IIACACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

11 King Street West, Suite 1600, Toronto ON M5H 4C7
T 416.364.2754 | F 416.364.4861

www.iiac.ca

Jack Rando, CFA, MBA
Director, Capital Markets

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Attention:

Richard Corner
Vice-President, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario, M5H 3T9
Email: rcorner@iiroc.ca

Manager of Market Regulation
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario, M5H 3S8
Email: marketregulation@osc.gov.on.ca

RE: IIROC Proposed Requirements for Debt Securities Transaction Reporting

The Investment Industry Association of Canada (IIAC or Association) appreciates the opportunity to provide comment on IIROC Notice 13-0058 (the Notice) detailing requirements for debt securities transaction reporting under Proposed Rule 2800C (the Proposed Rule or Proposal). An industry working group of IIAC Member firms active in fixed income markets assisted in the evaluation of the Proposed Rule and Notice. These comments also reflect the views of the IIAC Debt Markets Committee comprised of senior professionals with responsibilities for debt capital market operations of IIAC firms designated as Primary Dealers.

The industry understands the increased focus IIROC has placed on monitoring domestic debt markets and supports the attention IIROC has placed on ensuring investor protection in these markets. The IIAC also recognizes that IIROC must have increased and more timely visibility into trading activity in fixed income markets for it to carry out its responsibilities effectively. We believe the Proposal's objective to equip IIROC with a complete debt securities transaction database for internal use will provide IIROC

confidence that dealer members are, for example, meeting their obligations under IIROC Dealer Member Rule 3300 (the "Fair Pricing Rule" [1]).

The IIAC also acknowledges and appreciates the lengths taken by IIROC to make clear in its Notice that the Proposed Rule does not currently contemplate using the trade information collected as part of a broader public transparency system for domestic fixed income markets. Any moves in that direction would represent a significant departure from Canada's current transparency framework, the effects of which are uncertain for our markets and investors. We note that the existing regime was the product of extensive consultations between industry, securities regulators and public authorities and strikes a balance between incremental increases to transparency and efficient markets. We concur, that, should IIROC or other Canadian regulators in the future consider broadening the use of the debt securities transaction database for market transparency purposes, a comprehensive public consultation and study be warranted prior to any decision being taken.

Finally, the Proposal centers on IIROC's collection of highly detailed and sensitive client and trade information. IIROC must respect the confidential nature of the data and outline the measures it will be taking to properly safeguard the information.

Our detailed comments on the Proposed Rule and Notice are as follows:

General Comments

The industry recognizes the importance of the existing Market Trade Reporting System (MTRS) which all IIROC Dealer Members designated by the Bank of Canada as Government Securities Distributors (GSD) are required to report into. Specifically, The Bank of Canada relies on the MTRS reports to observe trading patterns and liquidity in the market and to assess the market-making performance of individual Primary Dealers and GSDs. MTRS market share data assists executives at the GSDs in making management decisions related to their strategic positioning in debt markets. The data has also historically played a role in determining individual firm allocation on new issues of provincial securities. We also recognize that domestic fixed income markets and our members' activities in these markets have developed considerably since MTRS was first introduced in 2000 without a corresponding level of enhancements made to the existing MTRS or its "Blue Book" Guidance Manual. The industry is supportive, therefore, of a revamped MTRS and Guidance Manual as contemplated in the Notice with the expectation that it addresses the gaps in the existing MTRS framework as previously discussed between the Bank of Canada, IIROC and the dealer community.

The industry also recognizes that the Proposed Rule will provide an opportunity for IIROC to compile and share back with its Dealer Members important information that can assist the dealer in carrying out their supervisory functions. We would be pleased to explore this further with you.

During the course of our review with members, several areas of the Notice and Proposed Rule were identified as lacking sufficient detail or in need of further clarification. We speak to these areas throughout the balance of this submission. We understand that the proposed MTRS 2.0 User Manual will provide much of this sought-after information. Members were generally of the view, however, that

[1] IIROC's Fair Pricing Rule requires IIROC Dealer Members to, among other things, ensure clients, (particularly retail clients), are provided bid and offer prices for fixed income securities that are fair and reasonable in relation to prevailing market conditions.

the current consultation process could have been improved if all related documents (or drafts thereof), including the detailed system specifications, were released out for review or comment simultaneously such that the industry had a more holistic picture of what is being envisaged by IIROC.

The Notice states that "all of the major dealers indicated that they did not anticipate major issues with collecting and reporting the trade data required." This raises a major concern among our members as IIROC may have considerably underestimated the work effort required on the part of dealers, or their third party vendors, to provide the detailed daily reporting desired by IIROC. While we appreciate that, prior to publishing the Proposed Rule, IIROC met with several of its Dealer Members to ascertain views on the feasibility of capturing the required data, we urge IIROC to consider industry submissions as part of these considerations. In the absence of detailed system specifications, we have based our assessment solely on the list of data elements published in the Proposal and a general understanding of what is being required. Our initial review of the data elements with members reveals that some of these items are either not currently captured within existing front end or back end systems used by the industry or will involve piecing trade details from multiple systems. Members will therefore have to undertake net new development to source, collect and transmit this data to IIROC. The Proposal's assertion, therefore, that "existing trade capture systems can be leveraged to create transaction files suitable for transmission to IIROC" is an oversimplification of the true situation our members will find themselves in. For the reasons outlined throughout this submission, we request, therefore, that the proposed implementation timelines be extended considering the likely development required by the industry to ensure complete and accurate reporting.

Security and Ownership of the Data

IIROC's creation of a complete fixed income transactions database under the Proposed Rule will result in IIROC coming into possession of highly detailed, highly sensitive and highly valuable information. While we take comfort in knowing that IIROC is experienced in the handling of such information our Members request that IIROC detail the measures it will be taking to ensure the safeguard of the fixed income data. This should include some explanation of where the data will be stored, how it will be encrypted, who will have access to the data, what policies and procedures will be implemented to support protecting of the data, etc.

The Notice indicates that IIROC will also be able to share the information it collects with other Canadian regulators. IIROC should be responsible for ensuring no leakages of the information during transfer and that the regulators requesting the data have secure facilities for storing the data and have a clear understanding of what is permissible use or publication of the data, preferably documented through a Memorandum of Understanding.

Under the Proposed Rule and Notice, the data collected will be used for IIROC's internal surveillance purposes only and other purpose contemplated in the future will require consultation with the industry. While IIROC does not contemplate making dealer specific transactional data publicly available *at this time*, it does raise some uncertainty over what the future may hold. As such, it is necessary that some parameters be established at the onset. Specifically, it is imperative that IIROC accept that the debt securities transaction data it collects rightfully belongs to the contributors of the data – the dealers. The dealers, therefore, should have certain rights over the data's use, particularly around any future commercialization of the data. Additionally, dealers have requested receiving from IIROC MTRS 2.0 data that they can possibly use for their own internal compliance or monitoring purposes. Dialogue between

IIROC and its Dealer Members should continue on this front as thinking around the future evolution of the database unfolds. We recommend that, as a suitable starting point, the MTRS 2.0 Enrollment Form Dealer Members (or their agents) will be required to supply IIROC contain some form of attestation from IIROC recognizing the dealers' ownership of the data.

Reporting on T+1

With the exception of certain New Issues securities, the Proposal calls for reporting into IIROC to be done daily on a T+1 basis with a 2 a.m. cut-off. We understand the importance IIROC has placed on obtaining timely data. It is equally important, however, for IIROC to have accurate data for use in its analysis. Members were of the view that the T+1 data received by IIROC would likely be prone to significant "noise" – for example, trades in need of cancelling or amending as a result of complexities within the trade booking/capture mechanisms of each dealer. These will complicate IIROC's analysis of the data, potentially leading to false-positives for investigation and unnecessary detractions to IIROC and dealer resources. We recommend that IIROC be mindful of this and factor this into its monitoring procedures. For example, if IIROC identifies certain reported transactions that warrant closer examination, IIROC should consider waiting one or two days before following up with the dealer, so as to allow the dealer's own internal processes sufficient time to remedy transactions as necessary.

Members further commented that the 2 a.m. cut-off in the Proposed Rule could also pose a challenge. It was suggested that IIROC consider whether the objectives of the Proposed Rule could still be met while moving the reporting cut-off from 2 a.m. on T+1 to noon on T+1. This would harmonize with IIROC Dealer Members' current reporting timelines under NI 24-101 for institutional trade matching and also would likely lead to a cleaner set of data being received by IIROC.

Affiliates Transactions

Given the complex organizational structure of many IIROC Dealer Members, and the international dimensions to debt markets, more clarity is sought from IIROC in relation to the Proposed Rules reporting requirements for affiliate transactions.

The Notice indicates that under the Proposed Rule, IIROC Dealer Members will be required to report their trade information and their related affiliates' transactions into IIROC's electronic database. The definition of related affiliates needs to be properly explained. Given that IIROC Dealer Members may have numerous affiliates within and outside of Canada, we are deeply concerned if what IIROC is proposing is for each of these affiliates to report their client or proprietary fixed income activity into IIROC. For example, will the UK affiliate of an IIROC Dealer Member be required to report fixed income trade details to IIROC? Such a proposal would significantly expand the scope of this initiative, is contrary to current MTRS reporting, raises countless issues in need of address and ultimately will require considerable delay in IIROC's implementation of the Proposed Rule. As IIROC illustrates in its Notice, several foreign jurisdictions already have fixed income surveillance frameworks of their own so it is presumed that certain fixed income trades conducted by foreign affiliates would be subject to the oversight of those frameworks. Also, we believe that the Net Position Report available to IIROC (and the Bank of Canada) under Dealer Member Rule 2800 already provides a suitable tool should regulators see the need to explore a Dealer and their affiliates' activities in specified debt instruments.

In dealings with affiliates, we recommend that the Proposed Rule clarify that only transactions between an IIROC Dealer Member and the affiliate are reportable to IIROC by the Dealer Member, in line with current MTRS requirements[2]. Any follow on transactions made by the affiliate(s), such as debt securities transactions between the affiliate and their accounts, should be outside of the scope of the Proposed Rule.

Foreign Denominated Securities Transactions

The Proposed Rule includes foreign denominated securities in the definition of "Debt Securities" required to be reported into IIROC. We note that currently, only Canadian denominated securities are captured in the MTRS reporting. If IIROC is proposing to include trading in foreign denominated securities as part of MTRS 2.0, then that represents a fundamental change from the GSDs reporting today and also requires a full explanation.

Furthermore, the frequency of trading of foreign denominated bonds by investors (particularly among retail clients) is low. This is because most IIROC Dealer Members do not hold an extensive inventory of these securities as they are too expensive to fund and carry. The infrequency of trading, further complicated by, for example, the lack of a clearly identifiable benchmark for some of these securities, may diminish the usefulness of reporting these transactions to IIROC. For some Dealer Members, foreign currency transactions also touch on different sets of front end or back end systems (for example the transaction may settle outside of CDS) which further complicates their development efforts for complying with the Proposed Rule's reporting requirements.

We question, therefore, if the benefits to IIROC from collecting transaction details on foreign denominated securities outweigh industry's effort in compiling the information. We recommend that trade reporting on foreign denominated securities not be mandated in the Proposed Rule and that IIROC consider other alternatives for monitoring dealer compliance with Rule 3300 as it pertains to transactions in these securities.

As a further point of clarification, trading of Canadian denominated securities by GSDs with non-residents is currently captured under MTRS reporting. We continue to see the value in the reporting of this information and expect that it will continue to be required under MTRS 2.0.

MTRS 2.0 User Manual and Proposed Data Elements

The Proposed Rule requires IIROC Dealer Members to report approximately twenty data elements for each of its fixed income transactions. While some of the data elements listed in the Proposal are self-explanatory (i.e. Price, Quantity, Trade/Settlement Date, etc.) many are not and it is unclear what they may entail. Without the benefit of reviewing a draft MTRS 2.0 User Manual to interpret the proposed data elements our initial concern, therefore, is that only a subset of the listed data elements may routinely be captured today by most Dealer Members and not all necessarily within a common system. We believe considerable work is required on the part of IIROC Dealer Members to meet all the reporting requirements of the Proposed Rule. Estimating with precision the size of the dealers' work effort can only be done once the technical specifications, business rules, reporting procedures and other official

[2] Members have, however, requested that the MTRS 2.0 User Manual provide GSDs clear guidance, including illustrative examples, on which dealer-affiliate activity would be acceptable for capture for MTRS reporting purposes.

reporting instructions are published as part of the MTRS 2.0 User Manual. Given that a review of the proposed data elements by IIROC Dealer Members was not comprehensive without the manual, it is our understanding that the MTRS 2.0 User Manual would be published in draft form, at which time, the public will be provided with ample comment period to review the proposed data elements in conjunction with the draft manual. In this regard, the sooner the manual is released, the sooner the industry can assess their scope of work and provide more definitive feedback to IIROC. We request that IIROC provide indication of the User Manual's release date.

Additionally, some of our Members have indicated that they run separate technology platforms for their retail/wealth management business and their capital markets/institutional business. These Members have requested clarification on whether they could be permitted to submit separate tranches of trade data to IIROC, for example one for their wealth management activity and one for their capital markets transactions. This flexibility could greatly assist in their implementation of the daily reporting to IIROC.

Irrespective of the above, outlined below are areas where our Members have voiced concern or require clarifications on with respect to the data elements.

- Benchmark Security Identifiers -The Proposal requires Benchmark Security Identifiers be reported for each transaction. This information is currently not typically captured as part of the dealers' security master file and would therefore have to be sourced elsewhere within or outside the organization. IIROC should also expect that the choice of benchmarks used by the various dealers may not be consistent across identical securities, complicating IIROC's analysis of the data. IIROC should consider whether the Proposed Rule can deliver on its objectives with the exclusion of benchmark information from the set of required data elements.

- Customer account and counterparty identification – The Proposal requires customer account and counterparty identification be provided to IIROC but does not articulate why this information is required or how IIROC plans to use it. It is also silent on what level of identification is required for the reporting of this information. For example, will the 'customer account identifier' simply be a flag to differentiate between retail and institutional accounts or will IIROC require much more detailed information such as account name or account number? Our Members treat their clients' personal information, including their clients' positions in the market, with the highest level of care and protection. They would have deep concerns with transmitting client/counterparty name or client account number information to IIROC in the unlikely, but plausible, event that the data were somehow compromised. If IIROC is in fact currently contemplating this level of granularity for client or counterparty identification then we ask that it reconsider. We note that current listed markets do not require the disclosure of client information. IIROC should be able to carry out its mandate and meet the objectives of the Proposed Rule without this detailed level of client or counterparty disclosure. For example, if IIROC simply had indication of which transactions were retail versus institutional, and holding all other data elements constant, we believe IIROC should have enough trade details to identify which transactions were possibly not 'fair and reasonable' in the context of prevailing market conditions and then follow up as required with the impacted dealer at which point they could request specific client/counterparty information.

• Capacity- Principal or Agent - we require guidance on defining and reporting of a "riskless principal trade". Given that most trades pass through an inventory, distinguishing between Principal, "Riskless Principal" or Agency may pose a challenge.

• Trading Venue Code, Primary Market Indicator; Internal Transaction Indicator; Related Party Indicator; Non-Resident Indicator – please confirm the intention for what these indicators reference.

• Repo Haircuts- the Proposed Rule lists additional data elements for the reporting of repo transactions, including Repo Haircuts. We fail to see how IIROC plans on using haircut information or how haircuts fit into the objectives of the Proposed Rule. Haircuts are driven by a host of factors, some of which are market driven while others are based on the firm's own internal credit assessment of the client. If IIROC, or other market overseers, are interested in understanding the margining practices or credit controls of repo market participants, then that is something that is more effectively done through individual dialogue with the dealer. We request that repo haircuts be excluded from the list of required data elements in the Proposed Rule.

• Repo Collateral Security Identifiers - Identifying the collateral security in repo transactions is considerably more complex than identifying the underlying security for cash market transactions. Not all repo transactions have a specific security (ISIN) identified as the underlying collateral (i.e. General Collateral or "GC" repo transactions) or the collateral can change (be substituted) during the life of the repo. Tri-party repo also bring additional complexities. IIROC should be mindful of these nuances when finalizing its data specifications for repo.

The IIAC would be happy to arrange a meeting with representatives from the IIAC Repo Committee to elaborate further on the capture of Repo trade information in MTRS 2.0.

Once IIROC publishes the draft User Manual containing additional details on the data elements, the industry should be in a better position to comment in more detail on each of the proposed elements.

On a similar note, proposed section 2.1(2) of the Proposed Rule indicates that the MTRS 2.0 User Manual "may be changed from time to time". We submit that changes to the User Manual, which may impact the interpretation and scope of the data elements, should not be changed unilaterally by IIROC. The Rule should be revised to clarify that the User Manual be considered as part of the Proposed Rule and that any changes to the manual be subject to consultation with the IIROC Dealer Members.

Proposed section 2.1(b)(ii) of the Proposed Rule clarifies that the reporting requirements excludes transactions executed on a "domestic securities exchange". We seek a definition of the term to ensure accurate interpretation of the scope of the requirements. Specifically, does the scope include Debt Securities that are listed on an exchange but could be traded on either an exchange or ATS?

Regulatory Objectives

The Notice references 'Regulatory Objectives' that were the primary considerations in determining the data elements that IIROC expects to be reported under the Proposed Rule. We fail to see how the data elements or, the database as a whole, could support some of the listed objectives. For example, the

Notice identifies trade suitability as one area of abuse IIROC hopes to address through the database. IIROC needs to explain how it plans to monitor for suitability through the Proposed Rule. Client suitability is a customized test. In the absence of detailed KYC information and an understanding of the client risk tolerances, investment knowledge, time horizon and objectives, we are not sure how the database could fulfill that IIROC objective. IIROC's use of the data for the audit of client suitability would add further complexities and costs to the initiative while being largely ineffective.

The Notice also lists ensuring compliance with 'best execution' as another key objective. Best execution is more closely associated with the equity world in the context of multiple markets; its application to OTC transactions is less clear. If IIROC does in fact intend to use the Proposed Rule to monitor best execution in fixed income markets, it must work with the CSA in providing clear guidance on what that entails and how or if it differs from the dealers' "Fair Price" obligations outlined in IIROC Dealer Member Rule 3300.

Phasing in of Reporting

The project plan contained in the Notice outlines a phased-in approach for adoption of the Proposed Rule. The proposed Phase 1 implementation requires all Dealer Members that, as of September 1, 2013 were GSDs and MTRS participants to begin reporting their Canadian denominated transactions into IIROC 6-12 months after the final rule is published. The proposed timeline is ambitious given the work effort we believe involved in meeting the proposed requirements and considering that the list of GSDs captures IIROC firms of varying sizes, state of readiness and available resources. Further, it appears inconsistent with IIROC's goal to conduct market surveillance to require certain dealers (i.e. GSDs) to comply with the proposed rule earlier than others. Based on our current understanding of what is being required under the Proposed Rule, we believe all IIROC Dealer Members (in other words, GSDs and other IIROC Dealer Members) should be given 24 months after the final rule is published to meet the proposed reporting requirements. Our recommended time frame is based on the assumption that affiliate transactions (other than trades between IIROC Dealer Member and affiliates) and foreign denominated securities transactions are excluded as previously discussed above.

Coordination among Securities Regulators

Other Canadian regulators have also signaled their intentions to place greater focus on the fixed income markets. Most recently on April 4th 2013, the Ontario Securities Commission in its Statement of Priorities identified fixed income markets as one priority area in the coming year to determine if changes to regulation are required. While we welcome this increased attention to protect fixed income investors, it is imperative that Canadian authorities share their understanding of the issues and are consistent in any necessary regulatory response. In our view, any divergence among securities overseers diminishes the effectiveness of regulation in Canada. It also presents significant challenges to our member firms that are entrusted with carrying out what could be different, conflicting or duplicative regulations.

The lack of coordination among regulators results in significant costs and delays. As a case in point, we refer to the different approaches recently taken by IIROC and the CSA in respect to disclosure of fixed income remuneration. IIROC's requirements, detailed in Dealer Member Rule 3300, were implemented in October 2011 after having received CSA approval. However, on March 28, 2013, the CSA released amendments to National Instrument 31-103 which included fixed income remuneration disclosure

requirements that differed significantly than those of IIROC. Unless carved out from this CSA requirement, IIROC Dealer Members may have little to show for the significant resources they have expended in meeting the IIROC requirements (requirements which the CSA itself had approved only one and a half years prior).

IIROC and the CSA are accountable for both effective and efficient regulation of our markets. We recommend, therefore, that IIROC take the necessary steps to ensure that all securities regulators and other relevant public authorities with an interest in our fixed income markets are aware, appreciate and accept the path IIROC has set with the Proposed Rule.

Project Funding

IIROC has proposed that their costs associated with the ongoing operation and maintenance of the debt securities transaction database (including technology, staff and other direct costs) be allocated to IIROC Dealer Members on a cost-recovery basis. The Notice indicates that IIROC plans to publish for comment at a later date a cost-recovery model, which may allocate costs to Dealer Members based on a pro-rata share of transactions. The IIAC, on behalf of its Members, awaits with interest the publication of IIROC's fee model for this initiative and will provide detailed comments at that time. However, we would like to take this opportunity to share some of our early feedback.

It is unclear from the Notice whether IIROC also plans to recoup from Members IIROC's start-up development costs for building the database. If IIROC is in fact looking to the industry to fund development costs, then the industry should have a greater say in how the system gets designed, constructed and the technology used. Furthermore, it would have been helpful if the Notice included a preliminary estimate or dollar range for IIROC's expected ongoing operation and maintenance cost for the system. As such, we are only left guessing at what the magnitude of the possible charge back to industry could be. Given the amount of thought and work that IIROC has already poured into this initiative, it is not unreasonable to expect IIROC to have done some preliminary analysis on this front and share it with its Members as part of the Notice.

We believe IIROC's intention to recoup costs for this initiative by apportioning them back to Dealer Members should be reconsidered. The public interest objectives of the Debt Securities Transaction Reporting initiative are very much comparable to IIROC's implementation of the Surveillance Technology Enhancement Platform (STEP) for the equity markets. We note that $3.7 million of capital expenditures for STEP was funded from IIROC's Externally Restricted Fund[3]. We request that IIROC explore with the CSA the opportunity to use this Fund for the purposes of funding IIROC's debt transaction reporting database, including IIROC's initial set-up costs and ongoing operational and maintenance costs.

Dealers will also incur their own technology and other costs for meeting the reporting requirements in the Proposed Rule. IIROC indicates that they have not been provided with any cost estimates from dealers but does "not anticipate that they will be disproportionate to the benefit associated with the elimination of MTRS reporting that is currently done". Dealers have likely not provided any cost estimates to IIROC because, in the absence of detailed system specifications from IIROC, they are not sure what they are required to build to, to what extent they can leverage existing systems, whether or not they need to outsource all or part of their development and ongoing reporting requirements,

[3] See IIROC Annual Report 2009-2010

whether additional professional staff is required to oversee the reporting etc. While some resources may free-up with the elimination of the MTRS reporting that is currently done, it will not be an equal trade-off as the new reporting requirements will be significantly more onerous. We also remind IIROC that only a small subset of approximately 20 IIROC Dealer Members are subject to the current MTRS reporting whereas the Proposed Rule will impose reporting obligations (and associated costs) on all IIROC Dealer Members with fixed income transactions covered under the Proposed Rule. We therefore believe that the industry's additional costs will in fact be disproportionate to the savings from the elimination of the current MTRS reporting.

The IIAC has commented publicly on the financial pressures the securities industry has been under since the market collapse[4]. There were 89 IIROC Dealer Members (43% of IIROC's Membership) that reported a financial loss for 2012. Small and medium size firms in particular have been hard hit, resulting in several firms resigning their IIROC membership, being merged or acquired. While we support and recognize potential benefits from the Proposed Rule, it should not result in further compounding of the precarious financial position of Dealer Members.

Given the importance of the Proposed Rule and its long lasting impact on debt market regulation, we would like to work closer with IIROC in ensuring the Proposed Rule is structured to meet IIROC's objectives while recognizing the industry concerns and limitations. We request a meeting with IIROC staff to further elaborate on the contents of this submission.

Sincerely,

"Jack Rando"

Jack Rando
Director, Capital Markets
Investment Industry Association of Canada
jrando@iiac.ca

[4] For example, see the IIAC Securities Industry Performance Report for Q4 2012 available at www.iiac.ca