

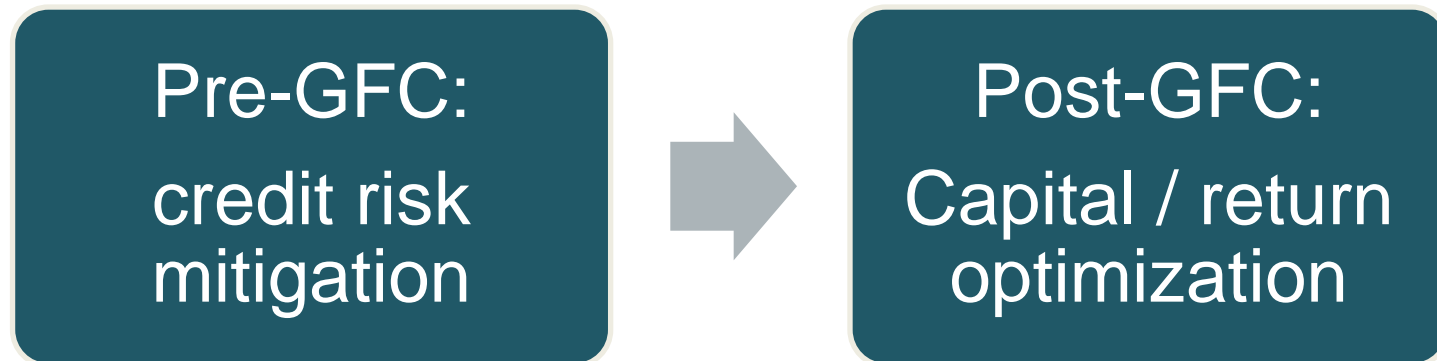


Background and Objectives of CIMPA

May 16, 2024

Evolution of collateral management

- ❖ Regulation and optimization has been a key driver impacting collateral management



Changes to collateral management are impacting ALL participants

Sell-side concerns

Impact of regulatory changes on collateral management

Intraday collateral monitoring, valuation, and movement of collateral during market volatility

Disappearance of Banker's Acceptance (\$91B of C\$ Money Market investment) will increase demand of other C\$ MM products in Canada

Intermediation of collateral markets becoming more difficult

Shared concerns

Optimizing the use of collateral to meet regulatory requirements and generate returns

Increased need for higher quality and more collateral on both sides

Higher legal, technological and operational costs

Central bank intervention, while beneficial in a time of crisis, can limit the fluidity of collateral

An increase in margin call requirements, caused by market volatility, and limitations on infrastructure creates challenges for C\$ collateral to circulate

Buy-side concerns

Minimizing collateral requirements

More collateral needed in Initial Margin/Variation Margin, which increases the cost of trading derivatives

Segregated assets - unable to use assets held in custodian accounts

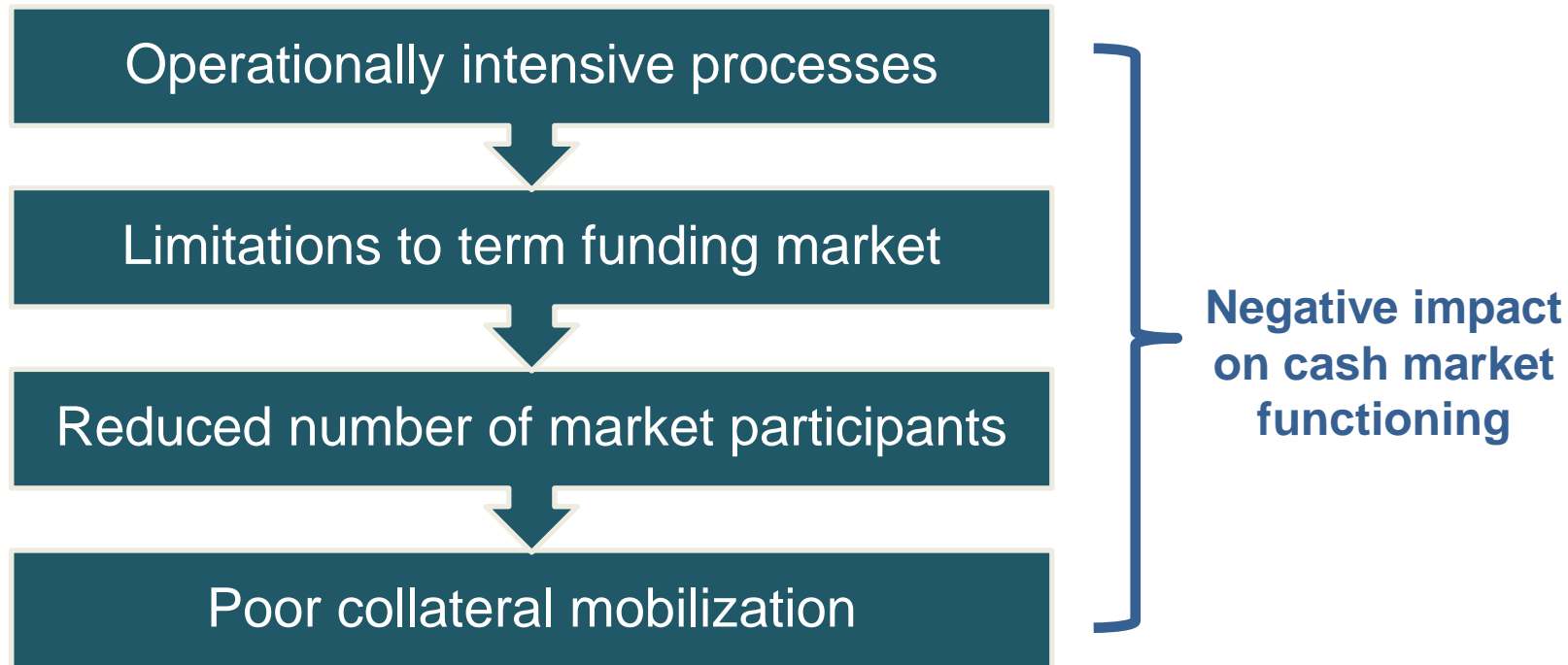
Swap dealers are reluctant to accept C\$ collateral (in other jurisdictions)

Collateral costs a potential drag on returns

Canadian collateral infrastructure lags its international peers

- The scope of Canadian collateral financing is more limited than in other jurisdictions
 - ▶ Lack of breadth for financing non-Government collateral
 - ▶ Less ability to finance for longer tenors
 - ▶ No ability to trade General Collateral baskets
 - ▶ Limited CCP repo coverage
 - ▶ Limited acceptance of Canadian Dollar collateral abroad
 - ▶ More operationally intensive due to the lack of a broadly used tri-party platform

The lack of robust infrastructure impacts market functioning



Key focus areas to modernise Canadian collateral landscape

Operational Efficiency

to settle trades without delays and minimize failed trades across the street

Intraday Collateral Movement

to be able to price and value intraday collateral, driving robust risk management practices

Central Clearing

directly reduces interconnectedness, thus protecting market participants in the event of default

Tri-party in Canada

to provide seamless collateral management bringing together repo, securities lending, and margin management

Canadian tri-party solution is being developed

- The recently introduced tri-party solution (Canadian Collateral Management Service – CCMS) from TMX and Clearstream is the first step to help modernize the Canadian collateral market structure
 - ▶ It will improve operational efficiency and collateral management (including risk)
 - ▶ Make it easier to participate in the repo market, which will help increase collateral velocity and thereby improve market functioning in cash securities
 - ▶ Incentivize new investors to participate in the Canadian market to help support increased eligibility of Canadian debt globally

CIMPA Objectives

The key objective is to promote the well-functioning of the Canadian securities and financing markets through improved operational efficiency, reduced market segmentation, and industry coordination on related issues and initiatives.

CIMPA's goals are to:

- Improve interconnectedness, standardization, and automation of securities flows
- Support market functioning through promotion of best practices for clearing, settlement, margining and risk management
- Facilitate broad adoption of the recently introduced Canadian tri-party service launched by TMX and Clearstream
- Provide an information hub on Canadian collateral developments
- Build consensus on relevant issues

CIMPA organization

- CIMPA is co-chaired by senior representatives from the Bank of Canada and industry members from CFIF
- Membership is comprised of senior representatives from buy- and sell-side firms, custodians, prime brokers, and infrastructure providers
- Other relevant stakeholders will be invited to be observers

List of Members	
Co-chairs	
BMO Capital Markets	Nick Chan
Bank of Canada	Harri Vikstedt
Sell-side: primary dealers	
Casgrain	Andre Zanga
CIBC	Rob Lemon
National Bank Financial Markets	Chris Miller
Scotiabank	Robert Dias
Buy-side: pension funds	
CPP Investment Board	Sandy McRae
Healthcare of Ontario Pension Plan	Rob Goobie
Buy-side: insurance	
Manulife Financial	David McKinnon
Buy-side: asset managers	
Fiera Capital	Marcus Barrett
TD Asset Management	Adnann Syed
Buy-side: hedge funds	
RPIA	Brian Tinney
Custodians	
CIBC Mellon	Richard Anton
RBC IS	Arthur Kolodziejczyk
State Street	Travis Keltner
Infrastructure providers	
CDCC	George Kormas
CDS	Steve Everett

CIMPA organization (continued)

- CIMPA members are expected to:
 - ▶ contribute and provide feedback on the issues being discussed;
 - ▶ sponsor recommendations within their firms;
 - ▶ promote recommendations with other market participants; and
 - ▶ support the use of the recently launched tri-party service in Canada.
- Work will primarily be done through CIMPA subgroups formed across industry subject matter experts. They will report their assessment and/or recommendation to CIMPA on a regular basis for discussion and approval
- Decision taken by CIMPA will be made by consensus, or with a two thirds majority if unable to reach consensus decisions
- Any recommendations made by CIMPA will be tabled to CFIF for final approval. Substantiative changes will be subject to broader public consultation
- The BoC provides CIMPA's secretariat function

Questions?

