



Liquidnet Canada Inc.

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30 October, 2015

Delivered 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

Delivered to:

The Secretary
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and

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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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 Canadian Fixed Income Market

As Canada's newest Alternative Trading System for Fixed Income Securities, Liquidnet welcomes the Securities Administrators' attention to the structure and operation of the Fixed Income market, and provides the following comments on the above-captioned RFC.

Liquidnet's global expertise in equities and fixed income markets is generally focused on asset managers, nearly 800 of which form our Community of Members. While our comments are thus provided from the perspective of improving the "institutional" market, rather than that of the "retail" or direct investor, we believe they can and would contribute to a better market for all.

1. Implementation of Cost ... in the Client Relationship Model

Regulators globally are rightly pressuring for more transparency regarding use of client funds - across all investment classes. The extent to which transaction costs and other intermediary services such as research are "bundled" as part of Fixed Income securities' transaction price creates a barrier to understanding these costs – one that is even-higher than exists, yet is the focus of calls for improvement, in equities. In our view, execution, research and other services should be made fully-transparent in order to foster competition, confidence and to facilitate higher investor returns.

We are supportive of this section's proposal to the extent the use of the CRM 2 and associated rules effectively makes mark-ups, mark-downs and generally, commission costs transparent and available in advance of the transaction, to clearly inform the investor's decision, including equally, institutional and retail investors. We do not see any investor, issuer or market harm from such a move.

This move would valuably clarify the transaction costs associated with a fixed income investment, placing it on a par in that regard with an investor's understanding of equities commissions. We note that this proposal stops short of requiring clarity on what is comprised in that commission charge (in particular with the commissions charged to institutional investors), an area we believe is as-helpful.

2. CSA's proposal for transparency of transaction data for Corporate Debt Securities

Liquidnet believes that regulated post-trade transparency for Corporate Bond trades can more-fairly provide investors, issuers and others the information they need to understand and manage investments and will lead to more-informed issuance practices and generally, a safer market.

We believe that there are both cost and credibility advantages in creating a single "Information Processor" and nominating a regulatory agency (IIROC) to operate that, and thus are supportive of that approach.

We feel that more consideration is required with respect to the information (data field set and content) that is distributed regarding each trade. We wonder, for example, how flagging inter-dealer trades, and agency-vs-principal is more-helpful in this market than in equities, for example (equities trades do not include this level of detail).

The US experience with TRACE is quite-instructive. Based on that experience, and on the debate in that country, we feel that the CSA should consider a shorter “embargo” period than the T+2 days proposed. We believe that the shorter the ‘embargo period’ the more-fair disclosure is, as executing brokers currently disclose trades selectively, discriminating by executing customer and information recipient. Liquidnet would suggest that the CSA instruct the Information Processor to release the information 15 minutes after receipt, matching the TRACE “embargo” period, and pre-empting future changes to that delay. We further suggest that the CSA should then pursue an aggressive schedule of having trades reported to the market regulator sooner than the current T+1, beginning with allowing trades to be reported any time up to T+1 (ie; allowing early reporting).

With respect to TRACE, we assume that the Canadian system for Corporate Bond trade transparency would not distribute data on TRACE-reportable securities in duplication to TRACE, and that the Proposal would be only for “Canadian” corporate bond trades.

Turning to the issue of a trade size cap, we suggest a cap that is the same (numerically) as TRACE, but in CAD: C\$1MM for HY and C\$5MM for IG. In our view, the balance between market and investor “good” is properly addressed by a cap, and adopting the same cap structure increases confidence by reducing complexity/ improving comparability with the established US system.

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This RFC is an excellent beginning to the process. As it notes in several places, there are significant additional or detail-level considerations to yet consider.

We believe Liquidnet is unique in Canada in its global understanding of global fixed income market practices and structure and in our simultaneous experience in those and in 43 equities markets. We thank the CSA for the opportunity to provide the above comments and look forward to a continuance of the process.

Please contact us if you would like further information or would like us to elaborate on any of these comments.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Robert Young', written in a cursive style.

Robert Young  
President & CEO  
Liquidnet Canada Inc.