

CSA Multilateral Staff Notice 24-311

Qualifying Central Counterparties

July 28, 2014

This notice is being jointly issued by the Bank of Canada (BoC), the Alberta Securities Commission (ASC), the Autorité des marchés financiers (AMF, Québec), the British Columbia Securities Commission (BCSC), the Manitoba Securities Commission (MSC) and the Ontario Securities Commission (OSC).

The purpose of this notice is to indicate that the Canadian-domiciled central counterparties (CCPs) listed in Table 1 can be considered qualifying central counterparties (QCCPs) under the standard on the capital treatment of certain bank exposures to central counterparties developed by the Basel Committee on Banking Supervision (BCBS).¹

Table 1: Canadian-domiciled qualifying central counterparties

Legal entity (system) ^a	Designated or recognized by
CDS Clearing and Depository Services Inc. ^b (CDSX)	BoC AMF BCSC OSC
Canadian Derivatives Clearing Corporation (Canadian Derivatives Clearing Service)	BoC AMF BCSC OSC
ICE Clear Canada, Inc.	MSC
Natural Gas Exchange Inc.	ASC

^a The provincial securities regulators have recognized the respective legal entities operating the clearing systems as subject to their regulatory oversight, while the Bank of Canada has designated the respective systems providing central clearing services for its oversight.

^b The parent company, The Canadian Depository for Securities Limited, is also recognized by the AMF and OSC under their respective laws.

The BCBS standard distinguishes between CCPs on the basis of their regulatory status. Certain bank exposures to CCPs that are prudentially regulated according to standards consistent with the [Principles for Financial Market Infrastructures](#) (PFMIs) established by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities

¹ The BCBS issued interim rules for the Capital requirements for bank exposures to CCPs in July 2012. The [final standard](#) was published in April 2014 and will take effect on 1 January 2017. The [interim requirements](#) will continue to apply until that time. Both the interim requirements and the final standard include the same definition of a QCCP.

Commissions (IOSCO) are subject to lower capital requirements than other CCPs. More specifically, the BCBS standard defines a QCCP as:

...an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

At the end of 2012, the BCBS published a set of [frequently asked questions](#) clarifying that “if a CCP regulator has provided a public statement on the status of a CCP (QCCP or nonqualifying), then banks will treat exposures to this CCP accordingly.”

In Canada, the Office of the Superintendent of Financial Institutions (OSFI), which regulates and supervises all banks in Canada, adopted the BCBS definition of a QCCP in its Capital Adequacy Requirements Guideline. OSFI still reserves the right to require banks to hold additional capital against their exposures to such CCPs via [Pillar 2](#) of the BCBS regulatory framework for banks.

The Bank of Canada and provincial securities regulators have the authority to oversee or regulate CCPs in Canada. The relevant authorities have all adopted the CPSS-IOSCO PFMI as their risk-management standard for CCPs. The Bank of Canada and provincial securities regulators are working in consultation to apply the PFMI in a consistent manner.

- Under the Payment Clearing and Settlement Act (Canada), the Bank of Canada is responsible for the designation and regulatory oversight of clearing and settlement systems, with a view to controlling systemic risk. The objectives of the Bank of Canada in its oversight role are to ensure that designated financial market infrastructures (including CCPs) operate in such a manner that risk is properly controlled and to promote efficiency and stability in the Canadian financial system. The Canadian Derivatives Clearing Service and the CDSX (CDSX provides the CCP service known as Continuous Net Settlement) have been designated as systemically important systems and are prudentially overseen by the Bank of Canada. In 2012, the Bank of Canada adopted the CPSS-IOSCO PFMI as its risk-management standards for designated financial market infrastructures.
- Under their respective laws and regulations, provincial securities regulators are responsible for protecting investors and ensuring fairness, efficiency and confidence in capital markets. Such provincial regulatory regimes for securities cover a wide range of matters, including the recognition, oversight and prudential supervision of financial market infrastructures that are “clearing agencies” (generally defined to include CCPs). The ASC, AMF, BCSC, MSC and OSC require the CCPs that they recognize to observe the CPSS-IOSCO PFMI under their respective recognition orders. The terms and conditions of such recognition orders have the force of law over the recognized entities. Moreover, such authorities are developing rules governing clearing agencies, including CCPs, that will be consistent with the CPSS-IOSCO PFMI, and have publicly indicated that such rules will apply to recognized CCPs on an

ongoing basis. Four Canadian-domiciled CCPs have currently been recognized in at least one province: CDS Clearing and Depository Services Inc., the Canadian Derivatives Clearing Corporation, ICE Clear Canada Inc. and the Natural Gas Exchange Inc.

Together, the actions taken by the Bank of Canada and the provincial securities regulators allow the CCPs identified above to meet the definition of a QCCP adopted by the BCBS and OSFI. These QCCPs are licensed to operate as a CCP and are prudentially supervised by a regulator/overseer that has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO PFMI.

The status of a CCP may change. In the event that one of the CCPs listed above no longer qualifies as a QCCP, this notice will be updated accordingly.

Questions

Questions with respect to this Notice may be referred to:

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