Ian C.W. Russell FCSI
President & Chief Executive Officer

September 28, 2012

Basel Committee on Banking Supervision (BCBS)
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International Organization of Securities Commissions (IOSCO)
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VIA ELECTRONIC MAIL

Dear Sirs/Mesdames:

Re: BCBS IOSCO Consultative Document: Margin requirements for non-centrally cleared derivatives (the "Consultative Document")

The Investment Industry Association of Canada ("IIAC") appreciates the opportunity to comment on the Consultative Document released by the joint Working Group on Margining Requirements (the "Working Group") of BCBS and IOSCO. The IIAC is a professional association representing approximately 180 Canadian securities dealers and our mandate is to promote efficient, fair and competitive capital markets in Canada.

General comments

In general, we have reviewed and concur with the comments on the Consultative Document expressed in the letter of the Canadian Bankers Association ("CBA") dated September 28, 2012 (the "CBA Letter"). In particular, we agree that the proposals made in the Consultative Document set out very conservative initial margin requirements for uncleared over-the-counter (OTC) derivatives that could have unpredictable consequences on the functioning of global capital markets, and create systemic liquidity and operational risks that greatly outweigh any reduction in systemic credit risk.

Investment dealers in Canada that are registered with the Investment Industry Regulatory Organization of Canada ("IIROC") are already subject to high prudential standards, including stringent regulatory capital requirements and a defined margining framework which have proven very effective at shielding Canada from systemic risks; placing further requirements on top of the existing safeguards will likely have a negative impact on the participation of Canadian investment dealers in the OTC derivative marketplace. For more information on these requirements, please see the material we have included in Appendix A.

While the IIAC supports the Working Group's overall stated objective of reducing systemic risk, we disagree with the proposal to exchange initial margin for non-centrally-cleared derivatives, particularly on a gross basis. This represents a fundamental shift from current market practice under the existing International Swap and Derivatives Association ("ISDA") Credit Support Annex ("CSA"), which allows counterparties to exchange variation margin on a net basis – we believe that continuing to allow netting, where legally enforceable, is appropriate and is sufficient to meet the objective of reducing risk. We are also of the opinion that prudentially regulated firms (including IIROC members) and their counterparties should be able to make the choice as to how to best mitigate credit risks, using sound and established commercial principles such as variation margining.

We also strongly believe that affiliated transactions should not be subject to the proposed margin requirements, as they will impose a large burden without achieving the stated objective of reducing systemic risk. If a party to an affiliated non-centrally cleared transaction defaults, the event should not impact the broader OTC derivatives market, as risk will be re-allocated among the parties of the affiliated group. Not only is the imposition of this extra burden unnecessary to reduce systemic risk, it will affect the overall ability of the group to manage its internal risk strategy, requiring a review of procedures, and thereby increasing the overall costs to the group and ultimately, its clients.

The Consultative Document also fails to adequately acknowledge the interconnection between cleared and non-cleared markets. While we are witnessing much progress in the development of regulation and building of infrastructure to support central clearing of OTC derivatives, considerable work still remains. Margin requirements on uncleared swaps should only be considered after the clearing of that particular asset class has been made mandatory by local authorities and a suitable and liquid clearing venue for that asset class exists. We recommend that regulators allow the impact of the regulatory amendments already proposed for central clearing to be fully understood before adding another layer of regulatory complexity.

Implementation and timing

We respectfully recommend that after reviewing the collection of comments submitted on the Consultative Document, that the Working Group engage in an ongoing assessment and dialogue with market participants, and other domestic and global regulators. We welcome the opportunity to participate and provide the benefit of the experience and market expertise of our members. More analysis should be completed on the quantitative impact of margin requirements (including existing requirements) before regulators finalize the rules. Regulators should also consider the impact of currently proposed reforms for the clearing of OTC derivatives on participants and re-

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assess the adequacy of existing variation margin requirements before implementing these reforms.

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Thank you for providing us with the opportunity to provide comments on the Consultative Document. We would be pleased to discuss any comments expressed herein, or provide the Working Group with any additional assistance as you proceed with this guidance.

Yours sincerely,

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President & CEO

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APPENDIX A

Background: The Existing Regulatory Environment in Canada for Investment Dealers

Investment dealers in Canada are regulated by the Investment Industry Regulatory Organization of Canada ("IIROC") and the various provincial securities commissions.

IIROC

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada).[1] Firms registered as investment or securities dealers are subject to IIROC regulation, and must meet stringent capital requirements; demonstrate the ability and willingness to conduct business according to IIROC rules, including rules related to the handling of client assets; and are subject to ongoing supervision.

Provincial securities commissions

In addition to IIROC oversight and examination, securities dealers are subject to regulation by the provincial securities commissions that administer and enforce securities legislation in their respective provinces, and have the mandate to protect investors from unfair, improper and fraudulent practices.

Capital requirements for investment dealers in Canada

In general, IIROC Dealer Member Rule 100 sets out the minimum capital and margin requirements for the vast majority of securities that are held by an investment dealer or its customers. Whether or not a security is eligible for margin and if so, the minimum rate to be used is set out in Rule 100.

IIROC Dealer Member Rules also set minimum risk-adjusted capital ("RAC") requirements to ensure that dealers have enough capital for the specific nature and volume of their business, thereby reducing the possibility of failure by preventing excessive leverage and risky business practices. IIROC's Financial and Operations Compliance division ("FinOps") assesses whether firms have enough capital for the type and scope of their business activities and monitors firms for compliance with IIROC financial rules. More information about FinOps is also available on the IIROC website at http://www.iiroc.ca).

[1] For more information, see http://www.iiroc.ca.

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