

March 19, 2014

**Memorandum of Understanding (“MOU”)  
Respecting the Oversight of Certain Clearing and Settlement Systems**

**among:**

**Bank of Canada (the “Bank”)  
Ontario Securities Commission (the “OSC”)  
Autorité des marchés financiers (the “AMF”) and  
British Columbia Securities Commission (the “BCSC”)  
(each a “Party”, collectively the “Parties”)**

The Parties hereby agree as follows:

**1. Underlying Principles and Scope**

- (a) Each of the Parties has authority and responsibilities in accordance with its respective regulatory mandate for the regulatory oversight of the Regulated Systems for purposes of promoting the safety and efficiency of those systems and limiting and managing systemic risk. In accordance with the PFMI, the Parties wish to cooperate in order to promote the safety and efficiency of the Regulated Systems and to mitigate systemic risks posed by them. The Parties establish this MOU to provide a mechanism for mutual cooperation and assistance in carrying out their respective oversight responsibilities in respect of the Regulated Systems and to formalize current cooperative arrangements among the Parties.
- (b) In particular, the Parties seek to cooperate through this MOU in their respective oversight of the Regulated Systems in order to:
  - (i) promote a consistent regulatory approach among the Parties, which avoids conflicting or incompatible regulatory requirements and actions and eliminates regulatory gaps;
  - (ii) leverage the Parties’ respective perspectives, expertise and experience to foster comprehensive and effective oversight by each of the Parties;
  - (iii) foster consistent and transparent communication and sharing of information among the Parties;
  - (iv) support fully informed judgments and assessments by the Parties when making their respective decisions regarding the Regulated Systems, recognizing that such decisions by a Party could have implications for the other Parties; and
  - (v) promote efficient oversight by minimizing the burden on the Regulated Systems of complying with the requirements of multiple regulators and by avoiding duplication of efforts by the Parties.

- (c) While recognizing the benefits of cooperating through this MOU in their respective oversight of the Regulated Systems, the Parties also acknowledge that this MOU and their participation in this MOU do not in any way:
- (i) modify or supersede the relevant legislation, regulations or rules in effect in their respective jurisdictions;
  - (ii) modify or supersede any relevant agreements between a Party and a Regulated System or any order, directive, designation or decision made by a Party in respect of a Regulated System;
  - (iii) constrain or limit the powers or discretion of the Parties in discharging their respective oversight responsibilities in respect of the Regulated Systems; or
  - (iv) create any legally binding rights, obligations or liabilities for the Parties apart from any rights, obligations and liabilities that might arise under the general law. In particular, this MOU does not confer upon any person any right to obtain information and does not create any liabilities in respect of the provision of information, any failure or delay in providing information or the accuracy of information that is provided.

## 2. Definitions

In the MOU, the following terms have the meanings set out below:

**“Administrative Coordinator”** means the Party responsible for organizing quarterly meetings pursuant to subsection 5(b) at any given time and for maintaining the contact list pursuant to section 3.

**“Confidential Information”** means any non-public information that is received by a Party through its participation in this MOU, including, without limitation, requests for information received pursuant to subsection 4(III)(c).

**“Contact Person”** means a person designated by a Party pursuant to section 3 as a person to receive communications from other Parties under this MOU.

**“PFMIs”** means the Principles for Financial Market Infrastructures of the Bank for International Settlements Committee on Payment and Settlement Systems and the International Organization of Securities Commissions, dated April, 2012, as such principles may be amended from time to time and includes any successors to such principles.

**“Regulated Systems”** means those clearing and settlement systems that are set out in Schedule 1, as such Schedule may be amended from time to time by the Parties and

published by the OSC, AMF and BCSC, which Schedule does not form part of this MOU, and includes the operators of those systems.

“**Rules**” means the rules, operating procedures, user guides, manuals, agreements and similar instruments of the operator of a Regulated System, governing the operation of the Regulated System and participation in the Regulated System.

### **3. Contact Persons**

- (a) Immediately upon the effective date of this MOU, each Party will send to the Administrative Coordinator by e-mail a list of Contact Persons to receive communications under this MOU. Each Party may include on the list of Contact Persons a maximum of three persons in respect of each Regulated System and will provide the name, telephone number, fax number, e-mail address and mailing address of each Contact Person, as well as indicate the Regulated System for which each person has responsibility. Each Party will also promptly provide the Administrative Coordinator with a revised list of its Contact Persons when a Contact Person’s contact information changes or the persons on the list change. Contact Persons may in turn delegate responsibilities for communicating with the other Parties on specific issues to other persons in their organizations upon notifying the other Parties of the delegation.
- (b) The Administrative Coordinator will, promptly upon receiving the initial list of Contact Persons from each of the other Parties pursuant to subsection (a), compile a comprehensive list of Contact Persons and contact information of all the Parties and distribute the list to all of the Parties. The Administrative Coordinator will thereafter be responsible for updating the comprehensive list of Contact Persons as the Parties send in their revised lists of Contact Persons pursuant to subsection (a) and will promptly distribute updated lists of Contact Persons to the other Parties.

### **4. Oversight of Regulated Systems**

#### **(I) Principles of Consultation and Coordination**

- (a) The Parties will endeavour to consult with each other as appropriate on oversight issues of common interest and coordinate their respective actions and policies in respect of the oversight of the Regulated Systems. Without limiting the generality of the foregoing, such consultation and coordination may include, depending on the circumstances:
  - (i) each Party considering the views of the other Parties on issues of common interest when framing oversight policies and actions, so that the policies or actions of one Party will not adversely affect the other Parties’ oversight of the Regulated Systems;
  - (ii) seeking to reach consensus where appropriate on views, policies and actions in relation to issues of common interest in the oversight of the Regulated Systems;

- (iii) where such consensus on issues of common interest can be reached, taking coordinated action and decisions in respect of the Regulated Systems, so as to reduce the regulatory burden on the systems and minimize the risk of duplication of effort and conflicting or inconsistent responses among the Parties; and
- (iv) where appropriate, conducting joint audits, reviews or assessments of Regulated Systems.

**(II) Matters for Consultation and Coordination**

- (a) Each Party will endeavour to consult and coordinate with the other Parties, through their respective Contact persons and their delegates, in respect of the following:
  - (i) any concern, or any material issue or event, which the Party has identified that could affect the safety or efficiency of a Regulated System including any regulatory response that is being considered by the Party;
  - (ii) assessments of the Regulated Systems against the PFMI and any other international standards that all Parties recognize as applying to a Regulated System, as well as the results of such assessments;
  - (iii) any default, or potential default, of a participant in a Regulated System including any regulatory response that is being considered by the Party; and
  - (iv) the review of information, filed pursuant to the respective recognition orders and designation of the Regulated Systems.
- (b) Each Party will endeavour to consult and coordinate with the other Parties their reviews of proposed Rules and proposed amendments to Rules, to the extent applicable, in respect of the following:
  - (i) the publication of the proposed Rule or Rule amendments for public comment;
  - (ii) the identification and resolution of material issue(s) arising from the proposed Rule or Rule amendments; and
  - (iii) the publication of the notice of approval of the proposed Rule or Rule amendments.
- (c) Each Party will endeavour to coordinate with the other Parties their independent reviews or audits of a Regulated System's systems and controls, to the extent applicable, in respect of the following:
  - (i) the approval of a qualified party to conduct the independent review or audit;
  - (ii) the finalisation of the scope of the independent review or audit; and

- (iii) the resolution of any material issue(s) resulting from the independent reviews or audit.
- (d) Each Party will endeavour to provide such prior notice as is reasonable of any on-site visits by the Party to a Regulated System for purposes of conducting assessments, audits or reviews, and to share with the other Parties any information arising from the on-site visits that the Party feels could be of common interest to the other Parties in discharging their respective oversight responsibilities.

**(III) Information Sharing**

- (a) Each Party will endeavour to share with the other Parties, through their respective Contact Persons and their delegates, such information concerning the oversight of the Regulated Systems that the Party considers to be of common interest to the other Parties in discharging their respective oversight responsibilities.
- (b) In particular, without limiting the generality of the foregoing, each Party will endeavour to share with the other Parties the following information:
  - (i) information pertaining to any material change to the operations, business, services, activities, affairs, financial resources, governance, membership, systems, Rules, design or risk controls of a Regulated System insofar as such change could affect the safety or efficiency of the system;
  - (ii) the results of any assessments, audits or reviews of a Regulated System or its operator conducted by the Party or by another person on behalf of the Party;
  - (iii) where the Party considers it practicable, prior notice to the other Parties of the making of a decision or the issuance of a directive, order or similar regulatory action in respect of a Regulated System that could have a material effect on the operation, management or risk controls of the Regulated System; and
  - (iv) notice and, where appropriate, prior notice, of any changes to the legislative, regulatory or legal framework governing a Regulated System in the Party's jurisdiction which could have a material effect on the safety, efficiency or oversight of the Regulated System.
- (c) Without limiting the generality of the foregoing, each Party may request from the other Parties information relating to a Regulated System. To the extent practicable, a request for information should be made in writing and addressed to the relevant contact person as identified pursuant to section 3. A request for information should specify the following:
  - (i) the information sought by the requesting Party;

- (ii) a general description of the matter to which the request relates and the purpose for which the information is sought; and
- (iii) the degree of urgency of the request and the time period in which a response is requested.

## **5. Mechanisms for Information Sharing, Consultation and Coordination**

- (a) The Parties will, in the normal course of their respective day-to-day oversight of the Regulated Systems, share information and consult with each other as they consider appropriate on issues of common interest through communications among the Contact Persons at the respective Parties and their delegates. Such communications may be conducted on an *ad hoc* basis by telephone, e-mail or in-person meetings as issues of common interest arise.
- (b) In addition to the *ad hoc* communications and consultations described in subsection (a), the Parties will endeavour to schedule regular quarterly meetings on mutually acceptable dates (“Quarterly Meeting”). The responsibility for organizing the Quarterly Meetings will rotate among the Parties at such intervals and in such order as mutually agreed upon by the Parties outside of the MOU.
- (c) The Parties will endeavour, where possible, to organize at least one of the Quarterly Meetings per year as an in-person meeting hosted by one of the Parties. Each Party will be represented at each Quarterly Meeting by at least one of its Contact Persons and may also send such other representatives as it considers appropriate.
- (d) The Parties will discuss at Quarterly Meetings matters of common interest in their respective oversight of the Regulated Systems. In particular, without limiting the generality of the foregoing, the Parties may discuss:
  - (i) emerging policy initiatives, issues and trends of common interest in the oversight of clearing and settlement systems;
  - (ii) financial industry vulnerabilities, the general financial and economic environment and their potential impact on the Regulated Systems;
  - (iii) issues or concerns that any Party might have with a Regulated System that may be of common interest to the Parties;
  - (iv) any material event that they feel could impact a Regulated System, including changes in the operating environment, operations, financial resources, management, systems controls and risk controls; and
  - (v) such general information concerning clearing and settlement systems, other than the Regulated Systems, that a Party having oversight responsibilities for the other clearing and settlement system may wish to discuss with the other Parties.

In addition, at the last Quarterly Meeting of each year, each party will present and discuss its work plan and key priorities and issues for the next year in respect of the Regulated Systems.

- (e) If a Party identifies a particular issue or concern affecting the safety or efficiency of a Regulated System, which it believes requires urgent action or consideration (an “Urgent Matter”), the Party will immediately notify the Administrative Coordinator. The Parties will then consult in accordance with the Protocol for Consulting on Urgent Matters set out in Appendix 1, which Appendix forms part of this MOU.

## **6. Confidentiality and Uses of Information**

- (a) Except for disclosure as provided for in subsections (b) through (e) below, all Confidential Information will be kept confidential by the Parties to the extent permitted by applicable law and will be used by the Parties only for oversight purposes or in connection with their respective statutory responsibilities.
- (b) A Party that has obtained Confidential Information under this MOU may disclose the information:
  - (i) in the case of the Bank, to the Department of Finance Canada, the Office of the Superintendent of Financial Institutions, the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada;
  - (ii) in the case of the OSC, the AMF and the BCSC, to their respective provincial finance ministries and other provincial government agencies

provided that the entities to which the information is being disclosed provide a written undertaking to keep the information confidential, subject to such disclosure as is required by applicable law, and the disclosing Party provides to the other Parties a copy of the signed undertaking as well as written notification of such disclosure, specifying the nature of the Confidential Information and the purpose for which it is disclosed.

- (c) Except as provided for in subsection 6(b), a Party that has obtained Confidential Information under this MOU from another Party may disclose the information to any entity upon obtaining the prior written consent of the Party from whom it obtained the information. In the event that a Party has identified an Urgent Matter pursuant to subsection 5(e), such consent may be given in any form, including orally, provided that it is confirmed in writing as soon as possible following the giving of consent. If such consent is not given by the Party who provided the information under the MOU, the two Parties will consult to discuss the reasons for withholding consent and the circumstances, if any, under which disclosure to the entity might be allowed.
- (d) In the event that a Party is required by statute or by legal process (including, without limitation, access to information legislation and discovery process relating to judicial or

administrative proceedings) to disclose Confidential Information, the Party will, to the extent permitted by applicable law, inform the Party from whom it obtained the information of the required disclosure and seek that Party's prior consent. If such consent is not obtained, the Party from whom disclosure is required will assert all available legal exemptions from or privileges against disclosure. If, despite such efforts, disclosure of the Confidential Information is ultimately compelled, the Party from whom disclosure is required will, to the extent permitted by law, inform the Party from whom it obtained the information in advance of such disclosure.

- (e) Nothing in this MOU restricts a Party from informing financial institutions or the operators of clearing and settlement systems of, or otherwise making public, risks or deficiencies that it has identified in respect of a Regulated System when doing so is in connection with its statutory responsibilities or pursuant to legal obligations, even when the knowledge of such risks or deficiencies is based in whole or part on Confidential Information, so long as no Confidential Information provided by any other Party is disclosed, except in accordance with this MOU.

## **7. Amendments to the MOU**

- (a) This MOU may be amended from time to time as mutually agreed upon in writing by the duly authorized representatives of the Parties. Any amendment is subject to Ministerial Approval in Ontario and to Governmental approval in Quebec.
- (b) Any provincial or territorial securities or derivatives regulatory authority having regulatory authority over a Regulated System may become a party to this MOU by obtaining the written consent of the other Parties. Upon obtaining the consent of the other Parties, the authority will execute a counterpart of this MOU and provide an original copy of the counterpart to each of the other Parties.

- 8. Withdrawal from the MOU** A Party may at any time withdraw from this MOU upon giving the other Parties at least ninety (90) days prior written notice. During the notice period, a Party wishing to withdraw from this MOU will continue to cooperate in accordance with this MOU. A Party that withdraws from this MOU will continue to treat information that it obtained under this MOU in the manner prescribed by section 6. If any Party withdraws from this MOU, the MOU will remain in effect between the remaining Parties.

## **9. Execution and Effective Date**

- (a) This MOU will come into effect on the date that all of the following requirements are met:
  - (i) the MOU is signed by all of the Parties;
  - (ii) in the case of the AMF, governmental approval is obtained; and

- (iii) in the case of the OSC, on the date determined in accordance with applicable legislation.
- (b) This MOU may be executed and delivered by the Parties in one or more counterparts, each of which when so executed and delivered will be deemed to be the original, and those counterparts will together constitute one and the same instrument.

**Bank of Canada**

Per: "Stephen S. Poloz"

Title: Governor

Signed this 17th day of January, 2014.

**Autorité des marchés financiers**

Per: "Louis Morisset"

Title: President and Chief Executive Officer

Signed this 19th day of March, 2014.

**Ontario Securities Commission**

Per: "Howard I. Wetston"

Title: Chair

Signed this 30th day of January, 2014.

**British Columbia Securities Commission**

Per: "Brenda Leong"

Title: Chair and Chief Executive Officer

Signed this 24th day of February, 2014.

The Minister for Canadian Intergovernmental Affairs, the Canadian Francophonie and Sovereignist Governance, represented by the Associate Secretary General of the *Secrétariat aux affaires intergouvernementales canadiennes*, takes part herein pursuant to the first paragraph of section 3.8 of *An Act respecting the Ministère du Conseil exécutif* (R.S.Q., c. M-30), acknowledges the undertakings set out in this MOU and declares to be satisfied therewith.

Per: "Yves Castonguay"

Title: Associate General Secretary (Canadian Intergovernmental Affairs, Government of Quebec)

**Schedule 1****Regulated Systems**

The following clearing and settlement systems and their operators are Regulated Systems within the meaning of the MOU Respecting the Oversight of Certain Clearing and Settlement Systems among the Bank, the OSC, the AMF and the BCSC:

- CDSX;
- CDCS.

**Appendix 1****Protocol for Consulting on Urgent Matters**

Pursuant to subsection 5(e) of the MOU Respecting the Oversight of Certain Clearing and Settlement Systems among the Bank, the OSC, the AMF and the BCSC, the Parties will observe the following Protocol if any Party identifies an Urgent Matter.

1. The Party that identifies the Urgent Matter will immediately notify the Administrative Coordinator by telephone or e-mail, briefly describing the nature and the urgency of the matter.
2. The Administrative Coordinator will immediately organize and convene a teleconference among the Contact Persons in respect of the relevant Regulated System to discuss the Urgent Matter.
3. At the initial teleconference, the Parties will discuss the Urgent Matter and possible individual and collective responses by the Parties. In addition to discussing the substantive aspects of the Urgent Matter and responses thereto, the Parties will endeavour to reach decisions on the following matters of process to govern their responses to the matter going forward:
  - (i) designate one of the Parties as the Party to coordinate regulatory consultations and responses to the Urgent Matter (the “Urgent Matter Coordinator”)<sup>1</sup>;
  - (ii) designate certain persons within their respective organizations, who may be Contact Persons or other persons, to receive communications and participate in consultations relating to the Urgent Matter; and
  - (iii) if appropriate, map out a general schedule of future meetings of the Parties to discuss the Urgent Matter, as well as the form of the meetings (i.e., by teleconference or in-person).

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<sup>1</sup> Although which Party is the appropriate party to coordinate will depend on the circumstances, the Parties in designating an Urgent Matter Coordinator will have regard to: (i) in the case of the potential failure or default of a participant in the Regulated System, the jurisdiction that regulates the participant; (ii) whether the Urgent Matter is primarily a matter of risk to the Canadian financial system as a whole or rather is confined to risk/efficiency/access in a provincial market; and (iii) if the Urgent Matter is primarily a matter of operational risk resulting in a systems problem or failure, the jurisdiction where the systems problem or failure is likely to have the most impact.

4. The Urgent Matter Coordinator will have primary responsibility for coordinating the consultations and regulatory responses of the Parties regarding the Urgent Matter. Without prejudice to the ability of the other Parties to liaise directly with the Regulated System, this includes, without limitation, primary responsibility for:
  - (i) organizing and convening meetings to discuss the Urgent Matter, which meetings may involve, as is deemed appropriate and practicable, (a) the Parties, (b) the Parties and the Regulated System, or (c) the Parties, the Regulated System and other relevant regulatory and governmental bodies; and
  - (ii) coordinating communications on the Urgent Matter among the persons designated by each Party in accordance with subparagraph 3(ii) above.