

October 16, 2017

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International Organization of Securities Commissions (IOSCO)
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Sent via email to: consultation-06-2017@iosco.org

RE: IOSCO's Consultation Report - Public Comment on Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets

FAIR Canada is pleased to offer comments on IOSCO's Consultation Report examining global corporate bond markets and specifically focussing on issues related to regulatory reporting, transparency and the collection and comparison of data across jurisdictions (the "Consultation Report").

FAIR Canada is a national, charitable organization dedicated to putting investors first. As a voice of Canadian investors, FAIR Canada is committed to advocating for stronger investor protections in securities regulation. Visit www.faircanada.ca for more information.

FAIR Canada supports the Consultation Report's broad recommendations that provide that regulatory authorities should ensure they have access to sufficient information to perform regulatory functions, that they should consider steps to enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency. FAIR Canada believes that some recommendations could go further and provides an additional recommendation regarding transparency of compensation regarding bond trades.

1. FAIR Canada Supports the Seven Recommendations

1.1. FAIR Canada supports the following seven recommendations contained in the IOSCO Report:

- I. *Availability of Data Regarding Corporate Bond Markets* - Regulatory authorities should be able to obtain the information necessary to develop a comprehensive understanding of the corporate bond market in their jurisdiction. This understanding should include the characteristics of the market and the types of bonds traded.
- II. *Focus on Quality of Data and Harmonizing Data Standards* - To facilitate cross-border understanding amongst regulators of corporate bond markets, a clear framework and underlying methodology of regulatory reporting and transparency should be available.
- III. *Pre-Trade Regulatory Reporting Requirements* - Regulatory authorities should have access, either directly or upon request, to pre-trade information where it is available, relating to corporate bonds. This might include information other than firm bids and offers such as indications of interest.
- IV. *Post-Trade Regulatory Reporting Requirements* - Regulatory authorities should implement post-trade (transaction) regulatory reporting requirements for secondary market trading in corporate bonds.

Taking into consideration the specifics of the market, these requirements should be calibrated in a way that a high level of reporting is achieved. These requirements should include the reporting of information about the identification of the bond, the price, the volume, the buy-sell indicator and the timing of execution.

- V. *Pre-Trade Public Transparency Requirements* - Regulatory authorities should consider steps to enhance the public availability of appropriate pre-trade information relating to corporate bonds, taking into account the potential impact that pre-trade transparency may have on market liquidity.
- VI. *Post-Trade Public Transparency Requirements* - Regulatory authorities should implement post-trade transparency requirements for secondary market trading in corporate bonds. Taking into consideration the specifics of the market these requirements should be calibrated in a way that a high level of post-trade transparency is achieved. They should also take into account the potential impact that post-trade transparency may have on market liquidity. Post-trade transparency requirements should include at a minimum, the disclosure of information about the identification of the bond, the price, the volume, the buy/sell indicator and the timing of execution.
- VII. *Consolidation of Data* - Where there is transparency of post-trade data relating to corporate bonds, regulatory authorities should take steps to facilitate the consolidation of that data.

2. FAIR Canada Comments

- 2.1. FAIR Canada believes that investors are best served by fully transparent markets with price disclosure – where competitive bids and offers are displayed and executed at the best price and entered immediately, and total commissions (and total compensation) are disclosed. This is not the situation in Canada’s fixed income market today. Orders are executed on a best efforts basis to obtain a fair price (rather than the best price). It is an opaque market especially for retail investors¹ and, in comparison to other jurisdictions, it has been described as: “among the worst in terms of transparency, it’s the worst in terms of liquidity.”²
- 2.2. Fixed income products continue to be important investments for retail investors as they allow for diversified, efficient risk-return portfolios. For example, compared to bank deposits, corporate bonds offer predictable cash flow with greater returns. Corporate bonds also usually provide higher returns than government bonds. It is believed that aging demographics will focus investor demand on fixed income products given their ability to provide regular income, capital preservation and lower volatility of returns.³ Therefore, ensuring that the market is fair and efficient is important.
- 2.3. Canadian regulators have limited data on the amount of bonds held directly or indirectly by retail investors.⁴ A fairly recent article in The Globe and Mail indicates that, in Canada, retail investors have invested around \$535 billion in fixed income securities, \$230 billion directly and \$305 billion indirectly through fixed income, balanced mutual funds and exchange traded funds. It is estimated that Canadians hold 20 percent of their financial wealth directly and indirectly in fixed income securities.⁵ Clearly, this is an important area of the market for retail investors.

¹ Ontario Securities Commission, “The Canadian Fixed Income Market”, (2014), at p 17 (“OSC Report”).

² Ari Altstedter, “Canada’s bond market among the world’s worst for transparency, say traders”, (July 7, 2014) Bloomberg News for the Financial Post.

³ Federico Knaudt, “Why Canada needs transparent corporate bond markets”, (October 30, 2014), Globe and Mail.

⁴ OSC Report at page 17.

⁵ Knaudt, “Why Canada needs transparent corporate bond markets”. The OSC Report at page 18 to 19 includes the following information about retail investor participation: Reports from Investor Economics indicate that in Canada,

- 2.4. In Canada, the Investment Industry Regulatory Organization of Canada (“IIROC”) acts as the information processor under National Instrument 21-101 and will gather information on all fixed income trades executed by IIROC Dealer Members in accordance with IIROC’s Debt Reporting Rule.⁶ FAIR Canada supports the robust accumulation of data by regulators in order to improve the policy-making process and improve regulation of the fixed income market. We believe it is appropriate to require all market participants to report fixed income trade information to IIROC, so that IIROC can establish a comprehensive source of information, including exempt market dealers.
- 2.5. Regulators should strive to improve their ability to collect data and understand the size of the market they regulate. To increase market integrity, FAIR Canada supports the collection of comprehensive data by regulators. Data should be as comprehensive as possible by including all relevant market participants.

Post-Trade Transparency

- 2.6. In Canada, securities regulators have increased transparency for corporate debt securities by proposing that trade information for all such securities executed by dealers be made publicly available, subject to delayed dissemination and volume caps, by the end of 2017.
- 2.7. The information will have a “dissemination delay” of two days following the trade (i.e. a T+2 basis). It is also subject to volume caps. The Canadian securities regulators explained: “[t]his means that, for those trades that have volumes over \$2 million for investment grade corporate bonds and \$200,000 for non-investment grade corporate bonds, the actual volumes will not be shown in the display. Instead, the volumes will be reflected as \$2 million+ and \$200,000+ respectively. These volume caps are the same that are used today...”⁷.
- 2.8. As noted by Table 6 in the Consultation Document, the United States has had the Transaction Reporting and Compliance Engine (“TRACE”) system which requires bond dealers to report transaction data for U.S. corporate bonds in near real-time (within 15 minutes). FINRA makes that transaction data available to the public for free. In Europe, the Markets in financial Instruments Regulation (MiFIR), will require post trade information to be made public in as close to real time as technically possible. Our understanding is that such information will be delayed in certain instances (for large transactions or less liquid products).⁸ **FAIR Canada suggests that IOSCO consider recommendations regarding the speed of post trade transparency requirements in addition to their contents.**

Pre-Trade Transparency

- 2.9. **FAIR Canada suggests that IOSCO go further and urge regulators to take steps to enhance the public availability of pre-trade information relating to corporate bonds rather than “consider**

direct bond holdings (both corporate and government) account for approximately 10% of retail assets held in full-service brokerage accounts. For online or discount brokerages, bonds account for around 3% of client assets. Studies in other jurisdictions indicate that retail investors predominately participate in corporate bond markets through mutual funds. According to the Bank of Canada, mutual funds are estimated to hold 16% of outstanding corporate bonds issued in Canada. According to Investor Economics based on 2014 data, Canadian domiciled fixed income mutual funds had \$312 billion in AUM.

⁶ CSA Staff Notice and Request for Comment 21-315, Next Steps in Regulation and Transparency of Fixed Income Market, September 15, 2015 at p 3 to 5.

⁷ CSA Staff Notice and Request for Comment 21-315 at p 7.

⁸ See CSA Notice of Approval for Amendments to National Instrument 21-101 Marketplace Operation (October 23, 2014).

steps”. In order to improve price discovery and informed decision-making, pre-trade information is important. The EU is a leader in this regard.

Transparency and Liquidity

- 2.10. FAIR Canada suggests that IOSCO examine closely the argument that increased transparency may potentially impact liquidity. This industry argument needs to be examined carefully for accuracy since such arguments may be self-serving and reflect a strong desire to maintain the status quo given the profits being made under the current system. We appreciate the review of the academic research in the Consultation Document⁹. **We recommend that IOSCO assess the need for a further independent study to better understand when, how and under what conditions liquidity will be impacted.** The impact on liquidity (to the extent it occurs) should be balanced against the improvements to market fairness and efficiency that come from decreasing information asymmetry and lowering economic rents.

Additional Recommendation for IOSCO’s Consideration

- 2.11. **FAIR Canada recommends that IOSCO also review each jurisdiction’s regulatory framework regarding the disclosure of the amount of compensation received by dealer firms directly and indirectly in respect of corporate bond trades.** IOSCO should consider a recommendation regarding the disclosure and transparency to investors of the trading commissions/costs they incur (including the amount of any mark-up or mark-down) in the interests of transparency and fairness. Investors will not know that they have received a fair trade (let alone best execution) if the cost of the trade is not known and understood.

We thank you for the opportunity to provide our comments and views in this submission. We welcome its public posting and would be pleased to discuss this letter with you at your convenience. Feel free to contact Frank Allen at 416-214-3443/ frank.allen@faircanada.ca or Marian Passmore at 416-214-3441/ marian.passmore@faircanada.ca.

Sincerely,



Canadian Foundation for Advancement of Investor Rights

CC: British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority (Saskatchewan)
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers

⁹ IOSCO Consultation Document at page 12.to 13.

Financial and Consumer Services Commission of 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 Territory
Superintendent of Securities, Nunavut