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Secretariat of the Basel Committee on Banking Supervision
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CH-4002 Basel, Switzerland;

Secretariat of IOSCO at Oquendo 12
28006 Madrid, Spain

September 26, 2012

Re: **<u>Margin requirements for non-centrally-cleared derivatives</u>**

This letter is to provide comments from Canada Mortgage and Housing Corporation (CMHC) on the consultative document *"Margin requirements for non-centrally-cleared derivatives,"* released by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) on July 6, 2012. Thank you for the opportunity to provide input on this important initiative.

In general, CMHC supports the efforts to mitigate systemic risk posed by non-centrally-cleared derivatives and to promote centralized clearing of derivatives where standardization is achievable. Our comments focus on two specific areas where, in our view, further enhancements to your proposal would be beneficial.

Element 2: Scope of coverage – scope of applicability

Question 11: Are the proposed exemptions from the margin requirements for non-financial entities that are non-systemically important, sovereigns, and/or central banks, appropriate?

- CMHC supports the exemption of sovereigns on the basis that sovereigns pose little or no systemic risk and are exempt from central clearing mandates under most national regimes.

- CMHC recommends that the sovereign exemption be further clarified to explicitly include corporations that are sovereign owned, sovereign-

guaranteed obligations, and sovereign-guaranteed programs, including the derivatives transacted under these programs where a sovereign-backed entity is the counterparty.

- As an example, CMHC is a Crown corporation whose obligations are unconditionally and irrevocably guaranteed by the Government of Canada. Accordingly, CMHC carries the same credit risk as that of the Government of Canada and thus should be similarly exempted in its capacity as a counterparty to non-centrally-cleared derivatives transactions for the same reasons as proposed for the sovereigns.

- As well, CMHC (thus effectively the Government of Canada) provides a guarantee on the securities issued under the Canada Mortgage Bonds (CMB) program, which is a securitization program. Under this program, a trust called the Canada Housing Trust (CHT) issues CMBs (i.e., sovereign-guaranteed bonds) to finance the purchase of sovereign-guaranteed mortgage-backed securities, called *National Housing Act* Mortgage-Backed Securities (NHA MBS). The CHT enters into swap transactions to hedge against interest rate risk associated with cash flow differences between NHA MBS and CMB. The unique and customized nature of the swaps means that they cannot be centrally cleared. However, the risk exposure of the CHT, whose obligations are backed by CMHC, in the capacity as a derivative or swap counterparty, is equivalent to that of CMHC and the Government of Canada. Thus, sovereign-backed entities and obligations, such as the CHT, should also be exempt as part of the sovereign exemption.

Element 4: Eligible collateral for margin

Question 20: Is the scope of proposed eligible collateral appropriate? If not, what alternative approach to eligible collateral would be preferable, and why?

- CMHC recommends that the scope of proposed eligible collateral be expanded to explicitly include sovereign-guaranteed securities, regardless of issuer. This type of securities is at least as liquid and low risk as the examples listed in the consultative document and, by definition, carries the same credit risk as the sovereign guarantor rather than the issuer.

- Thus, CMHC recommends that counterparties be permitted to post their own securities as collateral if those securities have an unconditional and irrevocable sovereign guarantee.

Thank you again for the opportunity to comment. Please contact us if you wish to discuss further.

Sincerely,

Steven Mennill
Vice-President
Policy, Research and Planning

Cc: Jeremy Rudin, Assistant Deputy Minister
Department of Finance