FIXED INCOME MARKET REGULATORY UPDATE

December 2017

Keeping you informed on recent policy and regulatory developments shaping credit markets in Canada & abroad

Canada

Coming Soon: Mandated Transparency Requirements for Canadian Government Debt Markets

Canadian government debt markets are currently exempt from mandatory transparency requirements. On December 14, 2017, the Canadian Securities Administrators (CSA) announced it will bring an end to this exemption and will proceed to publish for comment in Q1 2018 a proposed framework for mandatory post-trade transparency of trades in government debt securities.

The CSA and other public authorities, including the Bank of Canada, are aware of the delicate balance that exists in fixed income markets between transparency and liquidity. While this balance is most precarious for thinly traded markets such as certain classes of corporate bonds, it cannot be overlooked when developing Canada's approach for government debt markets. In developing its framework, the CSA also needs to be cognizant of the various other sources that are contributing to debt transparency in Canada.

Considerations of MiFID II Unbundling Requirements on Canadian Regulatory Requirements

Europe's Markets in Financial Instruments Directive (MiFID II) will require, among other things, a complete separation of research and trading fees charged to clients by investment firms, commonly known as "unbundling of commissions". In Canada, the use of client brokerage commissions is governed by NI 23-102. In a Staff Notice released December 14, 2017, the Canadian Securities Administrators (CSA) shared its views on the likely impact MiFID II unbundling requirements would have on regulatory requirements in Canada.

United States

CFTC extends swaps-reporting relief for certain affiliated counterparties

On December 14, 2017, the Commodity Futures Trading Commission (CFTC) extended until December 31, 2020 previously-issued no-action relief from the swap clearing and trade execution requirements for certain inter-affiliate transactions. Relief has also been expanded to include affiliated counterparties located in Canada, Hong Kong and Switzerland. This extension will continue to allow market participants to comply with the inter-affiliate exemption as they have done since the exemption was adopted by the CFTC in 2013.

Promoting U.S. Access to Non-U.S. Swaps Markets

On December 14, 2017, the Futures Industry Association and SIFMA released a White Paper setting out recommendations for improving U.S. access to international swap markets. The Associations assert that the current approach has led to several problems for U.S. swap dealers and their customers, and has resulted in the fragmentation of international swap markets into separate pools of liquidity. They propose a revised approach designed to reduce systemic risk and protect U.S. customers, while also expanding the opportunities for U.S. customers to access non-U.S. markets for their hedging and investment needs.

Europe

ESMA Publishes key transparency Calculations for MiFIDII/MiFIR Implementation

On December 6, 2017, the European Securities and Markets Authority (ESMA) published the MiFID II/MiFIR transitional transparency calculations (TTC) for equity and bond instruments. Just 566 bonds out of 61, 761 analyzed by ESMA were determined to be sufficiently liquid to fall under the pre-and post-trade reporting requirements of MiFID II. The TTC will be applicable starting January 3, 2018 and the liquidity assessment for bond instruments will apply until May 15, 2018.

International

Basel III Revisions Announced

On December 7, 2017, the Basel Committee on Banking Supervision (BCBS) published its final package of Basel III proposals. The BCBS says a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets (RWA) and improve the comparability of banks' capital ratio. The BCBS also announced revisions in its timelines for adoption and now proposes that the measures be implemented by 2022.

Global Regulators to Conduct Survey on Derivatives Clearing

On December 14, 2017, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) launched surveys as part of their joint work to review the effects of incentives to centrally clear over-the-counter (OTC) derivatives trades following the implementation of the G20 regulatory reforms. Qualitative surveys have been developed and to be completed by different participants in central clearing, i.e. central counterparties, clearing members and indirect clearers/clients. The survey templates, together with instructions for completion and confidentiality arrangements, are available for download on the FSB website.

Research Corner

Liquidity Measures in Canadian Bond Markets

Most Canadian bonds trade infrequently and over the counter, where there may be insufficient transactions to compute rich measures of liquidity. In such instances, certain proxies can be considered to measure liquidity for these bonds. A Staff Analytical Note published by the Bank of Canada in December finds that, for Government of Canada benchmark bonds, price-impact and bid-ask proxies reflect similar results on the liquidity of the bond to that obtained from richer measures of liquidity. In addition, they find that these proxies may be used with confidence to measure liquidity for bonds that transact much less frequently than benchmark bonds when the maturity of the bond is five years or less.

Report: Fixed-income traders spend up to $20B on RegTech

Fixed-income dealers are spending as much as $20 billion (USD) per year on regulatory technology (RegTech) to help them comply with a host of regulations covering their trading desks, according to a new report from Greenwich Associates. The report, based on interviews with 46 fixed-income traders and sales professionals at sell side organizations in the U.S. and Europe, also shows how compliance demands are keeping traders away from clients, which hurts the profitability of the desk and the level of service clients receive.

The report titled, The Benefits of Trader Augmentation, shows how dealers in the U.S. and Europe are using technology to meet these new compliance requirements while ensuring these demands do not degrade client service. The report analyzes the impact on trading desks from past regulations as well as MiFID II; examines how dealers are utilizing sales technology, transaction cost analysis and other forms of technology; and looks at the major third-party vendors banks are using for these systems.