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VIA EMAIL

November 2, 2015

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)
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

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 "Request for Comment")

We are writing in response to the Request for Comment dated September 17, 2015. We appreciate the opportunity to comment on these important matters.

Invesco Canada Ltd. is a wholly-owned subsidiary of Invesco Ltd. Invesco is a leading independent global investment management company, dedicated to helping people worldwide build their financial security. As of September 30, 2015, Invesco and its operating subsidiaries had assets under management of approximately US$755.8 billion. Invesco operates in more than 20 countries in North America, Europe and Asia.

We welcome the renewed focus of the Canadian Securities Administrators ("CSA") on Canada's fixed income markets. We say "renewed" because, while the CSA has been silent on fixed income markets for a long time, we recognize that the CSA has previously recognized the issues and sought regulatory changes some time ago that would have been effective in addressing the concerns of buy-side firms such as ours. Unfortunately, the CSA was deterred from completing its work by forces outside its control. We note this as a caution and urge the CSA to resist such forces this time and address the issues for once and for all.

We read the Ontario Securities Commission ("OSC") report titled *The Canadian Fixed Income Market 2014* (the "OSC Report") with interest and met with OSC Staff to discuss it. We have participated in the drafting of the comment letter of the Portfolio Management Association of Canada and endorse the views contained therein. As is the case, however, with any trade organization, there are many members with differing views and while we are supportive of the PMAC submission, we would encourage the CSA to go even further toward leveling the playing field.

It is clear from the OSC Report that the key regulatory issue in the regulation of fixed income markets is liquidity versus transparency. To date, all regulation has focussed on liquidity as, the OSC Report explains, unless market makers can make excess profits due to information asymmetry the fixed income market will dry up. It is remarkable that this status quo has been acceptable to Canadian regulators for this amount of time.

We note that excess profits today are made at the expense of buy-side market participants exclusively. It is important to note that most of these participants directly represent individual retail investors whose sole access to fixed income markets is through managed investment products. As such, regulators must ask whether it is fair, at its most basic level, for the "little guy" to be responsible for the functioning of fixed income markets in this manner and, if not, how else can we ensure liquidity in these markets?

We are skeptical of the threats of market makers because they naturally would want to protect a low risk profit source, however, we acknowledge this has been an issue in past attempts at reform. The problem previously has been that regulators have made a proposal, met resistance, and backed off. We believe securities regulators want to genuinely resolve the problem at this time.

While we are not in a position to offer comprehensive solutions, we can offer up ideas that could form a framework and we ask the CSA to consider these. If the market makers require profits for their activities, regulators need to ask how much profit is necessary and who should pay for it. We submit that many are interested in fixed income liquidity so if excess profits are the key to liquidity the burden should be shared more broadly: regulation can be imposed so that market maker profits naturally decline but still exist; government and corporate issuers benefit from liquidity by paying lower interest rates so there is room for them to shoulder the burden as well; and buy-side investors can shoulder some of the burden as well. We challenge the CSA to find ways to apportion the liquidity burden to the 2 sets of interests who currently bear none.

At this juncture, we believe it is important to distinguish between government and corporate fixed income markets. Government bonds are generally much more liquid than corporate issues and through our various information systems we are able to obtain good information as to the trading information for government issues. In that way, the current market is both transparent and liquid. From a portfolio management perspective, the portfolio manager is able to quickly ascertain the price and understand what size trades will move the market and what kind of discount might be applicable to larger block trades. This information does not exist for corporate fixed income issues. If liquidity is only provided by market-makers who depend on excess profits, then we would argue the liquidity problem is not addressed by the current structure. Rather, that market is characterized more by illiquidity and

lack of transparency so the trade-off between liquidity and transparency mentioned above is not even met in this instance. It seems to us that liquidity and transparency risks, therefore, are being borne only by end investors in corporate fixed income issues.

To illustrate the foregoing point, we look at Transalta, an Alberta electric generator. The company has issued bonds both in Canada and in the United States. The United States issue is reported on TRACE so we are able to obtain some visibility in the trading of this issue. However, these bonds tend to lack liquidity in Canada since no dealer is offering prices at the level available in the United States. As recently as this past Friday, October 30, 2015, we found the following situation:

> Canadian issued 5% 2020 Transalta bonds were marked at $88.425, for a spread of 690 basis points.
> U.S. issued 4.5% 2022 Transalta issued bonds traded at $95.806, a spread of 304 basis points.
> Same issuer, similar duration, yet the spread was almost 400 basis points wider in Canada.

This suggests that the "market makers" for Transalta in Canada are not looking to offer liquidity; they are looking to make excess profits and have no regard for liquidity. Even with the transparency of the biggest liquid market for these bonds in the world dealers do not provide liquidity.

Currently, there is an unlevel playing field between market makers and buy-side participants. There is also an uneven playing field within the buy-side since certain participants may have access to information that others not only do not have access to but cannot. Equal information for all who so desire appears to be a bedrock principle of provincial Securities Acts and that should apply equally to fixed income investing. There are two ways to ensure this: information should be disseminated to all or information should be disseminated to none. The latter is simply unrealistic and naïve in today's world.

We also do not believe that it would be appropriate to wait for action in other jurisdictions, including Europe. We note that Canada is already 15 years behind the United States on this issue and the United States is the single most important foreign capital market for Canadian investors. The Request for Comment does not make any case whatsoever to warrant further delay.

Turning to the T+2 dissemination proposal at the heart of the Request for Comment, we are concerned that it is of limited utility. The current issue is that the lack of transparency leads buy-side participants to buy or sell fixed income securities at prices other than fair market value. Under the current structure, a buy-side participant may overpay for fixed income securities (as in, a stock trades on the TSX for $10 and you buy it privately for $11 because you did not know the price on the TSX) and not know about it for some time. Private regulation of this situation is impossible because trade information is not widely available and, as a result, most of the time the fairness of the trade cannot be assessed by the buy-side participant who is most likely disadvantaged.

If trade information was disseminated on a T+2 basis, it is true that buy-side participants would know each time they were disadvantaged, but we are not certain

how that would address the problem. By the time of the next trade, the information is stale so the only way this information is useful is for the buy-side participant to pressure the market maker with this information. We believe that is effectively a regulatory non-response. If information were disseminated a day earlier, it is possible that buy-side participants could use the information more productively and the sooner the dissemination following the trade the better the ability for the information to be useful. Therefore, we submit that the CSA should require immediate dissemination of trade information on a T+1 basis (some excess profits would still occur) and the CSA should commit to dissemination earlier than that within 2 years and use that time to consider some of the questions we have raised above.

We note that our proposal above to move to T+1 price dissemination is very imperfect since even at T+1 there is little recourse for a buy-side investors to follow up with the sell-side. Most corporate fixed income is traded on an agency basis so the sell-side does not incur principal risk. Only the investor takes on such risk. We are fairly confident that T+2 would have no impact on the width of the bid-ask spread for these issues, which ought to be the goal. We note the Transalta example described above and question how current proposals can have any impact when full transparency of a substantially similar issue on a close to real-time basis results in a spread in Canada that is almost 400 basis points wider than in the U.S.

The information sought is quite simple: price of the transaction and volume. To the extent the concerns over volume dissemination are legitimate we believe buy-side needs could be met by simply stating whether the value of the trade was above or below a threshold. This could be $200,000 or $1 million, as the CSA deems appropriate. We note that the convention in TRACE in the United States is to disclose institutional blocks and just whether the block was more than $1 million.

Conclusion

We commend the CSA generally and the OSC specifically for its initiative in looking into the operations of Canada’s fixed income markets. We believe scrutiny of this market is long overdue. We realize there are many competing interests and this is not an easy area for regulators to intervene, but we do not believe difficulty is an excuse for inaction. As noted in our comments, there are many tools available to regulators to ensure certain behaviours and we expect them to use those tools. In the meantime, given that the CSA has recognized an inherent unfairness in a particular market, we believe that it is an abdication of their responsibility to not address the unfairness. We and our investors deserve impactful action on this matter.

Thank you for the opportunity to comment on these matters. We would be pleased to discuss our comments with you at any time.

Yours Truly,

Invesco Canada Ltd.

Eric Adelson
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