The Canadian Advocacy Council for Canadian CFA Institute Societies
ADVOCATING THE CFA INSTITUTE'S CODE OF ETHICS AND STANDARDS

October 30, 2015

BY EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority (Saskatchewan)
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary, Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
comments@osc.gov.on.ca

and

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Staff Notice and Request for Comment 21-315 – Next Steps in Regulation and Transparency of the Fixed Income Market (the "Staff Notice")

The Canadian Advocacy Council[1] for Canadian CFA Institute[2] Societies (the CAC) appreciates the opportunity to comment on the Staff Notice.

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[1]The CAC represents more than 15,000 Canadian members of the 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

We understand based on the Staff Notice that the goals of the proposal are to improve corporate bond transparency by having IIROC act as information processor and make available to the public certain information reported to IIROC, subject to a time delay and volume caps. We agree that leveraging off of IIROC's fixed income reporting platform, such that market participants will only be required to report trade information to a single entity, will improve efficiencies.

As a general comment, the CAC is supportive of the efforts of the CSA to increase transparency in the fixed income markets. We note that it would be helpful to have included in the notice descriptive quantitative data on existing corporate bond trading in Canada.

As the CAC has previously indicated to IIROC in a number of comment letters, it is vitally important as an investor protection measure that accurate, consistent and relevant information be shared with the broader investment community, as it is currently very difficult for investors to determine if they are receiving fair pricing on any given debt transaction. Transparency in the debt market should, over time, reduce transaction spreads and benefit investors. It is important to share pricing data with investors, particularly with respect to the bid/ask prices and volume.

The market requires an increased level of disclosure which is broadly distributed to investors, particularly with respect to information that is already available to informed (through subscriptions or otherwise) bond market participants. While enhanced post-trade transparency has the ability to improve price discovery for all investors, we feel its implementation must however be carefully managed so as to balance this goal with the equally important goal to all investors of preserving or improving market liquidity, particularly in certain corporate debt fixed income issues that have historically been relatively illiquid and exhibited greater price volatility. New reporting requirements must try to ensure that the increased disclosure does not further reduce the pool of risk capital (already diminished by the regulatory capital requirements of Basel III and broader investment bank and intermediary balance sheet usage trends) that is available to foster liquidity in the corporate bond market. Increased transparency, when implemented carefully, should have a positive impact on liquidity to the extent investors are more confident that they have equivalent access to information.

As noted above, while we generally support the transparency measures, we have some concerns with respect to the proposed timing delay and specific volume caps. Instead of a "one size fits all" approach, we ask the CSA to consider the different characteristics of these securities so that dissemination of data will not negatively impact liquidity.

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 135,000 members in 151 countries and territories, including 128,000 CFA charterholders, and 145 member societies. For more information, visit www.cfainstitute.org.

With respect to the delay in disseminating trade information to the public after receipt by IIROC, we recognize that the requirements are dependent on the timing of the reporting requirements to IIROC through the MTRS 2.0 system. However, we believe a time delay of one hour from the time IIROC receives the information (or such time as is commercially reasonably in future as technology continues to advance) should be the maximum delay permitted, which is similar to the dissemination delay currently employed by CanPX. If the same dissemination deadline is employed, it is unlikely that such change would have a net negative impact on liquidity for the majority of traded corporate bonds.

End of day pricing for corporate bonds designated by CanPX are available to the public on its website, together with its selection criteria (additional information is available to subscribers). It is our understanding that this group of bonds are relatively liquid. As a result, it should be possible for the new information processor to disseminate at least the same type of data to the public, which provides a reasonable level of transparency, within the time such information is currently made available.

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. We understand that the current US TRACE reporting requirements is 15 minutes. Ideally, trades would be reported to IIROC within 15 minutes and disseminated within one hour thereafter.

While we recognize the concerns about the liquidity impact of incremental information dissemination as per our previous comments, we do not believe that making public information that is already commercially available will have a meaningful impact to liquidity in the corporate bond market in Canada.

The CFA Institute would propose to tailor disclosure requirements to the size of the trade relative to the size and liquidity of the issue, rather than having a one-size cut off, as set out in the Issue Brief – An Examination of Transparency in European Bond Markets [https://www.cfainstitute.org/ethics/Documents/bond_markets_transp_issue_brief_english.pdf]. We would suggest sizing volume caps and disclosure timelines to the size of the trade relative to the size of the issue and the level of recent trading in that issue. As an alternative, the caps and disclosure timeline requirements could be set by liquidity grouping/classification.

For example, the current volume cap proposals address reporting on trades of non-investment grade bonds (presumably with a rating less than BBB- or its equivalent) and investment grade bonds (with a rating of or higher than BBB-). We are concerned that a $2 million volume cap for bonds with a rating of or between BBB- through BBB+ (or higher yielding, less liquid investment grade bonds) may be too large, relative to the traded volume in these bonds. On the other hand, some more liquid high quality issues may not require a reporting volume cap as low as $2 million and the cap could in fact be increased without harming liquidity as per our comments above.

It will be important for the regulators to evaluate the impact of any reporting changes closely after they have been in place for a sufficient period of time (e.g. after a 12 month period). There are a number of changes occurring simultaneously in the corporate credit markets. It will be important to analyze and evaluate the impact of these proposed changes, along with other changes to the regulations that impact the credit market, on factors such as spread, volume and depth. It may be possible, for example, to set a higher volume cap for more liquid issues, if a significant number of trades occur above the $2 million threshold.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have or to meet with you to discuss these and related issues in greater detail. We 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.

(Signed) *Robin Pond*

Robin Pond, CFA
Chair, Canadian Advocacy Council