PMAC
PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA
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November 1, 2015

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Financial and Consumer Affairs Authority of Saskatchewan
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Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

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

The Portfolio Management Association of Canada (PMAC), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to submit comments regarding CSA Notice and Request for Comment 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market* (the "Notice").

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. In addition to this primary registration, some firms are dually registered as exempt market dealers, investment fund managers or other registration categories. PMAC was established in 1952 and currently represents over 200 investment management firms that manage total assets in excess of $1.4 trillion. Certain of our Members are considered top bond managers in the Canadian fixed income market.[1] For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

[1] See Globe Investor, Funds: *Top Movers, Best Performers – Canadian Fixed Income as of October 28, 2015*.

General Comments

PMAC supports the efforts of the Canadian Securities Administrators ("CSA") to identify opportunities to improve market transparency and better protect investor interests. We believe many aspects of the CSA staff's plan to enhance fixed income regulation are positive steps that will address current concerns around access to and transparency of the fixed income market. We are also in favour of increased transparency for transactions in the Canadian corporate bond market as post-trade transparency will enable investors to understand and manage their investments. We also support increased transparency in the primary market for corporate debt securities as this would be a benefit to all participants. While we commend the general regulatory direction to improve bond market transparency, we query why the CSA has excluded government debt from the proposal, which is arguably contrary to the transparency goal itself.

We commend the CSA for moving forward with improvements to SEDAR that were implemented earlier in 2015. We believe these enhancements will benefit investors and provide meaningful information on fixed income offerings. We are also supportive of the CRM 2 requirements around fixed income transactions and believe these will have a significant impact on investors' understanding of the costs associated with fixed income investments. We believe that commission costs transparency made available in advance of fixed income security transactions would be beneficial for investors. Similarly, the new performance reporting requirements coming into effect in July 2016 will also provide investors with important information about how their fixed income investments have performed over time. These are all positive developments in improving investors' access to information about fixed income transactions.

With regards the CSA's next steps in regulation and transparency of the fixed income market, our main concerns and comments are detailed below.

Key Comments

1. **The proposed timeline to implement post-trade transparency for corporate debt securities perpetuates the current unlevel playing field and should be shortened.**

2. **Implement a T+1 dissemination delay and not T+2, with a shorter delay in the longer term (e.g. same day).**

1. Proposed Timeline to Implement Post-Trade Transparency for Corporate Debt Securities

The CSA's goal is to achieve transparency for trades in all corporate debt securities by the end of 2017. We have concerns with the proposed timelines for implementation of the enhanced transparency framework and the two-phased approach over the next two years.

First, the proposed timeline perpetuates the unlevel playing field as there will be multiple information processors (IIROC, CDS, CanPx) through which information can be accessed up until 2017 with different dissemination delay periods. In addition, during this two year period some larger market participants will have access to some information while others will not. This was noted in the OSC's Report "The Canadian Fixed Income Market 2014"[2] that large investors have significantly more information and bargaining power than small investors. Transparency in the

[2] Dated April 23, 2015. Available at http://www.osc.gov.on.ca/documents/en/Securities-Category2/20150423-fixed-income-report-2014.pdf.

Canadian fixed income markets is not equal for all participants. Asymmetric information in the fixed income market places some investors at a disadvantage relative to other participants. This is particularly the case with CanPx as only some investors have access to this information.[3] Consequently, a two–year phased implementation perpetuates this unlevel playing field between the buy side and the sell side. Second, CanPx will continue to provide a one-hour dissemination delay which we believe will further distort the playing field for market participants. The CSA seeks to achieve more informed decision making among all market participants; however, it is not clear this will be the case with a multi-tiered information processor system phased in over two years. Ultimately, no market participant, or group of participants, should have superior access to better trade information.

We recommend the implementation timeline be expedited to minimize the disruption and continuing negative impact on the industry. Investors will have different access to different information between now and up and until and past 2017 and we believe this is problematic. We query why it is not possible to move forward with a solution prior to the end of 2017. In our view, this appears to be a longer time period than necessary.

We understand the CSA is monitoring international developments, such as the transparency regime that will be established across the European Union; however, we urge Canada to be a leader and that the CSA move forward with a transparency regime in Canada as soon as possible without delay. We note that in the U.S., the first phase of the Trade Reporting and Compliance Engine (TRACE) administered by the Financial Industry Regulatory Authority was implemented in July 2002. TRACE has reporting timeframes ranging from T+15 minutes for the most part with T+1 for certain types of fixed income securities.

2. <u>Shorten the Dissemination Delay to T+1</u>

We believe the proposed dissemination delay as currently contemplated at T+2 will not be helpful to the market and will provide stale information. We would instead support a T+1 dissemination delay at the outset. While we understand that shortening the dissemination delay too much and too soon will not provide the regulators with the appropriate amount of time to consider the potential consequences to liquidity and impact to the market, implementing a T+2 dissemination delay will not achieve meaningful transparency and the stated objectives in the Notice.

Ultimately, we believe the CSA should move forward with a T+1 dissemination delay now and consider shortening the delay further in the longer term following an analysis of relevant data and public consultation and, assuming no potential consequences to the market. The CSA should monitor the dissemination delay closely and conduct an analysis on its impact on trading behavior with the view to reducing it over time so that the delay is in line with currently available information processing times and also those available in other jurisdictions.

Alternatively, the CSA may also wish to consider a tiered approach to the reporting requirement whereby less liquid fixed income securities are subject to a slightly longer delay threshold than their more liquid counterparts. This approach may achieve more sustainable market transparency while also minimizing the potential negative effects to trading behavior and, correspondingly, market liquidity. Notwithstanding, we still believe at T+1 dissemination delay would be optimal for most securities.

[3] We also note that only some corporate debt securities information may be designated for inclusion in the CanPX system.

3. <u>Other Considerations</u>

A. Relevant Trade Information

We understand that the specific data fields related to the information that will be disseminated by IIROC and details regarding the availability of the data will be determined and published before the end of 2015. We believe this is an area where more consideration is required with respect to the information that is distributed regarding each trade. PMAC recommends that the CSA consider the following post trade information be made available:

- Some volume information (for example, release on a monthly or quarterly basis volume information to the market)
- Market price at time of trade
- Spread (price relative to yield data)

In our view, transparency should focus on the price and volume details of the trade. We do not believe that specific information on the buyer/seller is needed but clarity on whether transaction was with a retail vs. institutional buyer would be helpful. We would be pleased to provide more details on the above.

B. Volume Caps

PMAC believes the volume cap thresholds proposed in the Notice are adequate. However, we make one observation that investment grade bonds with a BBB credit rating have less liquidity and more price volatility. For this reason, we suggest that the CSA consider creating a third cap group for bonds with a BBB credit rating that would entail a lower threshold. Alternatively, these could be treated as non-investment grade and included in the lower bucket threshold (i.e. $200,000 cap).

C. Evaluating Access to the Fixed Income Market

We recommend the working group comprised of IIROC and CSA staff include representatives from the buy-side. We would be pleased to provide representation and input to this group. We believe it is imperative that the work this group will conduct include a comprehensive review of allocation practices from the buy-side perspective.

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If you have any questions regarding the comments set out above, please do not hesitate to contact Katie Walmsley at (416) 504-7018 or Julie Cordeiro at (416) 504-1118.

Yours truly,

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

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