

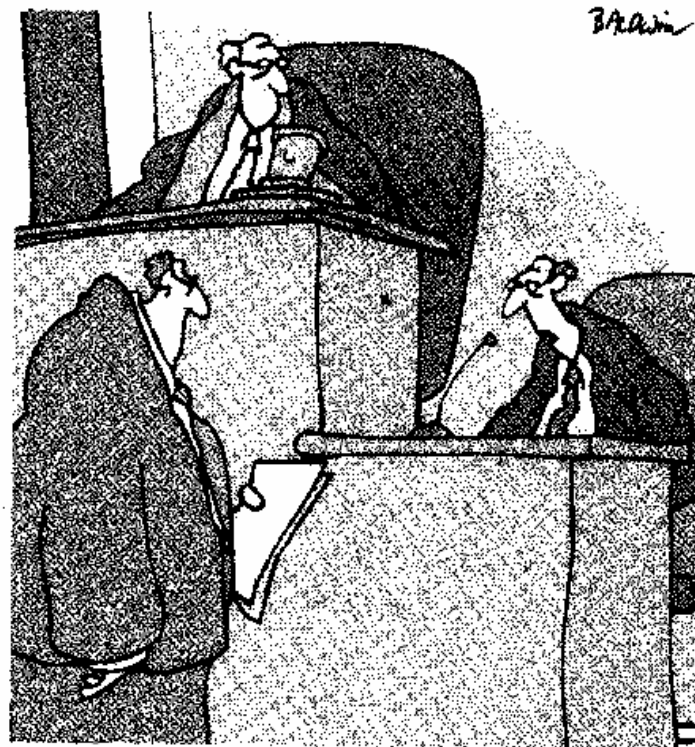
# Canadian Annual Derivatives Conference 2010

## Re-introduction of a Central-Counterparty to the Canadian repurchase market

October 14, 2010

Bob Nobrega  
Managing Director, Securities Finance  
Bank of America-Merrill Lynch

## The view on Canada's funding framework prior to the financial crisis.



"I get that it was wrong. I don't get why it matters."

In the aftermath of the financial crisis.....

“...policy-makers now recognize that systemic risk is a product of the resiliency of financial institutions, the robustness of systemically-important markets; and the interconnectedness between institutions and markets.

At its heart, the resilience of markets and institutions is a function of solvency and liquidity. As evident in the recent crisis, uncertainty about the solvency of financial institutions causes markets to become illiquid, and illiquid markets can cause otherwise solvent institutions to become insolvent.”

Mark Carney, Governor of the Bank of Canada, June 10, 2010.

The Governor has set-out three principal strategies to create a more resilient financial system.

- Increasing the resiliency of financial institutions;
- Enhancing the robustness of financial markets; and
- Reducing the interconnectedness between institutions and between institutions and markets.

“...the Bank of Canada has supported the development of a domestic CCP for Canadian-dollar repos, which should be launched later this year.”

Mark Carney, Governor of the Bank of Canada, June 10, 2010.

We have support of the Bank of Canada, but we should also expect regulation from the yet to be defined Basel III .

“...Basel III will also allow for better handling of systemic risk due to the interlinkages and common exposures across individual institutions....Basel III provides an anchor for the development of a fully fledged ad strong macroprudential framework that takes account of the two dimensions of systemic risk.”

Jamie Caruana, General Manager of the Bank for International Settlements, September 15th, 2010.

## Ancillary Benefits

- The introduction of a CCP, along with the technical abilities to meet applicable accounting standards, will allow for netting of financial assets and liabilities.

## Ancillary Benefits

- Anonymous trading in the repurchase market.

Name give-up in the repurchase market is no longer necessary if trades involving inter-dealer brokers are quickly novated to the CCP.



## Ancillary Benefits

- Addition of the buy-side, directly or indirectly to the CCP, so that there is an opportunity for clients to fully participate in the anticipated benefits.