

1.1.4 CSA Staff Notice 21-318 Information Processor for Corporate Debt Securities



CSA Staff Notice 21-318 *Information Processor for Corporate Debt Securities*

June 23, 2016

I. Introduction

Staff of the Canadian Securities Administrators (CSA staff or we) are publishing this notice to inform the public that the Investment Industry Regulatory Organization of Canada (IIROC) will act as an information processor for corporate debt securities under National Instrument 21-101 *Marketplace Operation* (NI 21-101) effective July 4, 2016.

II. Background and Regulatory Requirements

Fixed income transparency is an important element of fair and efficient capital markets. Transparency also supports investor protection by facilitating investors' ability to make informed trading decisions.

Regulatory requirements for fixed income transparency are outlined in NI 21-101. With respect to corporate debt securities, NI 21-101 requires that marketplaces that display orders of corporate debt securities provide information regarding orders for these securities to an information processor, as required by the information processor. Marketplaces, inter-dealer bond brokers and dealers are also required to provide trade information for corporate debt securities to an information processor, as required by the information processor.¹

The role of the information processor is to provide transparency to the public regarding trades in corporate bonds. NI 21-101 contains a framework for the regulation of an information processor. Specifically, NI 21-101 mandates the information processor to:

- provide prompt and accurate order and trade information;
- not unreasonably restrict fair access to such information;
- provide timely, accurate, reliable and fair collection, processing, distribution and publication of information for orders for, and trades in, securities;
- maintain reasonable books and records; and
- maintain resilient systems and arrange to conduct an annual independent systems review.

CanPX Inc. (CanPX) is the existing information processor for corporate debt securities and its term will end on June 30, 2016.²

Increasing post-trade corporate debt transparency is a key element of CSA staff's initiative to enhance fixed income regulation. This initiative, described in detail in a number of notices that were published in the past year,³ has the following objectives:

- to facilitate more informed decision making by all market participants;
- to improve market integrity; and
- to evaluate whether access to the fixed income market is fair and equitable for all investors.

¹ NI 21-101 also has transparency requirements for government debt securities, however, these requirements have been postponed until January 1, 2018.

² CanPX is owned by the largest investment dealers and inter-dealer bond brokers.

³ These include CSA Staff Notice 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market* published for comment on September 17, 2015 and CSA Staff Notice 21-317 *Next Steps in Implementation of a Plan to Enhance Regulation of the Fixed Income Market* published on April 21, 2016.

CSA staff's plan to increase post-trade transparency for corporate debt securities entails moving from the existing industry-based approach to a regulatory-led process to transparency by designating IIROC as the information processor for corporate debt securities.

Below, we summarize IIROC's proposal for an information processor.

III. IIROC as an Information Processor

a. Summary of IIROC's Operations as an Information Processor

To act as an information processor for corporate debt securities, IIROC has filed Form 21-101F5 *Initial Operation Report for Information Processor* (Form 21-101F5), in accordance with the requirements of NI 21-101.

As an information processor, IIROC will collect corporate debt data and make publicly available a subset of this data, described below, in accordance with the requirements of NI 21-101. IIROC will collect data through the Market Trade Reporting System (MTRS 2.0), which facilitates dealers' reporting of fixed income trades in accordance with the requirements of IIROC Rule 2800C *Transaction Reporting for Debt Securities*.⁴ To disseminate corporate debt data, IIROC will launch a web-based system that will allow the general public to search, access and view data relating to corporate debt securities two days after a trade occurs (T+2).

The data that will be made transparent will consist of both historical data for each bond and transaction details for each trade. The corporate debt data that will be made publicly available will include the bond issuer's name, interest rate, yield, price and volume. The volume will be subject to volume caps of \$2 million for investment grade corporate debt securities and \$200,000 for non-investment grade corporate debt securities (Volume Caps) that will mask the true size of the trade. The complete list of data fields that will be included in the information disseminated is included at **Appendix A** of this notice.

The data will be disseminated by 7:00 a.m. on T+2. The delay is due to the fact that data reported into MTRS 2.0 is reported to IIROC one day following the trade (T+1)⁵ and IIROC requires time to process the information reported and ensure it is ready for dissemination. The dissemination delay, along with the Volume Caps, are also important measures to manage the potential impact of increased transparency on the liquidity of the corporate bond securities, which has been raised as a concern by market participants. Staff acknowledge that some concerns have also been raised regarding the appropriateness of these dissemination delays and of the Volume Caps. We confirm that we will review the trading activity for corporate debt securities to determine whether the initial dissemination delay of T+2 and the Volume Caps need to be changed over time.

The data described at **Appendix A** will be made available free of charge. IIROC may create and distribute additional data products for a fee at a later date, but this initial data will continue to be free. IIROC will need to obtain CSA approval of any fees it proposes to charge for the additional data products.

b. Implementation

With IIROC as an information processor, corporate debt transparency will be introduced by IIROC in two stages.

1. Stage 1 – on July 6, 2016 (two days after IIROC will launch its information processor operations on July 4, 2016), IIROC will start disseminating post-trade information for the corporate debt securities reported to IIROC at that time⁶ and for which trade data is currently made transparent by CanPX (Designated Corporate Debt Securities)⁷ and for retail trades in all other corporate debt securities reported to IIROC,⁸ on T+2 and subject to Volume Caps; and
2. Stage 2 – in 2017, IIROC will expand the dissemination of information to trades in all corporate debt securities reported to IIROC at that time,⁹ also on T+2 and subject to Volume Caps.

In the interim period, between Stage 1 and Stage 2, IIROC will work with CSA staff to update the list of Designated Corporate Debt Securities and to ensure it continues to include the most liquid corporate bonds over this period.

⁴ http://www.iroc.ca/Rulebook/MemberRules/Rule02800C_en.pdf.

⁵ The reporting timeframes are set out in subsection 2.5(a) of IIROC Rule 2800C. Trades that occur after 6 p.m. on a business day and trades that occur outside of a business day are reported on T+2.

⁶ In Stage 1, only IIROC dealer members that are Government Securities Distributors (GSDs) and those that have affiliates that are GSDs are required to report their fixed income transactions or the fixed income transactions of their GSD affiliates, if applicable, to IIROC.

⁷ These represent the most liquid corporate bonds from a variety of industry groups, issuers and different maturity levels.

⁸ IIROC Rule 2800C requires that retail trades be identified with a retail indicator.

⁹ In Stage 2, all GSD and non-GSD dealer members are required to report their fixed income transactions to IIROC.

c. Staff's Review of IIROC's Proposal for an Information Processor

We have reviewed IIROC's proposal and Form 21-101F5 to determine whether it is contrary to the public interest for IIROC to act as an information processor.¹⁰ Staff are of the view that IIROC is well positioned to perform this role for the reasons set out below.

- It has the system in place to collect corporate debt information and the dealers that are subject to the transparency requirements in NI 21-101 are already reporting this information through MTRS 2.0;
- The development of the transparency system is well underway, and IIROC is ready to make corporate debt trade data transparent in accordance with the implementation timelines above;
- IIROC has sufficient financial and human resources for this function; we note that IIROC already has staff that monitor the integrity and timeliness of the data reported to it through MTRS 2.0, and has committed to designating staff to monitor, address queries and complaints regarding data that will be displayed;
- It will make available comprehensive corporate debt information to all market participants, including investors, at no cost; and
- It has an appropriate governance structure and conflicts of interest policies and procedures in place.

d. Regulatory Requirements and Oversight by CSA Staff

As an information processor, IIROC will be subject to the applicable regulatory requirements in NI 21-101. IIROC will also comply with a number of undertakings, listed at Appendix B of this notice (the Undertakings) and terms and conditions issued by the Autorité des marchés financiers (the AMF Recognition Order).

CSA staff will conduct oversight activities to ensure that, as an information processor, IIROC complies with the requirements in NI 21-101, the Undertakings and the AMF Recognition Order.

IV. Conclusion

Based on IIROC's proposal for an information processor for corporate debt securities and Form 21-101F5 filed by IIROC, the CSA Chairs have determined that it is not contrary to the public interest for IIROC to be an information processor for corporate debt securities beginning July 4, 2016. The corporate debt trade information will be disseminated to the public as of July 6, 2016.

V. Questions

Questions may be referred to:

Ruxandra Smith
Senior Accountant, Market Regulation
Ontario Securities Commission
ruxsmith@osc.gov.on.ca

Tracey Stern
Manager, Market Regulation
Ontario Securities Commission
tsstern@osc.gov.on.ca

Alina Bazavan
Senior Analyst, Market Regulation
Ontario Securities Commission
abazavan@osc.gov.on.ca

Serge Boisvert
Senior Policy Advisor, Direction des bourses et des OAR
Autorité des marchés financiers
serge.boisvert@lautorite.qc.ca

Corine Lemire
Senior Analyst, Direction des bourses et des OAR
Autorité des marchés financiers
corine.lemire@lautorite.qc.ca

Isaac Filate
Senior Legal Counsel
British Columbia Securities Commission
ifilate@bcsc.bc.ca

Paula White
Deputy Director, Compliance and Oversight
Manitoba Securities Commission
paula.white@gov.mb.ca

¹⁰ Subsection 16.2(1) of the Companion Policy to NI 21-101 indicates that the Canadian securities regulatory authorities will review Form 21-101F5 to determine whether it is contrary to the public interest for the person or company who filed the form to act as an information processor. In Quebec, the information processor needs to be formally recognized by the securities regulatory authority.

APPENDIX A

**DATA FIELDS FOR THE CORPORATE DEBT INFORMATION
TO BE DISSEMINATED BY IIROC AS AN INFORMATION PROCESSOR**

The data fields below will be made publicly available by IIROC as an information processor. They apply to the corporate bonds included in each phase of the implementation of the transparency framework.¹¹

I. Summary level data for each bond

1. CUSIP and/or ISIN number, where available
2. Issuer name
3. Maturity date
4. Coupon rate
5. Last traded price
6. Last traded yield
7. Total trade count (total trades done on the last trade date)
8. Last trade date
9. Highest traded price on the last trade date
10. Lowest traded price on the last trade date

II. Transaction data for each trade

1. CUSIP and/or ISIN number, where available
2. Issuer name
3. Maturity date
4. Coupon rate
5. Date of execution
6. Time of execution
7. Settlement date
8. Type (indicates whether the transaction is new, a cancelation or a correction)
9. Volume (subject to volume caps)
10. Price
11. Yield
12. Account type (retail or institutional counterparty)
13. An indication of whether a commission was recorded ("yes" or "no" answer)

¹¹ In Phase 1 (2016), the information that will be made available is post-trade information for all trades in Designated Debt Securities and for retail trades in all other corporate debt securities reported to IIROC at that time. In Phase 2 (2017), the information that will be made available is post-trade information for trades in all corporate debt securities reported to IIROC.

APPENDIX B

UNDERTAKINGS PROVIDED BY IIROC AS AN INFORMATION PROCESSOR

In connection with Form 21-101F5 filed by IIROC and its role as an information processor for corporate debt securities (IIROC IP), IIROC IP undertakes the following to the securities regulatory authority:

1. Changes to Form 21-101F5

- a. As required by section 14.2 of National Instrument 21-101 Marketplace Operation (NI 21-101), IIROC IP will file with the CSA amendments to the information provided in Form 21-101F5. The significant changes referred to in subsection 14.2(1) of NI 21-101 will be reviewed and approved by CSA staff prior to their implementation. For clarity, these significant changes will include the following:
 - changes to the governance of IIROC IP;
 - any changes to the functions performed by IIROC IP;
 - the addition of any new advisory committees to IIROC IP;
 - significant changes to the terms of reference of any advisory committees;
 - changes in the corporate structure of IIROC IP;
 - any new products developed using the data reported by market participants to IIROC IP in accordance with the obligations of NI 21-101 (IP Data Products);
 - changes to the IP Data Products;
 - changes in the policies and procedures for monitoring the integrity and timeliness of data reported to and disseminated by IIROC IP;
 - changes to the methodology for selecting the most liquid corporate bonds for which trade data will be disseminated by IIROC IP until such time when it disseminates trade data for all corporate bonds;
 - new fees and fee changes;
 - new or changes to any arrangements for payment to the market participants that are required to report corporate debt information in accordance with the requirements of NI 21-101 (Data Contributors), and
 - significant changes to the systems and technology used by IIROC as an IP.
- b. IIROC IP will file with CSA staff all material contracts related to the IP services.

2. Resources

- a. IIROC IP will maintain sufficient financial resources to ensure its ability to conduct its operations.
- b. IIROC IP will ensure that sufficient human resources are available and appropriately trained to properly perform its functions, including monitoring the timeliness and integrity of corporate debt data reported to and displayed by the IP.

3. Agreements with Data Contributors

- a. IIROC IP will ensure that Data Contributors are given access to IIROC IP on fair and reasonable terms.
- b. Any new agreements or contracts to be entered into between IIROC IP and Data Contributors will be provided to CSA staff for review and approval prior to their execution.
- c. Proposed material changes to agreements or contracts between IIROC IP and Data Contributors will be provided to CSA staff for review and approval.

4. Fees, Fee Structure and Revenue Sharing

- a. IIROC IP will make available, on its website, the fee schedule for the IP Data Products.
- b. IIROC IP will make available, on its website, any payment arrangements with the Data Contributors.

5. Data Reported to and Disseminated by IIROC IP

- a. IIROC IP staff will monitor the timeliness and accuracy of information received by and disseminated by the IP on an ongoing basis and take adequate measures to resolve any data integrity issues on a timely basis.
- b. Within 45 days from the end of each quarter, IIROC will provide to CSA staff quarterly reports on the timeliness and integrity of the information reported to and disseminated by IIROC IP, highlighting significant issues and proposed steps for resolution. These reports will include significant data integrity issues identified in the field examinations of Data Contributors conducted by IIROC.
- c. In conjunction with CSA staff, IIROC IP will:
 - review the continuing adequacy of the initial dissemination delay for the corporate debt trade data made available by IIROC IP (T+2 dissemination delay);
 - develop a plan to change the T+2 dissemination delay, if such changes are needed based on the results of the review;
 - review the continuing adequacy of the initial volume caps that will apply to the corporate debt trade data made available by IIROC IP; and
 - make recommendations and implement changes to these volume caps, if such changes are needed based on the results of the review.

6. Self-assessment

- a. IIROC IP will conduct an annual self-assessment of its compliance with subsections 14.4(2), (4) and (5) of NI 21-101 and with its performance with respect to the undertakings provided to the CSA. The report will be provided to CSA staff within 90 days from the end of IIROC's fiscal year.