

FOR IMMEDIATE RELEASE  
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## Bank of Canada designates SwapClear under the Payment Clearing and Settlement Act

**Ottawa** – The Governor of the Bank of Canada has designated SwapClear as subject to ongoing regulatory oversight by the Bank under the Payment Clearing and Settlement Act (PCSA), effective 2 April 2013.

SwapClear, established in 1999, is the dominant global system for centrally clearing over-the-counter (OTC) interest rate swaps (IRS). It is operated by LCH.Clearnet Limited (LCH), a U.K.-based company that operates a number of central counterparty (CCP) services.

Clearing activity of Canadian institutions in SwapClear has increased substantially, in line with Canada's G-20 commitment to centrally clear all standardized OTC derivatives. There is potential for further growth, given the decision by Canadian authorities in October 2012 that any CCP that clears OTC derivatives and is recognized by Canadian authorities, including global CCPs, can be used by Canadian market participants, provided that the CCP complies with the Principles for Financial Market Infrastructures (the Principles) published by CPSS-IOSCO<sup>1</sup> and that the four safeguards identified by the Financial Stability Board are met.<sup>2</sup>

The Bank of Canada has determined that SwapClear, an eligible system under the PCSA,<sup>3</sup> has the potential to pose systemic risk to the Canadian financial system because of:

- the central role that the IRS market plays in the Canadian financial system
- SwapClear's dominance in clearing the IRS market
- the significant counterparty exposures of Canadian banks that are concentrated on SwapClear

The Minister of Finance has confirmed that he is of the opinion that designation is in the public interest.

"The designation of SwapClear represents a significant milestone towards achieving a safer and more resilient financial system for Canadian participants," said Governor Mark Carney. "Our involvement in the oversight of SwapClear, to ensure strong risk management prevails, will

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<sup>1</sup> Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO)

<sup>2</sup> The four safeguards are: (i) fair and open access by market participants to CCPs; (ii) co-operative oversight arrangements for CCPs between relevant authorities; (iii) resolution and recovery regimes that aim to ensure that the core functions of CCPs are maintained during times of crisis; and (iv) appropriate emergency liquidity arrangements for CCPs in currencies in which they clear.

<sup>3</sup> SwapClear meets the current PCSA requirements for an eligible system. It has at least three participants (at least one of which is a Canadian participant and at least one of which has its head office in a jurisdiction other than the head office jurisdiction of the system operator, LCH), and it clears and settles partially in Canadian dollars.

enable Canada to reap the benefits of the central clearing of OTC interest rate derivatives, as envisioned by the G20.”

Designation brings the system under the formal oversight of the Bank of Canada, which requires all designated systems to comply with the Principles, and provides the Bank with powers to support the system’s ongoing progress toward meeting the four safeguards. Designation also provides the system’s clearing and settlement rules with legal protections under Canadian law, including with respect to netting, finality of payment and finality of settlement. Upon the effective date of designation, the Bank of Canada will fulfill its oversight responsibilities through participation in a multilateral arrangement for oversight co-operation led by SwapClear’s lead regulator, the Bank of England, and through bilateral interaction with the Bank of England and LCH.

## **Background**

Under the PCSA, the Bank of Canada has formal responsibility for the oversight of designated clearing and settlement systems,<sup>4</sup> for the purpose of controlling systemic risk. In this context, systemic risk is defined as the risk that the default of one participant in a clearing and settlement system, or a serious problem arising within the system itself, could lead, through the activities of the system, to the default of other institutions or systems.

Four systems have been previously designated by the Bank: the Large Value Transfer System (LVTS), which clears and settles large-value Canadian-dollar payments; CDSX, which clears and settles securities transactions; CLS Bank, a global system for the settlement of foreign exchange transactions; and the Canadian Derivatives Clearing Service, which centrally clears fixed-income and derivatives contracts.

For further information on the Bank of Canada’s responsibilities for the oversight of clearing and settlement systems in Canada, please visit the Bank’s [website](#).

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<sup>4</sup> A clearing and settlement system under the PCSA includes a system or arrangement for the clearing or settlement of derivatives contracts, provided that the system or arrangement meets the requirements listed in footnote 3 above.