



# **Towards 2012 Meeting Canada's G20 Commitments for Over-the-Counter Derivatives Regulation**

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Chairman CSA Derivatives Committee

- ❑ AMF work on OTC – Canada & International
- ❑ G20 Commitments
- ❑ Clearing
- ❑ Trade Repositories
- ❑ Electronic trading
- ❑ Capital and Collateral
- ❑ End User Exemptions
- ❑ Going Forward

- Committee focused on OTC
- Research into industry and regulatory developments
- Consultation
- Development of high level strategy

- Heads of Agencies
- IOSCO
  - OTC Derivatives Task Force
  - TFUMP
  - OTC Task Force
  - CPSS-IOSCO
- OTC Derivatives Regulators' Forum

All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non centrally cleared contracts should be subject to higher capital requirements.

- Mandatory central clearing for clearable transactions
- Requires determination of eligibility
- Incentives to motivate clearing

## ■ Risks:

- Tie up capital
- Collateral management
- Race to the bottom
- Access
- Disclosure
- Model risk.

- Mandating to a recognized or designated trade repository of all OTC derivatives contracts
- Transparency for both markets and regulators, and aggregate level for public
- Considerable international work being done to which Canada can contribute



- Possible mandating for products capable of being traded on organized trading platforms (sufficient standardization and liquidity), and which pose a systemic risk
- Much regulatory benefit can already be achieved through trade reporting and clearing, though price discovery and structured trading have considerable benefits
- Encourage natural evolution towards organized trading

- Capital requirements must be consistent with international jurisdictions but also address unique risks that exist in Canada
- Participants must have sufficient financial resources to meet ongoing obligations
- Non-punative, but rather provide an appropriate incentive for clearing

- Should apply to:
  - All entities acting as financial intermediaries
  - End users except for bona fide hedging that does not increase systemic risk
- Current capital regime must be fully reviewed

- CSA should develop a comprehensive capital regime (including collateral or margin requirements)
  - Significant change from current system
  - Much review and work with OSFI, IIROC BOC etc.
- Market regulators need the authority to mandate collateral for uncleared transactions

- Exemptions will be necessary for certain proposals (clearing, capital & collateral)
- Particularly important for non-financial end users who are hedging
- Further study needed to ensure exemptions are appropriate and avoid loopholes

- Publication of CSA OTC report
- Drafting of second report
- Ongoing work with HOA, OTC Derivatives Regulators' Forum, IOSCO Task Forces
- Timetable for legislation & regulation

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