



CAPITAL MANAGEMENT LTD

August 29, 2018

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, ON  
M5H 3S8

**RE: CSA Staff Notice and Request for Comment 21-323 – *Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities (the “Proposed Government Debt Framework” or the “Proposed Framework”)***

GWN Capital Management Ltd. (“GWN”) appreciates the opportunity to provide comments with respect to the Proposed Government Debt Framework. We have reviewed the Proposed Framework and have the following comments.

We commend the CSA on their efforts to improve post-trade transparency of government debt securities. We strongly believe the CSA should also improve the pre-trade transparency of government debt securities. To achieve this, the CSA should mandate the collection and dissemination of pre-trade information for government debt securities. Thus NI 21-101, Part 10.1 (2) of the Companion Policy should continue to be included in the Proposed Framework. We have reproduced the wording below:

*(2) The requirements of the information processor for government debt securities are as follows:*

*(a) Marketplaces trading government debt securities and inter-dealer bond brokers are required to provide in real time quotation information displayed on the marketplace for all bids and offers with respect to government debt securities designated by the information processor, including details as to type, issuer, coupon and maturity of security, best bid price, best ask price and total disclosed volume at such prices; and*

*(b) Marketplaces trading government debt securities and inter-dealer bond brokers are required to provide in real time details of trades of all government debt securities designated by the information processor, including details as to the type, issuer, series, coupon and maturity, price and time of the trade and the volume traded.*

Pre-trade transparency as disseminated by CanPX or a similar system is much more vital to institutional investors in government debt securities than post-trade transparency. Real-time viewing of orders and trading for government securities on the inter-dealer bond broker platform is essential for institutional investors to make informed investment decisions. Pre-trade information without volume caps is vital to gauge the depth of the market and the price action.

Please note that public stock exchanges and futures markets, as mandated by the CSA, provide full bid and offer size and trade volume information. Mandating similar full bid and offer size and trade volume of government debt securities would ensure investors have the basic information required to trade these securities effectively. As precedent, we refer to how efficiently exchange-traded securities in the stock and

futures markets function. We also refer to how effectively the Canadian bond markets have been functioning since CanPX was instituted.

As agreed to in the 2010 G-20 declaration, "We agreed on the need to strengthen financial market infrastructure in order to reduce systemic risk, improve market efficiency, transparency and integrity. Global action is important to minimize regulatory arbitrage, promote a level playing field, and foster the widespread application of the principles of propriety, integrity, and transparency."<sup>1</sup>

It is very important for the CSA to mandate pre-trade transparency. Without this, investment dealers could push further to "turn out the lights" of the existing pre-trade transparency platform. Lacking pre-trade information, institutional investors would become much less comfortable in their understanding of where the market is trading. Bid-Offer spreads would widen to the benefit of investment dealers and the detriment of investors. Trading volumes would decrease leading to a less efficient and fair secondary government securities market.

Researchers from the University of Oklahoma and Cornell University in August 2012 noted, "Based on our search model, we argue that the increase in pre-trade information, which refines traders' information sets, enhances traders' bargaining positions relative to dealers'. Thus, traders' transaction costs measured by bid-ask spreads are reduced. Smaller bid-ask spreads induce more traders to participate, and hence, lead to an increase in market liquidity."<sup>2</sup>

Government and corporate primary market issuers would also have much less accurate and reliable information of where the market is trading. Potential primary market investors would also have decreased knowledge of and less confidence in market activity and depth. New issue participation by investors would consequently decline, thus reducing the effectiveness of new issue distribution of government and corporate securities. The resulting reduction in liquidity in the secondary markets could increase costs of funding for government issuers in the primary market.

We recommend that pre-trade transparency provide information about where non-benchmark securities are trading as a spread to benchmark securities and other non-benchmark securities. This would greatly enhance the trading in these securities leading to more efficient secondary markets. The primary markets would also be enhanced by investors being able to more accurately assess where the new issue securities they're about to buy and have bought are trading in the secondary market.

Regarding post-trade transparency the Proposed Framework suggests that details of completed trades would be published on T+1 (5 pm ET) without the display of the identities of trade counterparties. The trade publications would be subject to caps on the displayed volume determined by the liquidity characteristics of the type of bond. GWN believes both the timing of trade publication and the post-trade volume caps are reasonable and would provide investors with adequate transparency into the government securities market.

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<sup>1</sup> G-20. (2010, June 26-27). *The G-20 Toronto Summit Declaration* [Press Release]. Retrieved from <https://www.oecd.org/g20/summits/toronto/g20-declaration.pdf>

<sup>2</sup> Chen, F. and Zhong, Z. (2012, August) *Pre-trade Transparency in Over-the-Counter Markets*. Retrieved from <https://pdfs.semanticscholar.org/3eee/3da84961de887974b1df8fa68be57f42493c.pdf>

We thank you for the opportunity to provide comments on the Proposed Government Debt Framework. Please feel free to contact GWN at (416) 355-1110 should you have any questions or wish to discuss this submission.

Sincerely,

GWN Capital Management Ltd.