

# OTC Derivatives Regulation in Ontario

Date: December 3, 2013

OSC

ONTARIO SECURITIES COMMISSION

# Global Financial Crises & G20 Commitments

*“Improving over-the-counter derivatives markets: 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...**”*

- G20 Leaders Statement: The Pittsburgh Summit (September 24-25, 2009, Pittsburgh)

# Canadian OTC Derivatives Regulatory Reform: CSA Consultation Papers

## **Released**

- 91-402: Trade Repositories
- 91-403: Surveillance and Enforcement
- 91-404: Segregation and Portability in OTC Derivatives Clearing
- 91-405: End-User Exemption
- 91-406: OTC Central Counterparty Clearing
- 91-407: Registration

## **Upcoming**

- Capital and Margin Requirements
- Trading Requirements

# Canadian OTC Derivatives Regulatory Reform: CSA Draft Regulations

<b>Regulation</b>	<b>Anticipated Publication Date</b>
Trade Reporting	Ontario Final Rule to be published Nov. 14, 2013
Central Clearing	End 2013
Registration	Late 2014
Trading	Late 2014
Capital and Margin	2015

# Trade Repositories & Trade Reporting

# Trade Repositories & Trade Reporting: What is it?

- A Trade repository (“TR”) is a centralized facility where OTC derivative transaction data is collected and stored electronically
- Counterparties to an OTC derivative must report data relating to centrally cleared or bilateral transactions to a designated TR

# Trade Repositories & Trade Reporting: What is the policy aim?

The goal of trade reporting requirements is improving **market transparency**.

- **Regulatory Access**

- Timely Access by Canadian and appropriate foreign regulators of aggregate and transaction level data
- Monitor systemic risk exposures of market participants
- Surveillance and detection of market abuse

- **Public Dissemination**

- Publicly available aggregate and anonymous post-trade transaction level data
- Increase price transparency
- Mitigate information asymmetries

# Trade Repositories & Trade Reporting: What must be reported?

- **Creation Data:** initial transaction data including principle economic terms
- **Life-cycle Data:** changes to Creation Data throughout the life of the OTC derivative
- **Valuation Data:** the updated mark to market value of the OTC Derivative
- **Unique Identifiers:** for legal entities (LEI), transactions, and product types based on international standards



# Trade Repositories & Trade Reporting: Who must report?

- Reporting obligations apply to transactions involving a “**local counterparty**”
- The “**reporting counterparty**” has the legal obligation to report a transaction to a designated TR
- Reporting counterparty waterfall places duty on the party best-positioned to report:
  - Central clearing agency
  - Dealers
  - Non-dealers
- Reporting obligation may be delegated to 3<sup>rd</sup> party incl. foreign parties

# Trade Repositories & Trade Reporting: When is data reported?

- Real-time reporting of Creation Data once feasible and no later than the next business day until real-time reporting is implemented
- Life-cycle data must be reported on the day on which the life-cycle event occurs
- Valuation data must be reported daily (dealers) or quarterly (non-dealers)

# Trade Repositories & Trade Reporting: Status of Rules

## **Ontario Final Rule (OSC Rule 91-507)**

Published: Nov. 14, 2013

Effective Date: Dec. 31, 2013

Reporting Obligations: Jul. 2, 2014

Public Dissemination of Reporting Data:

- Aggregate-level: Jul. 2, 2014
- Transaction-level: Dec. 31, 2014

# Central Clearing of OTC Derivatives: Where appropriate?

- OTC Derivatives already being cleared (ISDA estimates):
  - More than 50% of IRS market
  - Significantly more than 50% of CDX indices
  - Smaller percentage of market in other asset classes (commodities, equities)
- ISDA estimates ~30% of OTC market likely to remain uncleared:
  - 25% of IRS market (swaptions and options, cross-currency swaps, inflation swaps)
  - 33% of CDS market (mainly single name CDS)
  - Significant percentage of other asset classes

(ISDA Report “Non-cleared OTC Derivatives: Their Importance to the Global Economy”, March 2013, and IMF Report, April 2010)

# Central Clearing of OTC Derivatives: Major Challenges

- Complexity of clearing infrastructures
- Costs
  - New infrastructure
  - Capital requirements on clearing members for CCP exposures
  - Providing for segregation
- Accessibility (for clients) and availability (for products) of clearing
- Risk Concentration
- Impact on collateral
  - Availability of high quality collateral
  - Pricing
  - Collateral transformation risk

# Central Clearing of OTC Derivatives: Status of Rules

## **CSA Model Rule:**

- Publication anticipated December 2013
- Public comment period of 90 days

# Segregation and Portability: Status of Rules

## **CSA Model Rule:**

- Publication anticipated Q1 2014
- Public comment period of 90 days