

January 13 2017

Attention:

Shuaib Shariff
Senior Vice President, Finance & Administration
Investment Industry Regulatory Organization of Canada
121 King St West, Suite 1600
Toronto ON
M5H 3T9

RE: IIROC NOTICE 16-0277- New Debt Information Processor Fee Model and Proposed Expanded Debt IP Service

The Investment Industry Association of Canada (“IIAC” or “Association”) appreciates the opportunity to provide comment on IIROC’s proposed fee model in connection with its Information Processor service for corporate debt securities (the Debt IP Service). While not specifically solicited in IIROC Notice 16-0277 we also feel it necessary to provide comment on IIROC’s proposed Expanded Debt IP Service.

IIROC has proposed to adopt a fee model for the Debt IP Service similar to that introduced in 2015 for its Debt Market Regulation service (MTRS 2.0). Specifically, member fees are based on each contributing dealers proportion of debt transactions reported into each service. Costs of both systems will, therefore, be fully recouped from IIROC dealer members.

While the two services share a common underlying infrastructure for capturing debt transactions they are both quite distinct in regards to their origin and purpose. Development of MTRS 2.0 was a direct response by IIROC to ensure it had the tools necessary to carry out its public interest objective - surveillance of debt markets. In contrast, the Debt IP Service came as a result of IIROC’s recent appointment as Information Processor for corporate debt markets by the CSA. MTRS 2.0 is largely confined to IIROC and its dealer members whereas the Debt IP Service is utilized by a broad range of market participants – including organizations that compete with IIROC dealer members.

We recognize that the Debt IP Service marks new ground for IIROC but we view IIROC’s decision to have its members fund this service in its entirety as less than equitable given that its users and beneficiaries extend well beyond the dealer community. It also ignores the significant costs already being incurred by members to establish the systems and processes for submitting to IIROC the debt transactions that underpin the Debt IP Service. Furthermore, when IIROC filed application to be the designated information processor for corporate debt markets there was no expectation among IIROC dealer members that they

would be subsidizing this new IIROC function – a function we view falling outside of IIROC’s core member regulation mandate.

However, we recognize IIROC’s need to recoup costs and a need to implement a model that is simple to administer. Additionally, our members are supportive of initiatives that help promote confidence in our marketplace. As such, the fee model being proposed based on each contributing dealer’s proportion of publicly reported corporate debt transactions is likely the most workable approach for IIROC at this time.

We are pleased, however, that IIROC has committed to review the fee model in due course and adjust it if required for better alignment with its guiding principles (*Fairness, Transparency, Consistency, Competitiveness*) and work effort. As part of this exercise, IIROC should engage the CSA to explore other funding alternatives long term not solely confined to IIROC dealer members.

IIROC indicates that the annual operating costs of the Debt IP Service will be an estimated \$350,000 of which \$200,000 relates to shared infrastructure costs which will result in a corresponding reduction to dealers’ debt market regulation costs. Unlike the fee model first published for MTRS 2.0 the fee model published for the Debt IP Service does not include estimates of dealers’ per-transaction cost. Such information would be helpful for dealer budgeting purposes.

To further assist with dealer budgeting, IIROC should clarify whether dealer members should also expect an IIROC invoice for the period that covers July 6, 2016 (the launch date of the Debt IP Service) to the date the fee model becomes implemented. It is also our expectation that IIROC pursue opportunities to lower the annual costs of operating the Debt IP Service over time, notwithstanding that the number of reportable transactions is slated to increase.

Members also suggest IIROC align its billings such that member invoices for MTRS 2.0 and the Debt IP Service are received simultaneously. The benefits of this approach are that dealers would have fewer payments to process and also have concise visibility on their total IIROC related costs stemming from their firm’s debt market activity. It is important, however, that each service be broken down separately on the invoice with sufficient detail permitting IIROC Dealer Members to confirm the accuracy of the invoiced amount against their own records such as for example: i) the total number of publicly reported corporate debt transactions during the billing period and ii) the dealer member’s number of publicly reported corporate debt transactions during the billing period. IIROC should make available on request a list of the dealer’s corporate debt transactions that supports their invoiced amount.

The Notice also informs us of IIROC’s intentions to introduce an Expanded Debt IP Service which will make the corporate trade data available to customers (for a fee) in bulk download. The Expanded Debt IP Service also marks new ground for IIROC, as well as for IIROC dealer members, as it represents the commercialization of confidential and proprietary dealer trading information by IIROC. As may be expected, members have expressed serious reservations as it relates to this IIROC initiative.

Given that more timely and comprehensive corporate debt transparency products are already available through commercial providers; (eg. TMX, Bloomberg, FTSE, etc.) our members question the public interest

rationale of the Expanded Debt IP Service. The proposed Expanded Debt IP Service risks introducing additional costs onto IIROC dealer members to replicate services already available via the private sector.

The IIAC is also concerned that IIROC has decided to pursue the Expanded Debt IP Service without the necessary broad industry consultation this deserves. The benefits sited in the IIROC Notice for proceeding with the Expanded Debt IP Service must be carefully weighed against a host of other considerations. For example, does the sale of bulk data by IIROC risk bifurcating investors whereby only those with the ability to pay receive the benefit of enhanced market transparency from an industry regulatory authority?

IIROC should also be mindful of the many dealer considerations pertaining to use of proprietary trade data. For example, how will IIROC respect the dealer's property rights over such data? Additionally, some IIROC Dealer Members may have pre-existing commercial arrangements with other service providers involving the provision of similar trade data. It is not certain how the Expanded Debt IP Service may impact such other arrangements but it could potentially put dealers in direct competition with their regulator. Should IIROC proceed with the Expanded Debt IP Service we feel it necessary, therefore, that IIROC dealer members be provided the opportunity to individually underscore the terms of their consent via an executed agreement between IIROC and the Dealer Member.

Furthermore, should IIROC proceed with the Expanded Debt IP Service IIROC dealer members should not bear the risk of covering the costs of this ancillary service, particularly at a time of industry wide cost cutting. Should the fees generated from this proposed service not be sufficient to cover the estimated \$675,000 annual costs of operating it then IIROC needs to look beyond its dealer members for covering any shortfall or discontinue the service.

IIROC indicates that the fee model associated with the treatment of any fee revenue from the Expanded Debt IP Service will be published separately. The fee model represents an important component of the initiative and it is imperative that IIROC obtain alignment with its members on revenue sharing before it proceeds with this service.

Lastly, our members once again remind IIROC of the importance of safeguarding client and dealer information. Whether as part of the Debt IP Service or proposed Expanded Debt IP Service IIROC needs to take the necessary measures to ensure all trade details are sufficiently anonymized such that client and dealer information is protected.

The IIAC would be pleased to organize a meeting for you to meet with members to discuss any part of this submission including the possible fee/revenue model for the proposed Expanded Debt IP Service.

Sincerely,



Jack Rando
Managing Director