

# IIROC NOTICE

## **Administrative Notice Request for Comments**

*Please distribute internally to:*  
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16-0277

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## **New Debt Information Processor Fee Model**

### **Executive Summary**

On July 6, 2016, as the Information Processor (IP) for corporate debt securities, IIROC [launched](#) a new corporate bond information web site, providing all market participants with free online trade information, for look-up only (the Debt IP Service).

To recover the costs associated with operating the Debt IP Service, we are proposing a simple fee model based on each contributing dealer's proportion of publicly reported corporate debt transactions.

In order to further facilitate more informed decision-making among all market participants and improve market integrity, we are also exploring the possible distribution of data for bulk download to customers for a fee (the Expanded Debt IP Service).

This Notice provides a range of costs we expect to incur in fiscal 2018<sup>1</sup>, depending on whether or not we offer the Expanded Debt IP Service. It does not address the treatment of any revenue earned from fees we might charge if we pursue the Expanded Debt IP service.

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<sup>1</sup> April 1, 2017 to March 31, 2018.



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## **Background**

Since 2013, IIROC has been working to enhance the integrity of Canada's debt market through more timely surveillance, enhanced oversight and increased regulatory transparency. As of November 1, 2015, IIROC's [debt transaction reporting rule](#) has required firms classified as Government Securities Distributors (GSDs) to report all debt trade information to IIROC. Effective November 1, 2016, all remaining Dealer Members were also required to report all debt trade information to IIROC.

On July 6, 2016, IIROC [launched](#) a new corporate bond information [website](#), providing all market participants with trade information on corporate debt securities. The corporate bond information site follows IIROC's selection by the Canadian Securities Administrators (CSA) as the Information Processor for corporate debt securities<sup>2</sup>. This initiative supports efforts to facilitate more informed decision-making by all market participants and improve market integrity.

## **Potential Expanded Debt IP Service**

The corporate debt data that IIROC publishes is currently available free online, for look-up only, and is not accessible in bulk.

Through consultations with a variety of Dealer Members, institutions and other market participants, we have learned that downloadable bulk corporate debt transaction data would be useful for activities such as:

- Dealer Member and client monitoring of fair pricing compliance, commission payment practices, etc.
- position / fund-level accounting (independent price verification or IPV)
- risk management
- activity analysis & forecasting
- credit index creation and management
- ETF structuring and valuation.

We believe that allowing the published data to be easily retrieved and used for these purposes will achieve the CSA's objectives of:

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<sup>2</sup> Please refer to [CSA Staff Notice 21-318](#) for details.



- facilitating more informed decision-making among all market participants, and
- improving market integrity.

We are therefore exploring the distribution of downloadable bulk data for a fee through the Expanded Debt IP Service.

### **Guiding Principles**

In 2015, IIROC [introduced](#) a new Debt Market Regulation fee model using the following guiding principles as an objective frame of reference:

- *Fairness:* A Member's share of fees should be based on its usage or consumption of IIROC regulatory services.
- *Transparency:*
  - Members should understand how their fees reflect the application of the guiding principles.
  - To the extent possible, Members should be able to reconcile billing drivers used in an invoice to information that they supplied to IIROC.
- *Consistency:* Rules and principles that determine fees should be consistently applied to all Members.
- *Industry Competitiveness:*
  - In the public interest, and to the greatest extent possible, fees should not inhibit new entrants.
  - The setting of fees should be designed to be as neutral as possible so as not to favour one market or dealer over another or influence decisions where to trade.
- *Cost Recovery of Regulatory Services Provided:* IIROC will operate on a cost-recovery basis.

### **Debt IP Costs and Drivers**

We estimate that gross annual operating expenses for the free lookup Debt IP Service in fiscal 2018 will be approximately \$350,000. The gross<sup>3</sup> annual operating expenses will increase to approximately

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<sup>3</sup> Excludes revenue earned if we pursue the Expanded Debt IP Service.



\$675,000<sup>4</sup> if we offer the Expanded Debt IP Service. These estimates include respectively \$200,000 and \$350,000 in existing costs that, due to shared infrastructure, will now be allocated to the Debt IP and result in a corresponding reduction in those other costs, principally debt market regulation costs. Fees charged for debt market regulation will decrease accordingly.

The following IIROC departments will primarily drive annual operating costs for the Debt IP service:

- The Information Technology team will operate, maintain and support enhancements to the systems used by the Debt IP service.
- The Debt Surveillance and Trading Conduct Compliance (TCC) teams, in performing their regulatory functions, will play an integral role in optimizing the integrity of the data distributed by the Debt IP Service.

Consistent with the analysis we conducted in establishing the Debt Market Regulation fee model, the primary cost driver for the activities carried out by these departments is the number of corporate debt transactions reported, as detailed below:

Department	Cost Driver
Information Technology	<ul style="list-style-type: none"><li>• (a) System capacity utilization to manage and store transaction and reference data, and (b) human resources for operation, maintenance and product support. These costs are primarily fixed, but influenced by the number of trade records processed and stored</li></ul>
Debt Surveillance and TCC	<ul style="list-style-type: none"><li>• Number of debt transactions reported</li></ul>
Indirect Costs	<ul style="list-style-type: none"><li>• Allocated using the cost allocation model</li></ul>

### **Proposed Debt IP Fee Model**

IIROC proposes to adopt a simple Debt IP fee model with the costs borne by Dealer Members based on each contributing Dealer Member's

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<sup>4</sup> Additional one-time operating expenses of up to \$150,000 may be incurred in fiscal 2018 to establish the Expanded Debt IP Service.



proportion of publicly reported corporate debt transactions<sup>5</sup>. We believe this approach fits with our fee model guiding principles.

Since this is a new activity where processes will likely evolve, IIROC will review the fee model in due course and adjust it if required for better alignment with the guiding principles and with effort expended. If material adjustments arise from the review, the fee model will be published again for comment.

The model associated with the treatment of any revenue from fees charged to customers if we pursue the Expanded Debt IP Service will be published separately.

### **Request for Comments**

IIROC seeks written comments on the proposed new Debt IP fee model. Comment letters should be delivered by January 1, 2017 (30 days from the publication date of this notice) addressed to the attention of:

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<sup>5</sup> Fees for Government Securities Distributors (GSDs) will be applicable from April 1, 2017. Fees for non-GSDs will apply from July 1, 2017. Refer to [CSA Staff Notice 21-318](#) for details.