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August 24, 2018

The Secretary
Ontario Securities Commission
20 Queen Street West
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Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marches financiers
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RE: CSA Staff Notice and Request for Comment 21-323 – Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities

The Investment Industry Association of Canada ("IIAC" or "Association") appreciates the opportunity to provide comments on the CSA Staff Notice and Request for Comment 21-323.
A working group comprised of IIAC Members active in fixed income markets assisted in our review of the Proposal and the drafting of this response.

For the purposes of the IIAC's analysis, the changes being considered by the CSA are grouped as follows:

Government Bonds

1. IIROC as 'Information Processor'
2. Groupings of government bonds
3. Proposed publication timeline (5pm on T+1)
4. Proposed Volume Thresholds
5. Proposed Implementation Dates
6. Proposed reporting expanded to include Schedule I, II and III banks

Corporate Bonds

1. Changes to publication of corporate bond information to 5pm on T+1 (compared to midnight on T+2 currently)
2. Proposed Implementation Dates
3. Proposed Reporting expanded to include Schedule I, II and III Banks

Our submission details our members' views on each of the above sections.

Position Summary and IIAC Recommendations

The IIAC supports regulatory initiatives aimed at improving the quality of information available to investors for their decision making. The IIAC also appreciates the CSA's efforts to find balance between increased transparency without disruption to market liquidity. IIAC makes the following recommendations on behalf of its members:

1. The members question the benefit of requiring Schedule I, II and III banks to report trade details to IIROC noting that these banks transact with counterparties, including bank owned dealers, that will be already reporting. Requiring these banks to report could also entail costly systems development and procedural changes at the banks. Furthermore, no policy rationale is provided by IIROC to support this proposal. A decision on the reporting by Schedule I, II and III banks should be delayed until a comprehensive cost-benefit analysis has been undertaken by IIROC and its findings shared with market participants.

2. The timing of trade publication (5pm on T+1) and volume caps established for government bond transactions both appear reasonable, with the exception of municipal debt securities which the IIAC believes should have a lower volume cap of $250K to take into account their smaller average transaction size evidenced by debt market committee members.

3. The IIAC recommends the publication of corporate bond transactions follow a protocol where, if a security only traded once that day, it would be considered "illiquid" and not be publicly displayed until T+2 at midnight. All other corporate trades would be reported at 5pm on T+1 (including all corporate retail trades).

4. We propose that the first phase of the initiative commence no earlier than 8 months from the publication of the final rule, or in any circumstance, not before December 1, 2019.

The above recommendations are expanded upon in the general discussion below.

General comments

IIAC members question the purpose and benefits of post-trade transparency reporting of trades by Schedule I, II and III banks. When the trade counterparty of these banks is an IIROC dealer member the dealer member will already be capturing and reporting the trade so IIROC's proposal will result in duplication of reporting. Duplicated trades in the reporting would need to be identified by IIROC and manually reconciled, possibly requiring significant human resources and systems costs by IIROC. Furthermore, the bond activity generally originating from these banks such as treasury flow with their affiliated dealer or swap related bond transactions are not typical of the bond transactions the transparency system we believe was meant to cover. It would be helpful to better understand the underlying policy rationale for this proposal.

In general, Schedule I, II and III banks also do not currently have the infrastructure in place to report debt transactions. It also needs to be clarified if the reporting would be through MTRS or some other means such as an encrypted excel spreadsheet. If MTRS is to be used by the banks, there will be significant time required and material cost to automate the process.

It is unclear the transparency benefits this proposal would achieve. A decision on the reporting by Schedule I, II and III banks should be delayed enabling further evaluation. We recommend that a detailed cost-benefit analysis of the merits of the Schedule I, II, III banks trade reporting be completed by IIROC.

Lastly, we observe that for IIROC to be capable of publishing government and corporate bond trade details by 5pm on T+1 as proposed in the Notice, IIROC will likely need to collect trade details from its members sooner than the 2pm on T+1 timeline in place currently. On March 8, 2018 IIROC published Rules Notice 18-0052 proposing to shorten its collection period to 10pm on T. In our letter dated **June 6, 2018** the IIAC raised several valid concerns with IIROC's proposal. If those concerns can not be fully addressed, then we believe the CSA must re-consider whether publication at 5pm on T+1 is achievable.

Government Bonds

The proposed transparency regime for government bonds is viewed by members as properly capturing increased investor transparency without impairing market functioning. However, in addition to the issues detailed above in regard to i) the policy rationale for Schedule I, II and III banks to report trades and ii) the need for IIROC to possibly collect trade details sooner, we also believe the proposal needs to be re-calibrated for municipal debt securities. Specifically, our members noted that municipal bonds are generally less frequently traded than other government bonds and that trade sizes are usually smaller. As a result, it is proposed that municipal bond transactions have a separate lower cap of $250k.

The IIAC also requests additional clarity on the two new fields proposed for summary level data for government securities – “Type of Bond” and “Original Issue Date”. It needs to be confirmed that this data is being gathered independently by IIROC.

Corporate Bonds

As noted for government bonds above, Schedule I, II and III banks do not currently have the infrastructure in place to report trades for corporate bonds to IIROC, so this proposal would entail costs for these institutions. However, again IIROC has not provided any rationale to support its proposal. Has IIROC undertaken any analysis on the number of corporate bonds traded by these banks with a counterparty or marketplace that is not already reporting into MTRS 2.0? We again recommend that IIROC not proceed with this proposal until this analysis is either completed or the findings shared with Members.

There are corporate bonds that trade very infrequently. Dealers making markets in these bonds require ample time to manage their risk. We are concerned that shortening the current publication timeframe to 5pm on T+1 would interfere with dealer market-making and adversely impact investors ability to transact in these securities. The IIAC recommends that the post-trade transparency requirements for corporate debt be structured such that for corporate debt issues with only one transaction a day prices and volumes be published at midnight on T+2. All other corporate trades would be reported at 5pm on T+1 (including all corporate retail trades).

It should be noted that the above recommendations for corporate bonds are valid as long as the mechanism in place currently for disseminating information remains unchanged. If the CSA or IIROC were to allow bulk downloads or the scraping of the trade data, this could introduce additional considerations and possibly be harmful to the future liquidity of certain illiquid corporate bonds. In the event of such a change the members would strongly advocate for a more carefully calibrated framework – i.e. possibly a CUSIP by CUSIP based reporting framework.

Lastly, we suspect the reported transaction data on corporate bonds that IIROC currently publishes is not actively used by market participants. There may be various reasons for this but once the data published by the debt transparency system is expanded and made more comprehensive overall usage should increase. This will make it more imperative that the corporate debt transparency system is calibrated properly to ensure no unintended market consequences.

Closing

While IIAC members understand the need for expanded transparency in the debt markets our comments outlines some real issues with the changes as proposed. As stated earlier, it is our opinion that a detailed cost-benefit analysis of the merits of the Schedule I, II, III banks trade reporting be completed by IIROC. Moreover, at this time it is questioned whether these transactions should be reported at all.

In addition, there are a few other recommendations that are proposed herein that take into account the unique nature of the Canadian debt marketplace.

We would be pleased to arrange a meeting between CSA staff and our members to discuss any part of this response.

Yours Sincerely,

Todd

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