

June 6, 2018

Attention:

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Market Regulation
Ontario Securities Commission
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RE: IIROC NOTICE 18-0052 Proposed Amendments to Transaction Reporting for Debt Securities

The Investment Industry Association of Canada (“IIAC” or “Association”) appreciates the opportunity to provide comment on IIROC’s proposed amendments to transaction reporting for debt securities (the “Proposal” or “Notice”). A working group comprised of industry representatives from a cross-section of IIAC member firms 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 IIROC are grouped as follows:

1. Shortening of the transaction reporting timeframe – secondary market transactions
2. Shortening of the transaction reporting timeframe – primary market transactions
3. Removal of certain reporting requirements applicable to alternative trading systems (ATSs)
4. Introduction of new data fields applicable to cash market transactions
5. Introduction of new data fields applicable to repo market transactions

Our submission details our members’ views on each of the above sections. Where possible we tried to include responses to some of the questions IIROC asks in the Notice.

Position Summary and IIAC Recommendations

IIAC Members continue to support IIROC surveillance initiatives that contribute to the integrity of marketplaces. However, our Members believe that the Proposal, as currently drafted, could detract from IIROC's debt market surveillance objectives. Specifically, the compressed timelines in the Proposal risk an erosion in the quality of the data that can reasonably be submitted to IIROC. Therefore, the potential result would be a future regulatory model in which IIROC would be conducting market surveillance while relying on an inaccurate or an incomplete view of dealers' activity. The Proposal will also produce unintended impediments to the operational efficiency with which industry can supply transactional reporting to IIROC. Specifically, some of IIROC's proposed changes will entail complicated and costly revisions to major infrastructure and procedures currently deployed by Members and which must be factored into their enterprise budgeting. IIAC Members also noted that some of the proposed new data elements may be better sourced by IIROC directly as opposed to requesting from Members. Several of the proposed new data elements would also require significant technology reprogramming for Members to produce the data in the manner prescribed.

The IIAC submits the following recommendations aimed at ensuring IIROC continues to receive high quality debt transaction information for its surveillance purposes while also addressing our Members' implementation challenges:

1. Provide IIROC dealer members the flexibility to continue using 6 pm for the trade day cut-off.
2. Extend the proposed 10pm on 'T' debt transaction reporting timeline to 10 am on 'T+1' for all secondary market transactions
3. For primary market transactions with ISIN/CUSIP assigned before 6pm the reporting timeframe should be extended to 10am on the first day following ISIN/CUSIP assignment.
4. For primary market transactions with ISIN/CUSIP assigned after 6pm the reporting timeframe should be extended to 10am on the second day following ISIN/CUSIP assignment.
5. Revisit the proposed new data elements to determine whether some of the information requested can be sourced elsewhere by IIROC or provided by Members on a voluntary basis.
6. IIROC should revisit its existing internal procedures for handling of 'rejected' files submitted by Members.

We elaborate on each of the above recommendations in our submission. We extend our appreciation to IIROC staff who took the time to meet with the IIAC Working Group to discuss the Proposal. As requested by said IIROC staff, we have attempted to be granular in our explanation of the hurdles that need to be overcome by Members to achieve compliance with the Proposal.

General Comments

IIAC Members view the sum of IIROC's proposed changes to be a very significant undertaking for the industry. To meet the requirements of the Proposal IIAC Members may have to re-configure systems that currently feed into their debt transaction reporting, contract with third-party providers, conduct testing, amend operating/surveillance procedures, re-prioritize work flow, and possibly extend working hours or

engage additional staff. For some Members the proposed requirements could entail a major overhaul of existing processes and systems for which they would need ample time to line up the resources, build, test and implement— possibly 12 to 18 months.

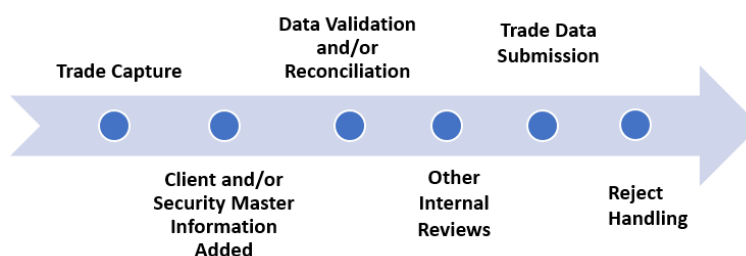
It was difficult for members at this stage to estimate their costs associated with implementing the Proposal; however, we generally believe the costs to be material for most firms and therefore need to be budgeted for properly by their organizations.

Our Members generally question whether the incremental surveillance benefits IIROC will obtain from the Proposal justify what will be a major industry expenditure and disruption. To accommodate the Proposal Members may have to reprioritize other important projects or systems development. It would be helpful if industry had a better understanding of the current gaps perceived by IIROC and how the Proposal aims to address those gaps. This may prove useful in developing further alternative approaches to meeting the IIROC objectives.

Lastly, while we understand the primary purpose of the proposed changes is to support IIROC’s market surveillance capabilities we suspect that the Proposal will also influence other policy areas. As you are aware, IIROC’s Public Corporate Debt Trade Reporting Service relies exclusively on the data IIROC receives as part of its debt transaction reporting rule. The Proposal heightens the concerns previously raised by industry on the potential adverse effects to bond market functioning from publicly disseminating bond information too quickly¹. IIAC Members would be pleased to meet with IIROC staff separately to elaborate industry views on this matter further.

1. Shortening of the transaction reporting timeframe – secondary market transactions

The majority of IIROC dealer members currently submit their debt transaction reports to IIROC on T+1. This is because there are batch processes and other functions which the dealers perform from the end of the trading day and run overnight and into the early morning for the purposes of capturing, validating, reviewing and correcting trade information to ensure the accuracy of what is submitted to IIROC by 2pm on T+1. While the processes can vary significantly across the dealer community the high-level framework may typically resemble the following:



¹ See IIAC [response](#) to CSA Staff Notice 21-315 re: Next Steps in Regulation and Transparency of the Fixed Income Market

Please refer to **Appendix 1** attached for a more detailed view of what the batch processing life-cycle may resemble at a large IIROC dealer member (*Note: the appendix is a generalized view only and can vary across dealers*).

A major obstacle Members have identified with the Proposal is that the processes currently followed by dealers, some manual and some automated, cannot be easily compressed to accommodate IIROC's new 10 pm reporting deadline. To meet this timeframe Members could require the following changes or concessions to their existing procedures:

- Where feasible, existing data feeds, data warehousing and batch processes must be significantly enhanced or retooled entirely
- Technology and Operations staff will be required during the 4-10pm window to ensure exceptions (both technical as well as business) are handled on a timely basis
- Staff from other areas that own the client relationship, including Client onboarding and/or Front Office, might also need to be available during the window to handle data exceptions
- Staff need to be available following the 10pm window in case any notifications received from IIROC rejecting the dealer's initial trade file submission.

If mandated to report their debt securities transactions to IIROC by 10 pm on T it is likely some dealers will have little choice but to continue to run at least some of their reconciliation or other processes into the early morning and then pass through necessary corrections to IIROC on T+1. This implies that IIROC may be commencing its surveillance process while relying on data that is potentially less than accurate.

Members are also concerned the Proposal may deny them the opportunity to undertake their own internal surveillance activities and taking necessary actions prior to IIROC receiving and initiating its surveillance on the information submitted. By not permitting this important member function the Proposal could lead to potential misdiagnosis by IIROC.

In summary, there is a trade-off between the timeliness of the data IIROC receives and its resulting quality. Specifically, without the benefit of the overnight and early morning processes that many members utilize currently to address trade issues or reconcile their trade data, IIROC will be conducting analysis on some potentially inaccurate or incomplete information. It is of significant concern to members that this could drastically increase the number of 'false positives' that they would have to respond to. For example, members have noted that currently, on occasion, IIROC reaches out to question them on a trade which has since already been corrected by the dealer. These occurrences will undoubtedly increase under the Proposal.

Smaller dealers with less staff and a heavier reliance on manual processes may face additional challenges in meeting the 10pm deadline and should be afforded additional flexibility by IIROC. Additionally, we recommend that IIROC have direct consultations with its carrying broker members to determine the challenges unique to their business and operating models.

Members are also currently seeking a determination of how the Proposal impacts some of the dealers' other activities. Specifically, some of the same source feeds and processes outlined in Appendix 1 are leveraged for multiple uses by the dealers. One such example relates to their trade matching requirements. National Instrument 24-101 *Institutional Trade Matching and Settlement*, currently specifies the matching deadline for registered dealers is noon on T+1. This aligns well with IIROC's current deadline of 2pm on T+1 for its debt securities reporting. If IIROC moves to 10pm on T reporting, dealers may potentially have to decouple some of their shared IIROC Rule 2800C and NI 24-101 activities.

Members also discussed the 4pm trade day cut-off that the Proposal introduces for same day reporting to IIROC. We deduce that IIROC chose 4pm (instead of keeping with 6pm) to allow additional time for industry to meet the proposed new 10pm reporting obligations. However, members noted several complications with a 4pm trade day.

- a notable number of fixed income trades are executed between 4pm and 6pm which would not get captured under IIROC's Proposal until T+1.
- For some firms, a 4pm trade day may entail '*breaking the batch*' processes outlined in Appendix 1. Two separate source files would have to be created for the same business day (one for trades prior to 4pm and one for trades after 4pm). This is necessary because, irrespective of IIROC's Proposal, firms still need visibility on their entire trading day for various other purposes such as collateral management/securities movements, P&L calculations, margin/risk calculations, etc.
- Generating the second source file (for trades after 4pm), if feasible, will require firms to implement additional processes and controls to ensure trades from prior to 4pm are not included and amendments are accurately captured and reported. For example, consideration will be needed to address Block and Allocations as Block trades from earlier in the day will have been cancelled and replaced in the later trade submissions. This is not currently an issue as the source files provide a complete picture of the day's trading activity.

Given the above some members may prefer to continue using a 6pm cut off. We do not suspect IIROC would have issue with members doing so, however, the Proposal is silent on that front.

IIROC has noted that the impetus for shortened reporting timelines has been, in part, correlated to the shortened T+2 settlement cycle. While we support IIROC's efforts to ensure trade corrections are processed in a timely manner we believe that trying to do so prior to settlement is not always practical.

Firstly, an increasing percentage of our members' trades novate to a central counterparty shortly after execution which renders them untouchable. Should such a correction be required, a reversing trade needs to be executed to nullify any incorrect economics before a correct version of the trade is booked, matched and re-novated. The original trade cannot be unmatched and must be allowed to settle.

Secondly, given the time required by IIROC to review and escalate any findings to dealers, coupled with dealer's own processes to investigate, escalate and decision on any such findings, it is unlikely that a correction could be booked before settlement of the initial problematic trade.

Furthermore, IIROC's rationale that the shortened debt trade reporting timeline proposed aligns with Canada's shortened settlement cycle does not address:

- i) debt market trades that settle same day and
- ii) debt market trades where the dealer and the client have agreed to non-standard settlement terms which is not uncommon in OTC markets.

The fact that a trade has settled should not preclude either IIROC or a dealer from taking steps to correct erroneous trades. Also, members question whether IIROC will once again introduce a change to its debt transaction reporting timeline if Canada decides to shorten settlement further²?

Our working group considered alternative approaches that IIROC could consider for achieving its objective of timelier surveillance while also remaining sensitive to the many industry concerns and constraints outlined above. The approach we think most workable is:

- revert to 6 pm for the trade day cut-off.
- extend the proposed 10pm on T debt transaction reporting timeline to 10 am on T+1

Delaying the transaction reporting to the next morning will enable the industry to largely continue to run their overnight and early morning processes thereby preserving the quality of the trade details they submit. Leaving the trade day cut-off unchanged at 6pm will assist IIROC in capturing a larger volume of trades (compared to the proposed 4pm) while also addressing the industry complications raised surrounding '*breaking the batch*'.

We recognize that our above recommendation will prevent IIROC from its objective of facilitating an overnight reconciliation process of its own. However, any reconciliation process that IIROC intends to run will be of little benefit unless such a process is supported by the receipt of quality data from our Members. To submit accurate data our Members need to be able to continue to run their current overnight and early morning processes.

By providing debt transaction reports to IIROC by 10am on T+1 it will allow IIROC to have in its possession dealer debt trading data sooner than is currently the case, possibly allowing IIROC to begin analyzing transactions and generating alerts sooner than they do today.

Reporting by 10am on T+1 will still require dealers to undertake some changes to their current systems and procedures. The effort required, while considerably less than what would be required for 10pm on T reporting, is not insignificant. We believe at least a 180-day period should be allowed for industry implementation of reporting on 10am on T+1.

However, Members have alerted us to other potential opportunities for IIROC to accelerate their trade surveillance. Specifically, several members have reported that upon submission of their debt securities

² See [Post-Mortem Report](#) published by the Canadian Capital Markets Association describing the current forces contributing to a possible further shortening of the settlement cycle

transaction information to IIROC, a file which conventionally is comprised of hundreds of lines of data, the entire file gets rejected by IIROC if just one of the line items contains an error. This results in delays in IIROC receiving data back from dealers for analysis. We understand IIROC has the capability of informing the dealers which line has the error and so we request that IIROC consider a revision to their current practice by accepting the complete file minus the error line. If IIROC were to accept the accurate trades while dealers undertook efforts to correct the rejected trades it could help speed up IIROC's surveillance procedures.

2. Shortening of the transaction reporting timeframe – Primary Market Transactions

For new issued debt securities with ISIN/CUSIP assigned before 4 p.m. the Proposal calls for trade details to be reported before 10pm on the same day as ISIN/CUSIP assignment. For new issued debt securities with ISIN/CUSIP assigned after 4 p.m. the Proposal calls for trade details to be reported before 10pm on the first day following ISIN/CUSIP assignment.

New Issues require additional handling from IIROC Members often utilizing different systems and procedures than those used for secondary market transactions. The required dependencies for filling out a new issue order book will make reporting the data on 'T' very problematic. It is our sense for new issue debt securities with ISIN/CUSIP assigned before 6pm the reporting timeframe should at least be extended to 10am on the day following ISIN/CUSIP assignment. For new issue debt securities with ISIN/CUSIP assigned after 6 p.m. the timeframe should be extended to 10am on the second day following ISIN/CUSIP assignment.

3. Removal of certain reporting requirements applicable to alternative trading systems (ATSs)

When an ATS trades against a Dealer Member IIROC proposes to remove the reporting requirement on ATSs so that a layer of duplicate reporting is removed. We concur that having both the dealer and ATS report the same trade is not warranted for surveillance purposes. Furthermore, by lowering the number of transactions requiring review by IIROC this will free up resources at IIROC. Our members expect that any cost savings at IIROC be reflected as soon as practical in IIROC's debt market regulation fee model. Members also believe it would be helpful if IIROC can provide a list of ATSs covered by the Proposal.

4. Introduction of new data fields applicable to cash market transactions

IIROC proposes 6 new data fields to be added to debt transaction reporting requirements for cash market transactions. These are:

- I. Variable Rate Note
- II. New Issue Fee
- III. Dealing Representative
- IV. Recommendation Indicator
- V. Callable Indicator
- VI. Derivative Indicator

As IIROC correctly points out in the Notice, several of the above fields are currently captured on client confirms sent out by IIROC dealers. However, what IIROC may not be taking into consideration is that the systems used to generate client confirms are typically separate and distinct from those used by Members for their debt transaction reporting to IIROC. The legacy system relied on for client confirms may not be able to communicate with the more recently developed debt transaction reporting systems. Populating these new fields as part of the proposed debt transaction reporting may require some considerable effort as is outlined below:

Variable Rate Note and Callable Indicator

To indicate bonds that are callable or pay variable rates members will have to source the information and then update the security master files relied on for their debt transaction reporting to IIROC. It may be more practical and cost efficient for IIROC to source this information directly from a central repository as opposed to each dealer member doing so individually. Members inquire as to whether IIROC has explored the feasibility of having its security master file updated to capture this information so that it can flag on its end which trades received pertain to variable rate or callable bonds. An advantage to having IIROC maintain the security master file on behalf of the industry is that it will ensure consistency in how similar bonds traded by various dealers are identified.

New Issue Fee

To populate this information as part of their debt transaction reporting to IIROC dealer members would likely have to manually source and input the data. Some may be able to source the information through their syndicate desks while others may have to utilize the issuer's SEDAR filings. In either circumstance the information is not easily transferable to their trade reporting systems.

Should the case be that IIROC is looking for the difference between the take down price from the issuer versus the distribution price to the syndicate clients is there a way to extract this figure using the data that IIROC currently receives? Avoiding unnecessary new data fields would help keep industry development costs down.

Dealing Representative and Recommendation Indicator.

Members request confirmation that the Dealing Representative and Recommendation Indicator are only applicable to retail transactions. This information is currently captured on retail client confirms, however, as was previously indicated, relaying this information to the systems dealers utilize for transaction reporting may not always be straightforward.

Members are interested in knowing how the Dealing Representative and Recommendation Indicator will be incorporated into IIROC's surveillance framework.

Members also question whether the Dealing Representative and Recommendation Indicator are required for trades that have a fee based account indicator. Some of these trades are done at a portfolio level so there may be several dealer representative codes underlying the reported transaction when it gets

allocated. Furthermore, many fee based accounts are managed on a fully discretionary basis so the Recommendation Indicator is not applicable.

Derivative Indicator

The proposed Derivative Indicator should assist IIROC in calibrating their off-market pricing surveillance. While we believe it is in our Members interest to flag such trades to IIROC we also recognize that this may require some system build by the members. Also, some members are not active participants in derivatives markets and would likely seldom, if ever, have to populate this field. We recommend, therefore, that the Derivatives Indicator be an optional field for members

5. Introduction of new data fields applicable to repo market transactions

IIROC is proposing new data fields applicable to repo market transactions to help Bank of Canada with its regulatory functions.

For some Members the information that is being requested can generally be easily sourced, however, the primary obstacle rests with lining up the necessary resources to reconfigure existing systems so that this information can automatically be populated as part of their existing reporting framework. Members indicated they would require more than 90 days to complete this work.

Closing

While our members support measures taken by IIROC to further strengthen oversight of fixed income markets, our submission outlines the many dealer implications and complications stemming from the Proposal. Our key concern is that the incremental benefits delivered by the Proposal may not justify the disruption and costs incurred by our Members while also potentially detracting from IIROC's surveillance capabilities. We respectfully request that IIROC consider the recommendations herein as we continue in our efforts toward the mutual goal of achieving a productive balance between IIROC's surveillance objectives and efficient utilization of industry resources.

Sincerely,



Jack Rando
Managing Director

APPENDIX 1

SAMPLE LIFE CYCLE FOR DEBT SECURITIES TRANSACTION REPORTING TO IIROC

1. Trade Capture

- At the end of each trading day trade feeds from various Trading and/or Risk Books of Records are sent to a central data warehouse maintained by the dealer or its agent.
 - Source files are produced for Debt and Repo transactions with the required economic and security attributes e.g. CUSIP, Buy/Sell, Quantity, Notional, etc.
- The source files are produced on separate schedules with some able to start shortly after the end of the trading day while others running overnight (e.g. 1am on T+1). The reason for the scheduling of source files is to ensure:
 - **Completeness:** source files are required to provide a complete record of trading activity for entire trading day (defined locally per system/line of business)
 - **Accuracy:** source files are required to provide an accurate accounting of trading activity. Trade modifications/corrections/cancellations that occur intraday must be factored into the final view of activity and/or positions.
 - **Consistency:** source files are required to maintain data consistency for the same financial transaction or position. Producing sources files too early in the day can lead to inconsistencies as the state of the transactions changes throughout the trade lifecycle e.g. novation, Bloc and Allocations, etc.
- Scheduling of source files is also impacted by some system/vendor limitations which currently do not support the generation of Book of Records feeds intraday

2. Source Files Enriched with Client or Security Master Information

- The source files from step 1 may not contain Client or Security Master information so separate reference data sources are used to transmit this to the information warehouse.
- This reference data is necessary to meet some of the current IIROC 2800C reporting requirements, as well as for the other dealer purposes the data is used for.

3. Data Validation and Trade Submission

- The data warehouse maintains a record of all files received and warns if any files are late or are in an error state (based on internal data validation criteria)
 - If no issues are identified, the various source files, as well as reference data files, are processed, normalized and validated against regulatory reporting requirements
 - If the process is completed successfully a batch file process is targeted for completion in the early morning of T+1 and placed in the outbound location for automated submission to IIROC
 - Dealers may have procedures to review data prior to its release to IIROC
 - If a data validation fail occurs an exception report is prepared for staff to review
 - Changes made by dealer staff are typically performed manually
 - Currently staff have until the 2pm T+1 to review and repair any failed data

4. Reject Handling

- Dealer staff on standby in case any submitted files rejected by IIROC