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Catherine Drennan
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Dear Catherine,

RE: IIROC Notice 21-0032 Proposed Margin Requirements for Structured Products

We read with interest the proposed new margin requirements for structured products that was released on February 25, 2021 (the "Proposal"). Indeed we, and by extension our clients, welcome clarity around the ability to assign margin rates on certain structured products; namely Principal-protected notes ("PPNs") and Principal-at-risk notes ("PARs" and together with PPNs, "Structured Notes"). However, for the reasons described below, we believe that a 50% fixed-margin rate would be more appropriate than the proposed 70% fixed-margin rate.

Based upon the Proposal, it is clear that IIROC also agrees that a 50% margin rate for Structured Notes, consistent with equities, mutual funds and ETFs, is an appropriate margin rate, but IIROC has assigned an additional 20% as a form of 'risk premium' for perceived complexity and liquidity issues. We seek to clarify that the 20% added margin rate premium need not be applied to Structured Notes.

Liquidity: The IIROC Proposal cites liquidity as being a principal reason why the Margin Rate should be 70%, and not 50%, in part because it may be assumed that a strong secondary market does not exist for Structured Notes because Structured Notes issuers (each, an "Issuer") are not obligated to guarantee a secondary market. While technically true, this assumption is not the reality of the every-day market that is made for Structured Note issuances, and CIBC has historically provided a strong secondary market for its Structured Notes.

Prior to the maturity of a Structured Note, the holder can sell their position via either i) Fundserv (like a mutual fund) and receive the closing value of the Structured Note on that business day or ii) they can sell back to the Issuer's dealer affiliate in a similar fashion as a traditional bond trade. Additionally, all Structured Notes are marked-to-market daily in client accounts and information relating to the Structured Note can be reviewed by anyone on each Issuer's respective website. For CIBC, our Structured Note website is www.notes.cibc.com. In addition to the current value of each Structured Note, there is additional information on each Structured Note including summary information, historical values and the applicable offering documentation.

To provide some context on actual market practice, CIBC World Markets has a track record of marking-to-market our Structured Notes every business day for the past 25-years except for one business day, which was September 11th, 2001. In addition to such daily pricing transparency, we have historically demonstrated the ability to buy back all Structured Notes in the secondary market for CIBC's Structured Notes, and have never gated any volumes in connection with the same. A Structured Note is made up of an embedded bond portion and an embedded option component of a liquid reference asset, hence we have the ability to buy back 100% of any outstanding CIBC Structured Note should the holders of such note seek to liquidate prior to maturity. On average CIBC World Markets buys approximately CAD $10mm worth of Structured Notes daily.

We would contrast the transparency and depth of our Structured Note market making with many bond issuances in the Canadian market that trade very infrequently and often fluctuate substantially in price during the term of these trades, which may be a less than ideal investor experience. Nonetheless such bonds attract margin rates of 10% or less.

In terms of reference asset liquidity, CIBC Structured Notes are traditionally linked to extremely liquid underlying assets. Our most 'popular' reference assets by volume of new issuance over the past year are as follows:

Canadian banks	43%
Canadian Insurance companies	13%
US technology	8%
Canadian pipelines	6%
TSX60 Index	6%
S&P 500 Index	5%
Canadian utilities	4%
US banks	3%
Gold miners	3%
Basket of indices	2%

All of the foregoing reference assets, if held directly rather than through a structure note, would attract a 50% margin rate. In the case of the corresponding Structured Notes, investors are not only offered exposure to the underlying, but in some cases also receive some form of downside protection.

Complexity: Equity-linked Structured Notes ("ELNs") have been an ever-growing product issued by large, regulated financial institutions globally for approximately 30-years. CIBC led the first Canadian ELN offering in February 1996. Since that time, for global and Canadian investors alike, ELNs have performed well for investors in volatile equity markets. In the past year, we estimate in excess of CAD $250bn has been issued globally and approximately CAD $100bn alone in the U.S. marketplace. Source: mtn-I database.

We highlight these volumes as a testament to the mainstream nature of these Structured Notes, especially amongst high net-worth investors. Part of the growth in popularity of Structured Notes globally, especially in the past decade, is the formulaic nature of the payout of any given Structured Note. The premise of “if X happens, I receive Y payout” is a feature of Structured Notes that appears to resonate with investors, and contrasts well relative to actively managed funds and especially levered ETFs. With levered ETFs, the performance tracking relative to the reference asset severely degrades over-time, making it very difficult for an investor to predict the potential returns over a longer-term horizon in these products. Yet these products receive 50% margin with no premium for ‘complexity’.

PPNs: While we’ve suggested above that Structured Notes generally should receive a 50% fixed margin rate without premium, we would ask IIROC to also consider whether a more favourable margin rate is appropriate for PPNs. PPNs have an embedded strip or zero-coupon component that ensures a maturity value of 100% of par, regardless of the performance of the refence asset. On a stand-alone basis, such embedded zero-coupon bond component would attract a 10% margin rate or lower based upon its remaining term to maturity. We believe that investors would be well served by receiving similar margin rates on their PPN holdings given the guaranteed value if held to maturity. We believe it prudent to assign a 15% margin on PPNs.

Clarification*:* We also wanted to take this opportunity to seek clarification from IIROC on one of the margin eligibility criteria specified in the Proposal. Namely, that margin will be granted for structured products that meet the specified eligibility criteria, one of the components of the eligibility criteria being that the structured product is linked to an underlying asset that is already eligible for margin under IIROC Rules. As mentioned above, structured notes provide exposure to a wide range of underlyings, including equities, portfolios of equities, broad based indices and ETFs and portfolios of broad based indices and ETFs. We would like to request clarification from IIROC that the Proposal would include these structured notes linked to broad based indices or portfolios of shares, ETFs or indices, where the shares in the portfolio or underlying the index or ETF are themselves eligible for margin.

We would like to thank the members of IIROC for engaging with the industry on this important topic and we are happy to discuss this topic at your convenience.

Kindest regards,

Bill Bamber

Bill Bamber

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