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Dear Sirs/Mesdames:

Re: IIROC Request for Comments – Proposed Requirements for Debt Securities Transaction Reporting

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on IIROC's Proposed Rule 2800C – Transaction Reporting for Debt Securities as set out in IIROC Notice #13-0058.

We believe that the Proposed Rule is an important first step in a broader initiative to gather information on the Canadian debt market and build up a debt transaction database. It is vitally important as an investor protection measure that accurate, consistent and relevant information be shared with the broader investment community, as the Canadian debt market is not sufficiently transparent. As a result, it is extremely difficult for investors to determine if they are receiving fair pricing on any given debt transaction. The emphasis of the Proposed Rule should not be on data collection, but rather include more specifics on the intended use and distribution of that data as an investor protection measure.

We understand that it is intended that the Proposed Rule be implemented in phases, however the proposed full implementation target of 2015 is too drawn out. We would urge IIROC to implement the proposed requirements as soon as possible.

¹ The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfaadvocacy.ca/>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>

² CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 113,000 members in 140 countries and territories, including 102,000 CFA charterholders, and 137 member societies. For more information, visit <http://www.cfainstitute.org/>.

In conjunction with the full implementation of the reporting requirements, IIROC should also contemplate how the pricing information could quickly be provided to the investing public. Public reporting should be achievable within the suggested two year timeframe. It is important for information on the bid/ask prices and volume to be shared with all constituents. As such post-trade information is relevant for all market participants, IIROC could consider implementation of the publication of such data to the public in stages, with a view to providing the most relevant information with respect to pricing sooner.

The Notice provides some comparisons between the Canadian market and other established fixed income markets. We suggest caution in making such comparisons, and believe further study and analysis should be conducted with respect to the microstructure of the Canadian fixed income market. IIROC should determine if the same rules that are appropriate for a retail based fixed income market are feasible for Canada as well. For example, the Notice indicates that Italy has extended pre-trade and post-trade transparency requirements to include debt market trading. The October 2011 CFA Institute Paper “An Examination of Transparency in European Bond Markets” (quoted in the Notice) provides statistics with respect to Italy’s sizable retail participation in bond markets, with a significant percentage of direct holdings of fixed income securities by households.

In our experience, however, the Canadian bond markets are quite different in that they are dominated by institutional participants, who already have easy access to pre-trade pricing through their ongoing, direct relationships with dealers. In addition, we have found that pricing for institutional investors will differ throughout the day among various dealers depending on a number of factors, including the position of a particular fixed-income security in a dealer’s inventory that day, and the dealer firm’s goal of netting out their positions by the end of the business day. While we encourage the implementation of post-trade reporting to IIROC and dissemination to the investing public of such information as soon as reasonably practical, we note that unlike other markets, certain requirements such as pre-trade pricing reports might not be necessary for the Canadian markets.

With respect to the details in the Project Plan, we believe that the industry can improve upon the suggested T+1 reporting deadline for post-trade reports. Reports can and should be required to be filed within 15 minutes of a trade.

The Project Plan provides various data elements for the initial reporting requirements. While IIROC intends to refine the reporting requirements after implementation based on its analysis of the data received, we believe that even the initial reports could be more robust. Data elements such as the applicable currency, rating of the issue, seniority of the issue, outstanding issue size and identification of any put/call options on the security should also be specifically required. The Benchmark Security Identifier is particularly important. IIROC should ensure that the benchmark used for reporting purposes is appropriate, and has comparable liquidity, maturity, issue size and coupon. It would assist IIROC’s data analysis if such information were specifically required to be provided in the report. In addition, the Project Plan suggests that the reports should include the commission, mark-up or yield stated on the confirmation (if any). For purposes of price transparency, it is important that such information be provided on the reports even if they are not specifically referenced in the confirmation. Dealer Members will be aware of all forms of compensation they are receiving for a fixed income trade, including spreads, and should be required to report such compensation.

In future consultations, IIROC should consider speaking directly with investors to help identify the data that investors find most relevant and useful. For example, investors might only be interested in post-trade data. If such consultations are conducted well in advance of when the publication of the data will occur, IIROC can ensure that its records are historically robust and contain all the necessary data points for future use. These consultations would be useful in conjunction with the further analysis on Canada's bond market structure suggested above.

We query the reference in the reporting requirements to the reporting system being closed on the weekend and public holidays. If the system is fully automated, it could receive reports 24/7 and there would be no need to provide for different filing deadlines.

With respect to the technology infrastructure, IIROC should ensure it has the necessary information from its data provider for a thorough pricing analysis of each security, including the security's maturity, seniority, coupon and benchmark. IIROC should specify the type of information it is receiving from its data provider for additional transparency. In all circumstances, IIROC should have the ability to look at a historical trade and determine how each bond was priced, and whether that price was fair in the circumstances.

Finally, we note that the Proposed Rule would provide that file receipts for reports must be retained by the Dealer Member for seven years. We do not believe that Dealer Members should bear the cost or responsibility for storing a potentially large volume of receipts; the Dealer Members will otherwise have records of the trades, and IIROC itself will have the requisite trade reports. Dealer Members already have large compliance costs, and should be required to focus such resources on substantive compliance measures that are necessary to meet investor transparency concerns.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

Sincerely,

(Signed) *Ada Litvinov*

Ada Litvinov, CFA
Chair, Canadian Advocacy Council