such as collateralized debt obligations.

**8. The Proposed Securitized Products Amendments do not require that issuers that distribute ABCP under the proposed Short-Term Securitized Products Prospectus Exemption report those distributions to securities regulators. For the purposes of monitoring market trends and the build-up of risk:**

**(a) what information should be available to securities regulators and other systemic risk regulators regarding ABCP distributed, outstanding, or traded;**

**(b) what would be the most effective or efficient means of reporting for ABCP issuers; and**

**(c) what would be an appropriate reporting frequency for issuers, that balances the resources that would be needed to prepare a report with the importance of having up-to-date information?**

CTC believes that adequate reporting is already publicly available through the quarterly and annual financial statements and MD&A of Glacier which are available on SEDAR, supplemented by the periodic reporting from the DROs.

As noted, CTC appreciates the opportunity to provide these comments. Please do not hesitate to contact me, or Mark Nash ((416) 480-8445), if you have any questions.

Sincerely,

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