

# IIROC NOTICE

## Administrative Notice Notice of Approval

*Please distribute internally to:*  
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15-0243  
October 29, 2015

## Approval of Debt Market Regulation Fee Model

### Executive Summary

As noted in [IIROC Notice – 15-0223](#) – Debt Market Regulation Fee Model Update issued on October 5, 2015, IIROC submitted for approval to its recognizing regulators the Debt Market Regulation Fee Model (“Fee Model”). The recognizing regulators have approved, subject to certain conditions, the Fee Model as proposed by [IIROC Notice - 14-0291](#) – New Debt Market Regulation Fee Model issued on December 11, 2014.

IIROC received three comment letters in response to [IIROC Notice 14-0291](#). IIROC’s responses to the comment letters are attached as Appendix 1 to this Notice.

The approved Fee Model will be implemented effective November 1, 2015, as noted in [IIROC Notice – 15-0223](#).

### Development of the Fee Model

IIROC established an industry committee (the “Committee”) in order to ensure that Dealer Member (“Member”) input was considered in the development of the new Fee Model. The Committee adopted the following guiding principles as an objective frame of reference with which to evaluate potential Fee Model alternatives:



- *Fairness:* A Member's share of fees should be based on its usage or consumption of IIROC's 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.

These guiding principles are consistent with those used in the development of IIROC's Dealer and Market Regulation Fee Models.

IIROC identified cost drivers to help determine the regulatory costs to be consumed by Members engaging in debt market transactional activities. IIROC also conducted benchmarking against the fee models of similar regulatory organizations and provided this information to the Committee.

### **Description of the Fee Model**

As described in [IIROC Notice – 15-0223](#), the following are key aspects of the Fee Model approved by IIROC's recognizing regulators:

- Total fees assessed will be set to recover IIROC's cost of regulating debt markets.
- Fees will be based on each Member's pro-rata share of reportable debt transactions, which includes primary, secondary and repo transactions, determined on a per-transaction basis.



- The repo transaction portion of the fees will be reduced by cost recoveries from the Bank of Canada.
- IIROC will implement a late filing fee, which will be based on the additional effort required to input the late data, make corrections and perform appropriate surveillance.

### **Future Review**

As this is a new regulatory activity for which processes are not yet fully known, IIROC will review the Fee Model after one to two years 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.

Specifically, IIROC is committed to fulfilling the following conditions of approval during the Fee Model review:

1. IIROC shall review whether the reporting requirement in subsection 2.2(c) of IIROC Rule 2800C Transaction Reporting for Debt Securities (IIROC Rule 2800C) applicable to Alternative Trading Systems (ATs) continues to be appropriate, based on IIROC's analysis of trade data reported by ATs and other Members over the period November 1, 2016 to October 31, 2017.
2. If, based on the analysis referred to above, IIROC concludes that the reporting requirement in subsection 2.2(c) of IIROC Rule 2800C applicable to ATs continues to be appropriate, IIROC shall review whether the fees applicable to ATs in the context of the Fee Model continue to be justified, based on IIROC's analysis of trade data and regulatory activities conducted over the period November 1, 2016 to October 31, 2017.
3. IIROC shall submit the results of these reviews to its recognizing regulators no later than 90 days after the end of the above mentioned period.

### **Implementation of the Fee Model**

IIROC will implement the Fee Model on November 1, 2015, with monthly invoicing to commence, at earliest, in the first half of December 2015. IIROC will publish additional information concerning the implementation of the Fee Model before invoicing commences, including internal guidelines for its administration.



## Further Information

Those wishing additional information concerning the Fee Model and its implementation should contact:

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## Appendix 1

### Summary of Comments to IIROC Notice 14-0291 and IIROC Responses

Item	Comment	IIROC Response
Cost Efficiencies	Two commenters noted that the regulatory and maintenance costs and resulting fees charged to Members should be kept as low as possible by leveraging internal efficiencies.	<p>The costs associated with the ongoing operation and maintenance of MTRS 2.0, including technology, staff and other direct costs, will be allocated to IIROC Members that trade debt securities on a cost-recovery basis under the Fee Model described in the Notice.</p> <p>In developing the system and processes to carry out debt surveillance, IIROC will leverage its existing infrastructure, systems and resources to help ensure net new costs do not duplicate existing capability, and any relevant existing capacity is efficiently used. Shared costs allocated to IIROC's other regulatory fees will be reduced by the amount allocated to debt oversight.</p>
Post-Implementation Review of Fee Model	One commenter requested that IIROC implement a framework to periodically review the Fee Model for appropriateness and efficiencies.	As mentioned in the Notice, since this is a new regulatory activity where processes are not yet fully known, IIROC will review the Fee Model after one to two years and adjust it if required for better alignment with the guiding principles and with the efforts expended. If material adjustments arise from the review, a revised Fee Model will be published again for comment.
Reporting of Fees Generated by Fee Model	One commenter indicated it would be helpful for IIROC to monitor and publically report back on the fees generated by the Fee Model.	Revenues from each of IIROC's regulatory Fee Models are disclosed in its Annual Report. Debt Market Regulation fees will be added to the disclosure commencing with IIROC's Fiscal 2016 Annual Report.



Item	Comment	IIROC Response
Late Filing Penalties	One commenter supported the imposition of a late reporting fee on Members that report trades after the prescribed time.	IIROC will implement a late filing fee. The fee will be based on additional effort required to input the late data, make corrections and perform appropriate surveillance.
Imposition of Reporting Requirement and Fees on Financial Intermediaries who are Members	One commenter indicated that, under certain circumstances, a financial intermediary or counterparty will be subject to trade reporting requirements along with the contracting brokers on the trade of a debt security, resulting in the duplication of reporting and payment of fees to IIROC. The commenter suggested that the effect would be to contravene the guiding principles of Fairness, Consistency and Industry Competitiveness.	<p>IIROC’s Rule 2800C requires that all Members, including those acting in the capacity of a financial intermediary or counterparty, that are involved in the trading of a debt security to report the transaction to IIROC. This ensures that IIROC has adequate information to review and monitor those Members’ debt transactions.</p> <p>All Member transactions impose costs on IIROC, including among others, data capture, storage and regulatory supervision for general market abuse including manipulation, front running of new issues, parking, cornering etc.</p> <p>It is vital for IIROC to review all transactions that comprise a trade to ensure the objectives of strengthening the integrity of the debt markets, compliance with debt rules and prevention of / addressing market abuses are achieved. Consequently, in order to be aligned with the Fairness principle in the Fee Model, it is critical for IIROC regulatory costs consumed by an intermediary reporting under Rule 2800C to be recovered from such an intermediary.</p> <p>IIROC will review the both the requirement for intermediaries to report transactions under Rule 2800C, and the appropriateness of charging them fees under the Fee Model for this issue to</p>



Item	Comment	IIROC Response
		meet the conditions of its recognizing regulators.
Frequency of Fee Collection	One commenter indicated that IIROC should specify the frequency with which fees will be collected from Members.	IIROC will be invoicing for Debt Market Regulation fees on a monthly basis (in arrears, based on the reported debt transactions for the prior month). Supporting data will be included with each invoice so that members can check against their own records. This is the approach currently used for Equity Market Regulation fees.