

March 10, 2014

Attention:

Jamie Bulnes
Director, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King St West
Toronto Ontario M5H 3T9
jbulnes@iicroc.ca

Manager of Market Regulation
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
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 14-0004 (the Notice) which details requirements for debt securities transaction reporting under Proposed Rule 2800C (the Proposed Rule or Proposal). We acknowledge the efforts made by IIROC staff in taking into consideration the initial round of comments when republishing the Proposed Rule. The IIAC is pleased to see that some of the questions or concerns raised in our initial submission dated May 21, 2013 were addressed in the Notice. We are additionally pleased to see the Notice contain some of the much sought after clarity that industry requested to help better understand the implications of the Proposed Rule to IIROC dealer members. We outline in this submission some remaining concerns and areas still in need of clarity. Lastly, we agree with IIROC that the objective of the Proposed Rule should remain focused on ensuring proper surveillance of debt markets and that any future contemplations of a public transparency system for debt markets requires extensive industry and stakeholder consultations.

Our responses to the three questions that the Notice requests specific feedback to are as follows:

1. Should IIROC consider making the Customer Account Identifier mandatory?

While we recognize the potential usefulness of this information to IIROC in carrying out its market surveillance, some IAC members continue to have concerns with disclosing customer account identification outside their organization. The IIROC staff response in the Notice pertaining to Data Security does, however, provide some reassurance as to the security of the data and we suspect that a number of members may feel comfortable to voluntarily provide customer account identifiers at the onset. As familiarity and comfort with the IIROC debt market surveillance database and corresponding processes increases, additional members may follow suit. An accelerated pace of voluntary adoption is also likely to materialize should the incidence of “false positive” alerts and the associated burden of members’ staff to provide client information in response to regulatory inquiry prove disruptive to the members. We think these factors further support leaving the ‘Customer Account Identifier’ as optional.

2. Potential obstacles to providing Legal Entity Identifiers (LEI)

The IAC has been a proponent of the global LEI initiative as an important tool for the measuring and monitoring of systemic risk. Though approximately 220,000 LEI’s have currently been issued globally,¹ the initiative can still be considered to be in its early stages. A major driver of the initiative has been the introduction of regulations globally mandating the use of LEIs for transaction reporting. It is important to note, however, that much of these early regulations have been centered on the reporting for OTC derivative transactions². Through the Proposed Rule, IIROC will be among the first regulators globally to require the use of LEIs for the reporting of debt security transactions. This may pose some obstacles for IIROC. Specifically, with the exception of those limited number of IIROC Dealer Members that are active in OTC derivatives, familiarity with the global LEI framework is still believed to be low among the broader IIROC dealer membership³. IIROC should expect to receive even the most basic of queries from some of its dealer members pertaining to LEIs and should develop a plan for how best to address this. The IAC would be willing to help in this regard.

The existing process for obtaining LEIs through one of the pre-LEI Local Operating Units we believe is relatively straight forward and once properly directed we do not think IIROC dealer members should encounter difficulties in obtaining **their own** organization’s LEI for use in their IIROC debt transaction reporting. We think the greater challenges are likely to lie in the dealers’ ability to obtain and provide counterparty/customer LEIs and building and maintaining a system of recording those LEI’s.

While over 3000 LEIs have already been issued to Canadian entities, we suspect these are organizations compelled by the OTC derivative regulations referenced earlier. The universe of entities transacting in domestic debt markets is not necessarily comprised of the same entities that transact in OTC derivatives and the number of debt market participants could be significantly larger. Considerable effort and coordination would be required to ensure Canadian debt market participants are familiarized with the

¹ Source: OpenLEIs.com

² Most notably, the Commodity Futures Trading Commission (CFTC) Swap Data Reporting and Record Keeping Rule, the European Securities and Markets Authority (ESMA) for the reporting of derivative transactions to Trade Repositories under European Market Infrastructure Regulation (EMIR) and recently provincial securities regulators in their *Trade Repositories and Derivatives Data Reporting* Rule (e.g. OSC Rule 91-507)

³ Even amongst some of the large IIROC bank-owned dealers, familiarity and current system capabilities pertaining to LEIs may be limited given that most conduct their OTC derivatives business out of their bank affiliate.

LEI framework and become motivated to obtain and provide an LEI for their organization well in advance of the implementation of the Proposed Rule.

While IIROC has stated it is not the intention for its debt security transaction reporting system to be utilized as a public transparency system “at this time” we believe that dealer members will be rightly questioned by their customers and counterparties as to how their LEI and trade information could ultimately be used. IIROC must provide further assurances that such information will only be used for meeting IIROC’s current market surveillance objective and would not be recycled for use in any new public transparency system. **We reiterate our position that any future contemplation of utilizing IIROC MTRS 2.0 as a public transparency system would require a separate and comprehensive consultation with industry and stake holders. Any data elements obtained under the Proposal for the objectives of market surveillance should not be presumed available for alternative future uses.**

3. Are the data elements to be reported appropriate given the objectives of the initiative?

We question the appropriateness of some of the proposed data elements in meeting the Notice’s stated objectives. Additionally, we think that several of the data elements require additional clarification. We provide the following comments with respect to some of the individual data elements.

Trade Identifier (#3)

IIROC should keep in mind that there will be a wide range of formats used by dealer members for their internal trade identifiers. In order to accommodate dealer members, IIROC should not place limitations in this data field on the number of characters that can be inputted and permitting the use of alpha numeric identifiers.

Original Trade Identifier (#4)

Our interpretation of this data element is that all debt market transactions representing either a cancellation or correction of a previous trade are required to include the trade identifier (data element #3 above) of the original transaction. This may prove challenging in some instances. For example, a single transaction may be used to cancel multiple original trades. Depending on the trading system, a trade may be cancelled outright and rebooked; in this case, it would be challenging to link a cancelled trade with a new trade. We suggest that the data element should be made reportable only if this information is readily available in a dealer’s system. Additionally, we request confirmation that intra-day cancels and amends would not need to be captured.

Execution Time (#7)

We concur that utilizing the time the transaction was either recorded by an electronic trading system or entered into a trade booking system is the most practical and workable approach to evidencing ‘execution time’. Given the varying time zones that dealer members operate in, IIROC will have to ensure a system is in place for reconciling local times as to make trading activity comparable. Additional guidance may also be required for reporting execution time for primary issues.

Trader Identifier (#9)

Given the varying reporting and business structures within dealer members, the description in the Notice should be expanded to also permit the reporting of the high level book through which the dealer is conducting the transaction.

Customer LEI (#14)

The description in the Notice for this data element reads “The LEI assigned to the client/customer, where available”. Clarification is required as to what is meant by “where available”. Based on the discussion in Item 2 above (Potential obstacles to providing Legal Entity Identifiers (LEI)), we would appreciate confirmation that a Customer LEI is required only where it is readily available to the dealer, for example, the dealer having received the LEI directly from the customer.

The Notice should also clarify that customer LEI’s are not applicable for retail debt transactions.⁴

Introducing/Carrying Dealer Indicator (#16)

With respect to a client transaction of an introducing broker, the introducing broker may source the debt security from a carrying/executing broker and there may be no movement of securities between the accounts of the introducing broker and carrying/executing broker. In this case, what are the reporting responsibilities of the introducing broker and carrying/executing broker under section 2.2(a) and (d) of the Proposed Rule. Where applicable, we would appreciate guidance on how the data elements should be reported from the perspectives of the introducing broker and/or the carrying/executing broker.

Electronic Execution Indicator (#17)

It would be helpful to dealer members if the Notice were to include a definition of electronic trading venues. The definition should clarify whether any distinction needs to be made between electronic trading venues that were a party to the transaction or not.

Trading Venue Identifier (#18)

The Notice should clarify whether this data element is to identify the “platform” where the trade was done. Depending on the definition for data element #17 above there may be some potential overlap. Additionally, we recommend the name and description of this identifier be harmonized with that contained in OSC Rule 91-507 *Trade Repositories and Derivatives Data Reporting* for Electronic Trading Venue identifier which reads: ‘LEI of the electronic trading venue or, if not available, the name of the electronic trading venue where the transaction was executed’.

⁴ As recommended by the Financial Stability Board, the definition of LEI excludes Natural Persons.

http://www.lei.org/publications/gls/roc_20120608.pdf (Recommendation 8)

Benchmark Security Identifier (#22)

We request confirmation that debt securities that are priced on a spread basis would not require any benchmark security identifier.

Yield (#24)

Given IIROC's objectives, we do not see the rationale of providing yield information on client 'sell' transactions. The description should be amended to only mandate the yield as stated on client confirmation (if any) for 'buy' transactions. IIROC could consider allowing yield information on 'sell' transactions to be made optional.

Related Party Indicator (#28)

The scope of this data element is considerably large as it would require a dealer to identify not only a principal or employee of a dealer member, but also a family member of such persons. This could require substantial development efforts or procedural changes in order to collect the required data. We request that the data element be simplified by, for example, limiting the reporting to Non-client (Pro) Accounts as already defined under IIROC Rules.

Repo Indicator (#31)

We are concerned that this data element attempts to connect a debt security transaction done in the cash market with a repo transaction. Current dealer systems or practices are not designed to capture such a relationship. To meet the requirement, dealers may need to resort to identifying this relationship on a manual basis, which may cause delays in reporting and be prone to human error. Consequently, we strongly recommend that this identifier be removed.

Repo Collateral Security Type (#39)

The description for this data element requires further clarification as even "General Collateral" repo transactions are typically booked in dealer systems using a specific ISIN/CUSIP. Can IIROC clarify if the intention of this data element is simply to differentiate between "GC" and "non-GC" transactions?

Comments Specific to Repo Transaction Reporting

The IIAC Repo Committee (the 'Committee') appreciated the opportunity to meet with IIROC and Bank of Canada staff to discuss the Notice's reporting requirements specific to repo transactions. The Committee expressed its support for a **harmonized global approach** to repo data collection and aggregation.

The Committee acknowledges that the Notice's proposed repo reporting requirements are much aligned with those currently contemplated internationally through the Financial Stability Board (FSB).⁵ The

⁵ See Annex 5 of FSB consultation paper 'Strengthening Oversight and Regulation of Shadow Banking' dated August 2013
http://www.financialstabilityboard.org/publications/r_130829b.pdf

Committee's is concerned, however, that the FSB's technical data experts group is still undertaking work in this area and which is not targeted for completion until the end of 2014. IIROC proposes publishing its finalized repo reporting requirements before this international work is completed. This risks implementing a framework in Canada that may not align fully with the final agreed to international approach.

The Committee also expressed reservation with some of the required data elements that were viewed as jeopardizing customer confidentiality, including their positioning in the market. These concerns are heightened given the uncertainty that continues to exist amongst the Committee with respect to the use of this information; particularly should a public transparency system for debt markets become contemplated. **A real potential risk that could stem from the Rule is that institutional clients may choose to conduct their securities financing activity utilizing market participants not covered by the Rule, thereby disadvantaging IIROC dealer members.**

While we appreciate the Bank of Canada's need for more granular reporting on repo to monitor activity and financial stability in this core funding market, we don't see the repo reporting as necessary for meeting the primary regulatory objectives of IIROC. We question, therefore, the immediate need to include all the listed repo data elements as part of the Proposed Rule. We believe it more appropriate for IIROC and the Bank of Canada revisit the repo reporting required from Dealer Members **when the international standards are finalized**. As an interim measure, the Proposed Rule could be revised to require only the following data elements pertaining to repo:

- Repo Agreement Identifier (#32)
- Repo Type (#33)
- Repo Term (#34)
- Repo Maturity Date (#35)
- Currency of Repo (#36)
- Repo Collateral Security Type (#39)
- Repo Collateral Security Identifier (#40)
- Clearing House (#41)

We believe the above would still provide the Bank of Canada greater visibility than currently and well place Canada for the transition to the international requirements once they become finalized.

We also note that there is a need to clarify which of the data elements under #1 - 30 listed in the Notice would be required as part of the repo transaction reporting. For example, requiring both a trade identifier (data element #3) and a repo agreement identifier (data element # 32) would seem duplicative.

Other Comments

Internal Transactions

The Notice exempts internal transactions from the reporting requirements and define's such transactions to be between two separate business units or profit centres within the reporting Dealer

Member where there is no change in beneficial ownership. Additional clarification would be helpful on how beneficial ownership is determined.

In assessing internal transactions for the purposes of MTRS 2.0 reporting and volume aggregation, IIROC (and the Bank of Canada) must take into consideration that not all dealer members are structured the same. Depending on the corporate structure, various departments such as the bond desk, swap desk and corporate treasury may be set up as part of separate, affiliated corporate entities. For example, a bond desk may be set up as part of the dealer member that is a government securities dealer while the swap desk is part of the affiliate bank. The Proposed Rule as drafted indicates that a transaction between a dealer member and an affiliate bank, insofar as it results in a change in beneficial ownership, would be reportable under the requirements. We note that transactions between a dealer and an affiliate bank may be conducted for various purposes including facilitating client transactions, hedging swap desk risk exposure or general portfolio purposes. In this regard, we would appreciate clarity on the types of transactions between a dealer member and an affiliate bank that are reportable under the Proposed Rule and guidance on any exclusion, if applicable. **We believe a key outcome of MTRS 2.0 should be uniform reporting of bonafide transactions independent of corporate structures.**

MTRS 2.0 User Guide

Much like the MTRS 'Blue Book' utilized today, the MTRS 2.0 User Guide will be an important industry resource to help dealer members understand their reporting requirements. The User Guide description in the Notice leads us to believe that its focus will be on technical information (message specification, file delivery protocol, etc). While such information is important, we believe it essential that the MTRS 2.0 User Guide also provide some practical direction to the dealers' business units, for example, on how various debt security transactions or relationships need to be treated for the purpose of MTRS reporting and aggregation of market statistics. It would be helpful; for example, if the User Guide listed criteria IIROC and the Bank of Canada would use in considering the appropriateness of capturing transactions, including related party transactions, as part of secondary trading volumes. IIROC, in consultation with the Bank of Canada, should lean on their many years of experience administering the current MTRS to identify some of the many frequently asked questions of the past to ensure those areas are covered off in the MTRS 2.0 User Guide. IIROC's consultation process for the User Guide, therefore, should encompass more than just dealer operations and technology personnel. We view the User Guide as being an essential resource for ensuring accurate and consistent industry reporting into MTRS 2.0 resulting in credible market statistics. Similarly, we seek confirmation that future amendments to the User Guide will be subject to industry consultation, especially as any such amendment may have implications on dealers' reporting procedures and systems.

Reporting Deadlines

The Notice indicates for transactions executed on a Saturday, Sunday or any officially recognized Federal or Provincial statutory holiday on which the system is closed, the report must be made no later than 2:00 p.m. Eastern Time on the second Business Day following the Date of Transaction Execution. What are IIROC's expectations of Dealer Member's reporting obligations for provincial holidays on which the 'system' is not closed but dealer members offices may be closed.

“Debt Security”

For the purposes of identifying the debt securities that would be subject to the reporting requirements, we have interpreted that GICs are not “debt securities” therefore out of scope. Would this also be true for other banking products such as Principle Protected Notes? In addition, the definition of “debt security” includes a clarification relating to derivative products. For greater certainty, we submit that the relevant sentence in the definition of “debt security” should be revised to read “Derivative products ~~that are not securities (e.g. futures contracts, interest rate swap)~~ are not Debt Securities”. We note that “Derivatives” are already defined in various CSA Rules which IIROC may choose to reference. Further, we believe clarification on the treatment of bond forwards is warranted for purposes of the Proposed Rule. The IIAC hopes to discuss bond forwards further with its members and come back to you with some views on this area.

Proposed Implementation Time Frame

We continue to believe that IIROC’s targeted implementation time lines are aggressive considering the level of development that dealer members will have to undertake to conform to the reporting requirements. While many of the proposed data elements may be captured today by dealers, they are sourced from different systems within their operations, spanning front, back and middle offices. Centralizing the required data such that it can be packaged and delivered according to the requirements will require substantial effort. Given the many other competing regulatory initiatives dealers are working to meet, any flexibility afforded by IIROC on the phase 1 and phase 2 implementation would be very much welcomed by its dealer members.

Thank you for considering our preceding comments. The IIAC and a group of our member representatives would be pleased to meet with you to elaborate further on any part of our submission.

Sincerely,

“Jack Rando”

Jack Rando CFA MBA
Managing Director
Investment Industry Association of Canada