

THE SECURITIES ACT)
)
Section 42 of MSC Rule 91-507)

Order No. 7479

November 28, 2018

Credit Union Central of Manitoba Limited

WHEREAS:

(A) The Manitoba Securities Commission (the “**Commission**”) has received an application from the Credit Union Central of Manitoba Limited (the “**Filer**”) for a decision under *The Securities Act*, RSM 1988, c. S50 (the “**Legislation**”) pursuant to section 42 of Manitoba Securities Commission Rule 91-507 *Trade Repositories and Derivatives Data Reporting* (“**MSC Rule 91-507**”) exempting the Filer from the requirement to report daily valuation data, based on industry accepted valuation standards, to a recognized trade repository pursuant to paragraph 33(1) of MSC Rule 91-507, (the “**Reporting Rules**”), provided that the Filer reports valuation data, based on industry accepted valuation standards, to a recognized trade repository quarterly, as of the last day of each calendar quarter, no later than the 30th day after the end of each calendar quarter pursuant to paragraph 33(1)(b) of the Reporting Rules (the “**Requested Relief**”);

(B) The Filer has represented to the Commission that:

1. The Filer is subject to Manitoba provincial legislation, namely *The Credit Unions and Caisses Populaires Act* and *The Credit Unions and Caisses Populaires Regulation*. Since January 1, 2017, the Filer has been regulated by the Financial Institutions Regulation Branch, which is responsible for administering *The Insurance Act*, *The Credit Unions and Caisses Populaires Act*, *The Cooperatives Act* and Part XXIV of *The Corporations Act* in the province of Manitoba. Prior to January 1, 2017, the Filer was regulated by the federal Office of the Superintendent of Financial Institutions (“**OSFI**”) pursuant to the federal *Cooperative Credit Associations Act*. The Filer is mandated under provincial legislation to act as the “Central” for all credit unions in Manitoba. Membership in the Central is a statutory requirement for all Manitoba credit unions. The Filer is co-operatively owned by the credit unions, which are themselves co-operatives owned by credit union members.
2. The Filer exists to provide services to Manitoba credit unions, which are required under provincial legislation to set aside a prescribed level of their total deposits for the purpose of establishing and maintaining liquidity reserves. The Filer manages such liquidity reserves on behalf of credit unions and invests in redeemable deposits and unencumbered or guaranteed bonds. In addition, the Filer monitors credit granting procedures, and provides consulting and financial services to credit unions, which occasionally

involve facilitating access to derivatives. The Filer's derivatives business is limited to clients located in the Jurisdiction.

Derivative Transactions

3. The Filer carries out derivative transactions with certain Canadian Schedule I banks (each, a "**Bank Counterparty**" and collectively, the "**Bank Counterparties**").
4. The Filer engages in two types of derivatives trades: Interest Rate Swap Transactions ("**IRS Transactions**") and Foreign Exchange Transactions ("**FX Transactions**"). The Filer's FX Transactions are restricted solely to the exchange of Canadian dollars and US dollars.
5. The Filer's activity in the derivatives market on behalf of credit unions in 2017 is described below.

Transaction Type	2017 Volume		Outstanding @ Dec 31/17	
	Number of Transactions	Notional Amount (C\$million)	Number of Transactions	Notional Amount (C\$million)
IRS	7	\$42,500,000	21	\$245,070,855
FX	67	\$17,038,602	16	\$3,442,736

*The above amounts include nominal fees of less than 0.25% to cover administrative costs.

The above activity is estimated to be broadly representative of the volume and value of the IRS transactions anticipated to be carried out by the Filer on behalf of credit unions in 2018.

The Filer ceased initiating FX Transactions as of September 30, 2018, although the Filer continues to carry out limited FX Transactions for one or more credit union(s) as the latter transition to another approved intermediary.

6. The IRS Transactions carried out by the Filer on behalf of credit unions are immediately offset with an identical, opposite transaction entered into with a Bank Counterparty (each an "**IRS Hedge**"). Because all details (e.g., term, rate, maturity date, notional amount) are identical, the valuation data for an IRS Transaction and an IRS Hedge are identical, with the exception of nominal fees that are charged to cover administrative costs, on a non-profit basis. The valuation data is effectively reported when the Bank Counterparty reports the valuation data in respect of the corresponding IRS Hedge.
7. The FX Transactions carried out by the Filer are immediately offset with an opposite transaction entered into with a Bank Counterparty in the same notional amount (each a "**FX Hedge**"). The Filer settles the FX Hedge on an aggregate basis at the end of the month in which the corresponding FX Transaction settles. As such, the FX Transactions and corresponding FX Hedges are not identical as the term, rate and maturity date may be slightly different in order to allow for aggregation for settlement purposes. A FX

Hedge is carried out by the Filer on a non-profit basis; only nominal fees are charged to cover administrative costs. The valuation data is effectively reported when the Bank Counterparty reports the valuation data in respect of the corresponding FX Hedge.

8. The Filer understands that it meets the definition of “derivatives dealer” in the Reporting Rules because it acts as an intermediary between its credit union members and the Bank Counterparties in connection with the above-mentioned derivative transactions, and as a result, would be subject to the requirement under the Reporting Rules to report valuation data on a daily basis.
9. In order to ensure that the credit unions for which the filer provides services are not subject to any reporting obligations under MSC Rule 91-507, the Filer has covenanted, in its Canadian Representation Letter #1, in the form published by the International Swaps and Derivatives Association Inc. (“ISDA”) on April 23, 2014, to report under the Reporting Rules as if it were a “derivatives dealer” solely for the purpose of such reporting.
10. As described above, each time the Filer enters into a derivatives transaction with a credit union, it hedges its obligations under that transaction by entering into an IRS Hedge or FX Hedge with a Bank Counterparty. Each IRS Hedge and FX Hedge is, or will be, reported under the Reporting Rules by the Bank Counterparty.
11. The Filer reports valuation data of all IRS Transactions and FX Transactions on a daily basis in accordance with the Reporting Rules.
12. The Filer is not in default of securities legislation in any jurisdiction of Canada.
13. The Filer submits that it should be exempt from the requirement to report valuation data on a daily basis and, instead, report valuation on a quarterly basis given the following:
 - (a) the small number of IRS Transactions and FX Transactions;
 - (b) the minimal notional value of each or its IRS Transactions and FX Transactions;
 - (c) valuation data in respect of each IRS Transaction and FX Transaction is, or will be, reported by the Bank Counterparty;
 - (d) the cost to the Filer of maintaining daily valuation reporting capability.

(C) The Commission is of the opinion that it is in the public interest to make this order.


IT IS ORDERED:

1. **THAT**, pursuant to section 42 of MSC Rule 91-507, the Filer is exempted from the requirement to report daily valuation data, based on industry accepted valuation standards, to a recognized trade repository pursuant to paragraph 33(1) of MSC Rule 91-507, provided that

- (a) the Filer reports valuation data in accordance with subsection 33(1)(b) of the Reporting Rules based on industry accepted valuation standards for each of its IRS Transactions and FX Transactions by the 30th day after the end of each calendar quarter;
- (b) each applicable IRS Transaction and FX Transaction that is reported by the Filer in accordance with subsection 33(1)(b) of the Reporting Rules and this Decision is supported by a IRS Hedge or FX Hedge with a Bank Counterparty;
- (c) the Filer, within 30 days of the date of this Decision, provides an undertaking to the Commission that upon request, the Filer will promptly provide information to assist in linking a IRS Transaction or FX Transaction to its corresponding IRS Hedge or FX Hedge.

2. **THAT**, this order expires three years from the date of this decision.

BY ORDER OF THE COMMISSION



Director