BRITISH
COLUMBIA

October 10, 2006

168005

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Securities Commission
Securities Commission
Registrar of Securities, Government of Yukon
L'Autorité des marchés financiers (Québec)

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

c/o Madame Anne-Marie Beaudoin, Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
Montréal, Québec H4Z 1G3

Dear John Stevenson and Anne-Marie Beaudoin,

The Canadian Securities Administrators (CSA) has published proposals for comment that would amend National Instrument 21-101 *Marketplace Operation* and Companion Policy 21-101CP and National Instrument 23-101 *Trading Rules* and Companion Policy 23-101CP (together the Alternative Trading System (ATS) Rules.

.../2

Ministry of Finance

Provincial Treasury
Office of the Assistant Deputy Minister

Mailing Address:
PO Box 9417 Stn Prov Govt
Victoria BC V8W 9V1
Telephone: 250 387-9295
Facsimile: 250 387-9099

Location:
Room 109
617 Government Street, Victoria

The purpose of this letter is to provide the CSA with the response of Provincial Treasury in the Ministry of Finance to the proposal for a "phased-in approach for transparency". Provincial Treasury issues debt securities in the name of the Province of British Columbia to meet the borrowing requirements of the government and its crown agencies.

Provincial Treasury supports the efforts of the CSA to promote well-functioning and efficient capital markets.

We have considered the proposal to end the exemption from transparency requirements for marketplaces and inter-dealer brokers trading in government fixed income securities and replace it with transparency requirements with provision for phasing-in more transparency over time. We recommend against the proposal and recommend that the CSA extend the exemption until 2011.

The following addresses questions 1 through 5, and question 9 in the Notice of Proposed Amendments as they relate to the government fixed income market.

Our approach to determining whether transparency regulation of the government fixed income market is required is based on answers to the following three basic questions:

1. Will the regulation correct a market failure?
2. Will the regulation address the failure in question?
3. Are the benefits of the regulatory action greater than the cost it imposes?

As regards correction of a market failure, we, along with the CSA and many other bond market stakeholders have observed that transparency in the government fixed income market has improved significantly since the current exemption was granted in 2003. Competitive market forces have successfully intervened to fill the transparency void which stakeholders had been wanting. There is no evidence of market failure in the institutional market nor that transparency has been compromised, and, indeed, the opposite is the case.

The CSA notes there are issues with respect to pricing for retail fixed income investors. As there is no evidence that transparency impedes retail participation in bond markets, the matter requires further study before imposing additional regulation. We recommend that the CSA consult with the Investment Dealers Association (IDA) and consider whether concerns for the retail investor are best addressed by the IDA through dealer-conduct and price disclosure rules.

…/3

In the absence of evidence of market failure, regulation is an unwelcome response. The government fixed income market will be better served by continuing to look to the market to strike the right balance between desired transparency and liquidity. To date relying on the market has proven effective and efficient without evidence of harm to investors.

The proposal effectively requests a blank regulatory license to "phase-in" to an undefined regulatory regime for an uncertain benefit. As importantly, the proposal carries with it the risk that it will actually injure liquidity which remains somewhat fragile in the Canadian government bond market and has been a recent pre-occupation and priority of the Bank of Canada. For example, there is a risk that with increased transparency, winners of auction-based trades (such as on CanDeal) would be compromised in their ability to hedge their positions which could lead to reduced willingness by market makers to provide liquidity, at the expense of market stakeholders. We recommend treading very cautiously in a marketplace on which governments and corporations depend significantly.

We conclude that extending the exemption period for a further five years is the best course of action. The extension would recognize that fixed income markets evolve and are dynamic, and would enable the CSA to keep a vigil to ensure that the market continues to build on past successes with enhancing transparency and supporting liquidity. The CSA could use this period to consider the principles that guide optimal transparency and measure the market's progress against them, while preserving the right to regulate in the future if needed to address evidence of market failure.

We thank you for this opportunity to comment and applaud the CSA's willingness to weigh the concerns of stakeholders with the proposed changes to the ATS Rules.

Yours truly,

J.W. Hopkins.

Jim Hopkins
Assistant Deputy Minister
Provincial Treasury and Registries
Ministry of Finance

cc Tamara Vrooman
Deputy Minister
Ministry of Finance