FIXED INCOME MARKET REGULATORY UPDATE

March 2018

Key regulatory and policy developments shaping industry supervisory, operational and business practices.

Canada

IIROC Proposes Changes to Reporting Requirements for Debt Transactions

On March 8, 2018 the Investment Industry Regulatory Organization of Canada (IIROC) published proposed amendments to its trade reporting requirements for debt transactions. Included in the proposal is a shortening of the transaction reporting deadline to 10pm on the day of execution (compared to the existing requirement of 2pm on the day following execution). IIROC also proposes collecting additional data fields including: Variable Rate Note indicator, Callable bond indicator, a Derivatives indicator (to show whether the price results from the exercise of a derivative), the fee associated with a new issue distribution, the name or code of the retail advisor executing the trade, etc. IIROC also proposes material new reporting requirements related to repo transactions conducted by its dealer members.

IIROC indicates that the proposal's purpose is to enhance its debt surveillance capabilities. The amendments proposed for repo transactions are aimed to help the Bank of Canada with its regulatory function over this segment of the market.

IIROC acknowledges that the proposed new requirements could introduce comprehensive systems and operational changes at its dealer members. The IIAC has organized an industry working group to review and comment on the IIROC proposal before the Jun 6, 2018 response date.

Canadian Alternative Reference Rate Working Group Established

On March 21, 2018, The Bank of Canada (BoC) announced the creation of the Canadian Alternative Reference Rate Working Group (CARR) to identify and develop a new term risk-free Canadian dollar interest rate benchmark. The initiative aligns with that of many other jurisdictions where similar working groups have been established. According to the BoC's announcement any term risk-free rate developed by CARR would operate alongside the existing Canadian Dollar Offered Rate (CDOR). CARR will also explore possible enhancements to the existing Canadian Overnight Repo Rate Average (CORRA), specifically considering options to broaden the volume of trades that are used to calculate the rate. CARR will be co-chaired by a senior representative of the Bank of Canada and an industry representative from the Canadian Fixed Income Forum.

United States

MSRB and FINRA Confirmation Disclosures for Retail Clients

Effective May 14, 2018, amendments to Municipal Securities Rule Making Board (MSRB) Rule G-15 and to Financial Industry Regulatory Authority (FINRA) Rule 2232 create new confirmation disclosure requirements on certain debt transactions. Specifically, both regulators require dealers to disclose additional information on retail customer confirmations for specified transactions, including the dealer's mark-up or mark-down from the prevailing market price. Dealers generally are also required to disclose on retail customer confirmations the time of execution and a security-specific URL to a website showing previous trade information. On March 19, 2018 MSRB released new and updated FAQs to assist dealers achieve compliance. FINRA also has FAQs available.

Volker Rule Regulatory Harmonization Act

On March 21, 2018 The House Financial Services Committee passed the Volcker Rule Regulatory Harmonization Act, which would designate the U.S. Federal Reserve Board as the lead regulator for the Volcker rule with all rulemaking and interpretive authority. Currently five separate regulators share that responsibility. Streamlining Volcker rule compliance has been a top priority for large global banks. The bill must be passed by the full House, the Senate, and signed by President Donald Trump before it becomes law. Earlier in the month the U.S. Senate also approved a bill to ease some of the Dodd-Frank provisions primarily to the benefit of small banks and community lenders.

Europe

First Meeting of the Euro Risk Free Rates Working Group

On March 13, 2018, The European Central Bank (ECB) published the minutes of the first meeting of the Euro Risk Free Rates Working Group held on February 26, 2018. The working group was tasked by the ECB, and European authorities, to identify and recommend alternative risk-free rates to serve as a basis for an alternative to current financial benchmarks used in in the euro area. Concluding remarks from Steven Maijoor, Chair of the European Securities and Markets Authority, emphasized the role of the private sector in driving this work forward and finding alternatives for The Euro Interbank Offered Rate (Euribor) and Euro Overnight Index Average (Eonia). Maijoor also stressed the urgency of the Working Group's efforts by noting that there will be no extension of the transitional period under the Benchmarks Regulation. Consequently, the working group needs to conclude its tasks before 2020.

International

BCBS Revisions to Minimum Capital Requirements for Market Risk

On March 22, 2018, the Basel Committee on Banking Supervision (BCBS) published a consultative document proposing changes to Basel III rules governing the minimum capital requirements banks must set aside to cover risk from their trading in stocks, bonds, derivatives and currencies. The proposed changes were brought about by the BCBS's monitoring process which likely alerted officials to the negative impact of the requirements on banks' trading book activities, and their ability to provide financing and hedging solutions to clients. The consultative document includes proposed changes to the following aspects of the standard:

- Changes to the measurement of the standardised approach to enhance its risk sensitivity;
- Recalibration of standardised approach risk weights for general interest risk, equity risk and FX risk;
- Revisions to the assessment process to determine whether a bank's internal risk management models appropriately reflect the risks of individual trading desks;
- Clarifications to the requirements for identification of risk factors that are eligible for internal modelling; and
- Clarifications to the scope of exposures that are subject to market risk capital requirements.

In acknowledgment of ongoing challenges related to implementation of the standard, the Basel Committee's oversight body has endorsed an extension of the implementation date to January 1, 2022.

Research Corner

IIAC Perspectives on Government Debt Transparency

On March 28, 2018 the Investment Industry Association of Canada (IIAC) published a paper titled *Filling the GAP: Perspectives on Transparency for Canada's Government Debt Markets*. The paper argues that market-led initiatives have been effective in providing the information required for most Canadian market participants to transact confidently in Canadian government bond markets. The IIAC identifies retail investors as potentially benefitting most from the transparency solution Canadian regulators propose to soon mandate and makes several recommendations in the design of the transparency system. Specifically, the availability of post-trade prices should be calibrated to the liquidity of the asset class with information on liquid security types, such as Canada benchmark bonds, made available sooner, or more frequent, than less liquid classes of government bonds. The IIAC notes that ensuring awareness of the transparency service among retail investors is critically important so that it is utilized in their decision making.