

June 16, 2025

Maxime Rousseau-Turenne
Legal Counsel
Canadian Derivatives Clearing Corporation

Submitted via email to legal@tmx.com, in copy consultation-encours@lautorite.qc.ca and tradingandmarkets@osc.gov.on.ca.

Re: CDCC Proposed Rule Change Regarding the Introduction of OTC Equity Total Return Swaps (TRS) Clearing Service ([Notice to Members No. 2025 - 072](#)).

Dear Mr. Rousseau-Turenne,

The FIA¹ appreciates the opportunity to comment on the Canadian Derivatives Clearing Corporation (CDCC) proposed rule amendments in connection with the introduction of a new OTC Equity Total Return Swaps (TRS) clearing service.

We commend CDCC for its initiative to expand central clearing access for equity-linked instruments, which we recognise as a positive step toward increasing transparency and facilitating transfer of bilateral OTC to a cleared OTC market. However, we respectfully submit the following observations and request clarification regarding the proposed use of the CDCC clearing fund across both the existing listed derivatives segment ("Core Products") and the new TRS segment ("Proprietary Swap Transactions").

Potential for Risk Contagion via Shared Default Waterfall

One key concern raised by FIA members relates to the potential for default loss contagion due to a shared default waterfall structure between the Core and TRS segments. Specifically, CDCC's proposed rule states: *"CDCC will first use the Core Tranche of the Clearing Fund to cover the outstanding losses related to Core Products and use the Swap Tranche of the Clearing Fund to cover the outstanding losses related to Proprietary Swap Transactions. Any remaining excess of the Core Tranche of the Clearing Fund will be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess of the Swap Tranche of the Clearing Fund will be used to cover outstanding losses related to Core Default Products, as applicable."*

This language implies that excess funds from either tranche may be used to support the other product segment in the event of a member default. While such mutualisation may provide additional flexibility in managing risk in stress scenarios, it also increases the likelihood that losses arising in one segment, such as the newly introduced OTC TRS service, could propagate to participants in another segment, particularly those that are not active in that service. This cross-segment loss allocation model may pose material risk

¹ FIA is the leading global trade organization for the futures, options, and centrally cleared derivatives markets. FIA's mission is to support open, transparent, and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries, as well as technology vendors, lawyers and other professionals serving the industry.

for clearing participants that only clear Core Products but may be exposed to losses driven by activity in the TRS service.

FIA therefore requests clarification on the following points:

1. Segregation of Default Waterfalls: Has CDCC considered maintaining fully segregated default waterfalls for the TRS and Core segments, in line with industry practices at other global CCPs (e.g., CME, Eurex), which operate distinct default resources for listed and OTC markets.
2. Clearing Fund Contributions: Will Core Product-only members be required to contribute to the Swap Tranche, or vice versa? How will the apportionment of contributions and liability be managed to ensure that participants are not inadvertently exposed to markets in which they are not active?
3. Risk Governance and Transparency: What governance and risk management safeguards will be in place to assess and monitor cross-segment exposures, particularly with respect to new products such as TRS that may exhibit different risk profiles, liquidity characteristics, or member concentrations than traditional listed derivatives?

Recommendation

In line with risk segregation principles to limit and avoid contagion, FIA recommends that CDCC reconsider the proposal allowing clearing fund resources from one segment to be used in support of the other. Instead, we encourage CDCC to:

- Implement distinct and fully segregated default waterfalls for TRS and Core Products;
- Maintain clearing fund contribution obligations strictly within each segment;
- Establish an adequate minimum clearing fund requirement for TRS clearing members. While the TRS fund is expected to be sized independently from the Core segment, a floor should be considered to avoid a de minimis aggregate size at launch. This would help meet supervisory expectations regarding minimum default resources and reinforce the integrity of a fully segregated default structure;
- Disclose detailed modelling assumptions, stress-testing results, and the basis for any resource-sharing mechanisms if such mechanisms are retained; and
- Establish a segregated Default Fund for the TRS segment along with a dedicated CDCC Skin in the Game (SITG). If full segregation is not feasible, CDCC should instead increase its SITG amount to be allocated to the TRS segment. This increase in CCP capital should be commensurate with the higher incremental risk introduced by TRS and is warranted even in a segregated setup.

These measures would provide transparency and clarity in the use of financial resources, reduce the risk of systemic contagion between market segments, and provide greater certainty to market participants regarding their exposures. Thank you for considering our views on this important matter. If you have any questions, please do not hesitate to contact Jackeline Mesa at jmesa@fia.org.

Respectfully submitted,



Jackie Mesa

FIA Chief Operating Officer and Senior Vice President of Global Policy