From the Desk of Ian Russell
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IIAC Fixed Income Market Regulatory Update – June 30, 2016

Canada

IIROC to Begin Publishing Corporate Debt Trade Information in July

- The Investment Industry Regulatory Organization of Canada (IIROC) has been designated by the Canadian Securities Administrators (CSA) as Information Processor for corporate debt securities. CanPX Inc. will cease operations as an Information Processor on June 30, 2016.
- **Beginning July 6, 2016, trade information will be published online on IIROC's new corporate bond information web site**. The public will be able to access and search online post-trade information for corporate debt securities (currently made transparent by CanPX) and for retail trades in all other corporate debt securities **two days after a trade occurs** (T+2), free of charge.
- **The corporate debt data displayed will include the issuer name and the price, coupon rate, yield and volume, subject to volume caps**.
- By July 1, 2017, the IIROC Information Processor will report trades in all corporate debt securities. Caps on reported trade volume and a two-day delay in publication will mitigate any potential effects on market liquidity.
- CSA staff will review the trading activity for corporate debt securities over time to determine whether the initial dissemination delay of T+2 and the volume caps need to be changed.

Europe

The Association for Financial Markets in Europe (AFME) Comments on Brexit

- The following statement was issued by AFME following the Brexit Vote in the UK:
    - The outcome of the EU Referendum and the UK's decision to no longer continue its EU membership will shape the direction of Europe's financial markets for years to come.
    - **This decision will significantly affect UK-based financial services firms and their ability to serve their clients and customers across Europe**.
    - We are in uncharted territory and the details of the new EU-UK relationship will need to be worked out over the coming months and years. These **negotiations will be critical to the future of the UK's role in Europe's capital markets**, which are key drivers of economic growth and prosperity in both the UK and Europe.
- AFME said it will work with policymakers, regulators and financial market stakeholders to minimize any potential damage to capital markets in Europe. It urged UK and EU authorities

to pay close attention to the need for financial stability in the short run, and negotiators to focus on allowing these markets to continue to operate efficiently in the longer run.

UK Financial Institutions Drawing Up Post Brexit Plans

- **The UK's decision to leave the EU is expected to dampen financial markets, debt and equity trading and M&A activity**. Slowing business and the regulatory outcome from the Brexit decision may prompt some investment banks to adjust operations and reallocate capital to where financial activity and trades are booked.
- **The banks are lobbying politicians to keep UK financial regulations intact and consistent with those in the EU** to ensure the sector suffers as little disruption as possible from withdrawal of the UK from the EU.
- A business priority for the banks is to maintain market access to the EU single market after Brexit.
- Jonathan Hill, outgoing EU Commissioner for Financial Services and Britain's representative to the EU Commission, has warned that British-based banks (and foreign banks with subsidiaries in the UK) will unlikely preserve "passport" rights allowing them to serve clients across the bloc.
- Passporting will not be possible, unless a special arrangement can be negotiated.
- The Financial Times reported that **several of the big investment banks are drawing up contingency plans to move jobs and activities out of the UK if they lose "passporting" rights**. They may establish subsidiaries in Dublin, Frankfurt, the Netherlands or Paris, for example.

Asia

Asian Exchanges Boosting Presence in Regional Currency Bond Markets

- **India, Singapore and New Zealand are boosting liquidity in regional currency bond markets to gain a bigger share of fixed income trading**. Initiatives range from electronic bookbuilding to retail trading. The goal is to fill the gap that traditional market-makers have left.
- The Singapore Exchange (SGX) has become an over-the-counter trading venue for Asian bonds. It started with U.S. dollar and euro credits and now expanding into local currencies. The SGX is also working on providing on-exchange electronic bookbuilding for Singapore dollar bonds.
- The Securities and Exchange Board of India (SEBI) has mandated all issues above 5 billion rupees be conducted through electronic bookbuilding by July 1, 2016.
- **Australia Securities Exchange is looking into providing on-exchange bookbuilding for bonds**. Investors may use it to trade bonds in the secondary market.
- **Hong Kong Exchanges and Clearing may allow locally based investors to trade renminbi bonds** out of China.
- In New Zealand, the *Financial Markets Conduct Act* has made it easier for issuers to sell to both institutional and retail investors in the same offering.
- You can read more here.

Guy Debelle, Assistant Governor (Financial Markets), Reserve Bank of Australia, Speaks About Market Conditions in Australia

- In his address to the 4th Australian Regulatory Summit (June 21, 2016), Assistant Governor Debelle said **changes in dealer business models and increased use of electronic trading platforms have influenced the nature of market liquidity in some overseas markets, but these changes are not as prevalent in Australia**.
- In Australia, trade data on transactions is less readily available because most secondary market activity is not conducted on electronic platforms. While it would be good to have more trade information, too much transparency may not be a good thing, he said, particularly in a relatively small fixed income market like Australia's where the revelation of market participants' positions in close to real-time can be problematic.
- **Liquidity in most segments of the physical bond market in Australia is lower than in the past. Changes are partly a response to regulation and partly a reassessment of business models by banks**. Liquidity was oversupplied and underpriced in the years prior to the global financial crisis, and the changes in recent years are broadly desirable. To-date, these changes have not presented any significant issues in the Australian market.
- The share of the government bond market that turned over, on average, in a month has lengthened to over six weeks. The average share of the corporate securities market that turned over in one month now has increased to two months. In general, it is a little more difficult to transact in size.
- **The corporate bond market in Australia has never had a highly liquid secondary market**. It has always been predominantly a "buy and hold" market.
- **Market participants have steadily increased transactions in derivative instruments rather than cash bonds**. Growth in activity in these markets in recent years has significantly outpaced growth in issuance of Australian dollar bonds.
- The share of electronic trading in government bond markets is about a third compared to over 50% in European and U.S. bond markets.
- Mr. Debelle concluded that **regulatory changes have contributed to the reduced capacity in the domestic market, but not to the detriment of market functioning**.
- Additional information on fixed income liquidity in Australia is available here.

The Investment Industry Association of Canada (IIAC)
Representing Canada's Investment Dealer Firms

The Investment Industry Association of Canada (IIAC) is the national association representing the position of 133 IIROC-regulated Dealer Member firms on securities regulation, public policy and industry issues. The IIAC has successfully argued for positive change in securities regulation and public policy that has improved market efficiency and lowered costs for dealers and market participants without jeopardizing investor protection. Click on the links to read the Highlights of Our 2015 Achievements and the Highlights of Our Q1, 2016 Achievements.

The IIAC's efforts have assisted Member firms address:

- CRM rule-making and managing industry CRM compliance efforts
- Cyber threats
- Tax reporting requirements (e.g. FATCA, OECD Common Reporting Standard, and Specified Foreign Property Tax Reporting)

The IIAC has also taken a leading role among trade associations in laying out the rationale for a cooperative securities regulator, pension reform and OTC derivatives reform with positive results.

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