



May 14, 2025

Submitted via Email

Attention:

British Columbia Securities Commission
P.O. Box 10142, Pacific Centre
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Vancouver, British Columbia V7Y 1L2
Email: derivativesinbox@bcsc.bc.ca

Dear BCSC:

**RE: BRITISH COLUMBIA SECURITIES COMMISSION NOTICE AND REQUEST FOR COMMENT - PROPOSED AMENDMENTS
TO NATIONAL INSTRUMENT 94-101 MANDATORY CENTRAL COUNTERPARTY CLEARING OF DERIVATIVES**

We write with respect to the British Columbia Securities Commission Notice and Request for Comments (the “**Request for Comments**”) on the proposed amendments to National Instrument 94-101, *Mandatory Central Counterparty Clearing of Derivatives* (the “**Proposed Amendments**”).

OVERVIEW OF POSITION:

We are in general support of the Proposed Amendments, which serve the important purpose of updating NI 94-101 to reflect the transition to a new interest rate benchmark regime based on what is referred to in the Request for Comments as overnight “risk-free” interest rate benchmarks. In our review, the Proposed Amendments are consistent with the amendments published by other members of the Canadian Securities Administrators on September 19, 2024. The Proposed Amendments signify the BCSC’s recognition of the importance of central party clearing for identified derivatives, which reduces systemic risk and increases liquidity in derivative markets.

We offer the below comments on the Proposed Amendments. In summary, our comments concern the following: (a) the BCSC and CSA’s emphasis on international harmonization but divergence from the maturity ranges for overnight index swaps found in the US Commodity Futures Trading Commission (“**CFTC**”) regulations; (b) the lack of data to support the addition of single-name credit default swaps to the list of mandatory clearable derivatives found in Appendix “A” of NI 94-101; and (c) the potential confusion that may be caused by use of the term overnight “risk free” interest rate benchmarks.

COMMENTS ON PROPOSED AMENDMENTS

Overnight Index Swaps

We appreciate that one of the factors that the BCSC has considered in identifying the derivatives added to Appendix “A” of NI 94-101 is the need for international harmonization. Generally speaking, we support the BCSC’s efforts to harmonize Canada’s mandatory central party clearing regime with other jurisdictions.

However, in review of the derivatives listed in Annex “A” to the Request for Comments, we note that the proposed maturity ranges for some types of overnight index swaps differ from the maturity ranges for the same derivatives found in the CFTC regulations.¹ We also note that these proposed ranges are substantially wider than the ranges found in the current version of NI 94-101.

Overnight Index Swaps			
Floating Rate Index	Maturity – NI 94-101	Maturity – NI 94-101 (As Amended)	Maturity - CFTC Regulations
SONIA-GBP	7 days to 3 years	7 days to 50 years	7 days to 2 years
CORRA-CAD	7 days to 2 years	7 days to 30 years	7 days to 2 years

The Request for Comments provides no explanation on why the Proposed Amendments include a substantially expanded maturity range for SONIA and CORRA overnight index swaps other than stating that these amendments are proposed for “reasons of liquidity”. Moreover, the Request for Comments does not explain why the BCSC and CSA have elected to depart from the ranges found in the CFTC regulations. In the absence of any supporting data or rationale for this amendment, we are unable to provide any substantive comments on whether this amendment is necessary and/or beneficial to market participants. We ask that the BCSC provide further information and clarity on this issue before finalizing the Proposed Amendments.

Single-Name Credit Default Swaps

In response to the consultation question included at Annex “B” of the Request for Comments, we do not believe that there is any compelling reason to add single name credit-default swaps to the list of mandatory clearable derivatives in NI 94-101. The Request for Comments does not provide any data or information to suggest that trading in this type of derivative presents systemic risks and/or that requiring mandatory central party clearing for this type of derivative would be beneficial to market participants.

In addition, we are not aware of any other jurisdiction that has added this type of derivative to a list of mandatory clearable derivatives. Given the size of Canada’s derivative markets relative to other jurisdictions, we do not believe that Canada should be the first jurisdiction to adopt this change especially in the absence of any supporting data or analysis from the BCSC/CSA.

Overnight “Risk Free” Interest Rate Benchmarks

We agree with the BCSC and CSA’s efforts to shift away from inter-bank benchmarks and adopt “risk-free” interest rate benchmarks. We believe that CORRA and SOFR are particularly appropriate given their depth of usage as reference benchmarks across almost all parts of the financial services industry.

¹ Commodity Futures Trading Commission, *CFTC Regulations*, 17 CFR Part 50.

However, as a point of housekeeping, we suggest that the BCSC and other CSA members refrain from using the term “risk free” when describing their adoption of new interest rate benchmarks in NI 94-101. Although this term is widely used within the financial services industry, we ask that the BCSC consider that this term could be perceived as misleading by investors insofar as it does not accurately describe the nature of the derivatives listed in NI 94-101.

No financial instrument is entirely without risk. We note that market spreads will continue to exist for the instruments that are described in the Request for Comments as being “risk free” (e.g. CORRA and SOFR) based on, for example, sovereign risks, credit risks, and foreign exchange risks. Even the least risky of rates among fixed income securities will trade with some measure of variance, standard deviation, or “bond beta” and are, therefore, not without risk. Simply put, overnight “risk-free” benchmarks are not truly risk-free. In order to avoid potential confusion, we suggest that the BCSC and CSA consider adopting a more benign term such as, for example, “Overnight Interest Rate Benchmarks”.

Respectfully submitted,

Investment Industry Association of Canada