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BY EMAIL

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Market Regulation

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Dear Sirs/Mesdames:

Re: Proposed Provisions Respecting Client Identifiers (the “Proposed Provisions”)

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on the Proposed Provisions. We wish to provide the following general comments, as set out below. We are of the view that the key benefit to the Proposed Provisions is that they will improve market integrity and IIROC’s ability to conduct effective and timely supervision of marketplaces.

The CAC believes all companies should be required to maintain and report the LEI as this would increase investors’ and IIROC’s ability to identify and analyze the risks of registrants and their subsidiaries. The LEI is the right identifier for this purpose, given its widespread adoption for other securities market purposes.

As argued in a blog posted by CFA Institute, “... even taking an initial step of only those that currently maintain a LEI to report it would be beneficial to the marketplace and

¹The CAC represents more than 15,000 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.cfasociety.org/cac>. 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 of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors’ interests come first, markets function at their best, and economies grow. There are more than 154,000 CFA charterholders worldwide in 165+ countries and regions. CFA Institute has eight offices worldwide and there are 151 local member societies. For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAInstitute and on Facebook.com/CFA Institute.

would impose minimal burden on registrants³”. In addition, the post states “The benefits to be gained through the use of LEIs grow in line with the rate of LEI adoption. To maximize the benefits of entity identification across financial markets and beyond, GLEIF [Global Legal Entity Identifier Foundation] encourages firms to engage in the process and obtain their own LEI. On behalf of the investor community, CFA Institute does so as well.”⁴

We understand that from the perspective of a buyer, costs will relate to obtaining an LEI number for each firm, recognizing that the cost of maintaining an LEI per annum is minimal. Dealers will bear the majority of the costs of implementing the Proposed Provisions.

A large concern of market participants relates to the security of data transmitted outside of the brokers’ systems. Both dealers and investment managers (and their clients) will want to ensure that data cannot be misused by predatory market participants. Data protection and successful encryption will be very important, including with respect to dealer/client confidentiality. There is a large potential for investor harm should a data breach or other inadvertent disclosure occur, either on the part of dealers or those to whom they disclose client orders along with LEIs for regulatory or other purposes.

We would not like to see any less attention given to client information security and confidentiality. One primary concern with respect to the Proposed Provisions has been the potential for the identifiers to be used to gain confidential information around firms’ trading positions or strategies. Such use could be accomplished either by individuals with authorized access or as the result of a data breach.

In order to limit the information available to staff at marketplaces and technology vendors, dealers must be enabled to encrypt LEI information on equity orders using a key which will be shared with IIROC. We expect that institutional clients would request that their dealers encrypt their ID.

Access to the decrypted data should be limited to designated staff at IIROC, the CSA, and the Bank of Canada, who are able to maintain data security and ensure that the information is not misused to compromise any firm’s trading strategy. The policy must ensure that any data shared with outside academic researchers or other non-regulatory participants will have client identifiers removed or masked.

We believe that the client confidentiality is a paramount. The encryption should be mandatory, and all other client information including account numbers should be treated as private data and secured. In the event of encryption failing or unencrypted data or encryption keys being disclosed to unauthorized parties, there should be a penalty for those that build systems that fail where the burden falls on clients.

³ Mohini Singh, ACA, “Requiring the Use of the Legal Entity Identifier” (23 January 2018), *Market Integrity Insights* (blog), online: <https://blogs.cfainstitute.org/marketintegrity/2018/01/23/requiring-the-use-of-the-legal-entity-identifier/>

⁴ Ibid.

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 cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council for
Canadian CFA Institute Societies*

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