



Member of the Investment Industry Regulatory Organization of Canada

September 7, 2018

Via email

Mrs. Theodora Lam  
Policy Counsel, Market Regulation Policy  
IIROC  
121 King Street West, Suite 2000  
Toronto, ON M5H 3T9

Manager of Market Regulation  
Ontario Securities Commission  
20 Queen Street West  
19th Floor, PO Box 55  
Toronto, ON M5H 3S8

Dear Mrs. Lam,

RE: IIROC Request for Comments 18-0122 – Proposed Provisions Respecting Client Identifiers

Casgrain & Company Limited (hereafter “Casgrain”, “the Firm” or “we”) appreciates the opportunity to provide comments to the Investment Industry Regulatory Organization of Canada (“IIROC”) on its Request for Comments published on June 28, 2018, regarding the proposed Provisions Respecting Client Identifiers (“Proposed Amendments”).

Generally, Casgrain supports IIROC’s Proposed Amendments, which address several concerns we had on the initial proposal and enhance IIROC’s surveillance and investigation capabilities. However, we still have reservations with certain proposed amendments.

#### **Scope of Clients**

IIROC proposes that the LEI requirement should be limited to institutional customers for which trading activity is supervised under the Dealer Member Rule 2700. Consequently, accounts which are defined as institutional customers but supervised under the retail business line would not have to provide an LEI.

We generally agree with the principle that only institutional accounts should be identified with an LEI. However, as a strictly institutional Dealer Member, the Firm would be required to report an LEI for all of its accounts even though some of these accounts would qualify from an exemption if they were supervised by the retail lines of business.

We firmly believe that some of our accounts such as testamentary trusts, family trusts, holding companies or partnerships that are qualified as institutional customers and supervised as such by Casgrain should be entirely excluded from the requirement of providing an LEI, as we believe that the trading activities of these types of accounts behave as retail accounts and not institutional accounts.

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In addition, we are of the view that these accounts would not be inclined to register for an LEI nor inclined to pay the fees related to the registration or the annual renewal of their LEIs. We question whether Dealer Members will be forced to cease long-standing relationships with such accounts if they do not register for an LEI.

Therefore, for the new LEI reporting requirements, we suggest the threshold of the *non-individual with total securities under administration or management exceeding \$10 million* be raised to \$100 million, rather than using the proposed retail supervisory trigger.

#### **LEI Renewals**

- 1) Ensuring that client LEIs are annually renewed

Casgrain agrees that Dealer Members would not need to ensure that client LEIs are annually renewed. This requirement would impose a useless cost to Dealer Members since the LEI is unique to every entity and can never be re-assigned to another entity.

Following the same idea, Casgrain appreciates the clarification regarding the fact that Dealer Members would not be required to verify the status of its client's LEI at the time of every transaction.

- 2) Level 2 Information

We strongly suggest IIROC to promptly inform its Dealer Members if its intention is to require Level 2 information in the near future. This proposal would require additional system modification. We believe that such modification could be easily incorporated within the proposed amendments regarding the transaction reporting for debt securities.

By including this change within the proposed amendments regarding the transaction reporting for debt securities, Dealer Members would be capable to consolidate their resources on one project instead of different projects having different timelines.

#### **Where an LEI is required but the client has not yet obtained one**

- 1) Reasonable steps to ensure that the client obtains an LEI

IIROC proposes that Dealer Members take reasonable steps to ensure that their clients obtain an LEI. We do not fully understand what would be a reasonable step in IIROC's view. IIROC proposes that Dealer Members may apply for an LEI on the client's behalf (see below), but does not provide additional guidance on the interpretation of what would be considered "reasonable steps."

We're in the view that taking reasonable steps should be interpreted as forwarding information on the purpose of registering for an LEI, forwarding information on the procedures to register for an LEI, reminding clients to register for an LEI and documenting steps taken within the clients' file.

- 2) Applying for LEI on the client's behalf

As a reasonable measure to ensure that the clients obtain an LEI, IIROC is proposing that Dealer Members register for an LEI on the client's behalf. Casgrain is somewhat surprised by the inclusion of this proposition.

Indeed, Local Operating Units (LOU) authorize the performance of assisted registration when registering for a new LEI assignment. Assisted registration allows an individual who is not a representative of a client to register for a new LEI assignment on behalf of such clients. However, this individual must receive explicit permission from the client to register for an LEI on its behalf. From our perspective, this measure would be highly unsuccessful as we do not see how, for instance, a client who is not interested in paying registration for an LEI (including annual renewals) will be inclined to

reimburse the fees to its Dealer Member for the registration of an LEI on its behalf, not to mention the negative impact that would have on the business relationship with our clients.

Also, when applying on behalf of a client, a Dealer Member will have to provide Level 2 information such as the ultimate parent and direct parent. We question what the level of responsibility for the Dealer-Member would be in case of misleading information provided to a LOU on a client's behalf. We believe that performing verification of such information when registering an LEI on a client's behalf would incur an additional and unnecessary burden for Dealer Members.

In its current form, we believe that this measure should be removed as an alternative to the Proposed Amendments.

### 3) Using account numbers as the identifier in the interim

We understand that LEIs would help IIROC identify clients and enhance surveillance in OTC fixed income securities. However, the industry must be aware that some clients will be recalcitrant to register for an LEI. We seek clarification from IIROC regarding the treatment of accounts that refuse to provide an LEI or to register for an LEI. Particularly, there is no specifications on the period of time which a Dealer Member would be allowed to maintain an account without providing an LEI.

Also, we are looking for IIROC's clarifications on cases where clients have an LEI and refuse to forward such LEI to Dealer Members. Again, we question the responsibility of the Dealer Members in such cases. We are not in the view that it is the Dealer Member's responsibility to search for an LEI within a public database and take responsibility of using such LEI without the client's consent.

As a viable alternative, we propose a procedure, which is currently in use for MTRS 2.0 when reporting a transaction executed with an issuer. Instead of using the account number as the interim identifier, we suggest using the client name as the identifier as long as the client does not provide an LEI.

## **Bulk Orders**

### 1) Current Requirements

Dealer Members are not required to report client allocations of bulk trades that occur after the trade reporting deadline, as long as there is no change to the information in any data element other than the client LEI or client account number. This procedure would not change under the Proposed Amendments.

However, although required by the Debt Securities Transaction Reporting MTRS 2.0 User Guide, based on discussions with IIROC and our understanding of the industry practices, we are in the view that Dealer Members do not report client allocations but only parent trades.

### 2) LEIs for allocations of a bulk trades

Based on our understanding, Dealer Members will be required to report client LEIs for allocations of bulk trades which occur before the trade reporting deadline, and will not be required to report client LEIs for allocations of bulk trades that occur after the trade reporting deadline. We question the importance given by IIROC to its surveillance regarding the LEIs of sub-accounts, as IIROC would receive partial information from Dealer Members.

Usually, Dealer Members are not aware of sub-accounts' identities since their direct client accounts, such as portfolio managers, do not provide sub-accounts identities, but simply codes. Also, our long-standing experience with institutional clients indicates that it would be surprising that our direct clients would cooperate to provide the identities of their sub-accounts. Moreover, in certain instances, these codes are not related to a particular client account, but rather to bulk custodian accounts where the latter allocate the securities within different accounts.

In addition, from a risk management perspective, Dealer Member's clients are not the sub-accounts of the portfolio manager, but the portfolio manager who is taking the investment decisions. We are in the view that the use of sub-accounts is strictly operational, and for settlement purposes. As such, it is not relevant for IIROC's surveillance.

Reporting LEIs for allocations of a bulk trade will definitely incur significant costs for Dealer Members. Firstly, each of the portfolio managers hold several hundreds of sub-accounts. Obtaining and maintaining LEIs for such a number of sub-accounts will incur significant costs. Also, we would like to underline that any modification to the system producing MTRS 2.0 reports would incur substantial costs for Casgrain such as system changes and licence fees. Moreover, reporting allocations of bulk trades would increase the number of trades reported to IIROC and consequently significantly increase the Debt Transactions Regulation Fee paid by Dealer Members when reporting transactions via MTRS 2.0.

### 3) Mandatory Post-Trade Transparency of Trades in Debt Securities

Recently, CSA released its Request for Comments 21-323 (Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities). If implemented as proposed, in addition to corporate debt securities, trade details on government debt securities will be subjected to dissemination by IIROC as the Information processor.

We are in the view that the reporting of bulk trades' allocations would create a perception of an expanded liquidity on IIROC Corporate Public Debt Trade Reporting Service, as users could perceive allocations as multiple trades on a particular bond. This situation will certainly be amplified with the implementation in the near future of the proposed mandatory post-trade transparency of Government Debt Securities.

Therefore, we suggest that IIROC amends its Debt Securities Transaction Reporting MTRS 2.0 User Guide in accordance and completely remove its requirements to provide clients allocations in any instance.

### **Missing or Incorrect Client Identifiers (MTRS 2.0 Debt Transactions files)**

Currently, for debt transactions executed with another Dealer Member, a bank or an Inter-Dealer Bond Broker (IDBB), Dealer Member must include within their MTRS 2.0 files, the counterparty's LEI (or an alternate identifier provided by IIROC). However, counterparty LEIs (or alternate identifier) must be contained within IIROC's Reference Data File. If the LEI or the alternate identifier provided by a Dealer Member is not included within IIROC's Reference Data File, the counterparty's LEI is not valid and, as a result, the entire MTRS 2.0 debt transactions file will be rejected.

We have concerns about the substantial number of client LEIs. We are not in the know about IIROC's plan to implement the same validation process for client LEIs as for Dealer Members, banks or IDBBs.

Given the foregoing, we consider that it would be nearly impossible for IIROC to maintain an accurate Reference Data File for client LEIs. As such, we recommend that IIROC does not implement such validation processing for client LEIs. It is more likely that such a list would generate more rejected files than successful submissions.

### **Implementation Plan**

We believe that the proposed timelines needed for the first two phases of implementation are not sufficient. We recognize that Phase 1 should require less time to implement than Phase 2, as Phase 2 will required significant changes and implementation costs in order to meet the new requirements. However, we do not see why debt securities trades should be subjected to LEI reporting before equities transactions, as the proposed timeline will put Dealer Members dealing in debt securities at a disadvantage

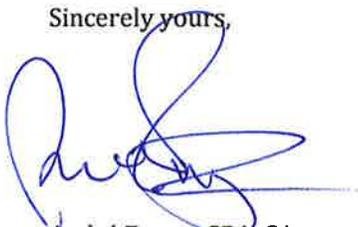
Our opinion is that trades on debt and equities securities should be treated on the same level in terms of regulatory and market surveillance. Therefore, we suggest the effective date for phase 1 and 2 be the same, based on the later of the two implementation dates.

If the aforementioned proposal is not retained, we believe that a timeline of fewer than nine months would not be sustainable considering the time it might take for Dealer Members to gather all of its clients LEIs. Since the reporting of client LEIs is closely related to MTRS 2.0, we propose that IIROC aligns the implementation of the Proposed Amendments with the implantation of the proposed amendments regarding the transactions reporting for debt securities (in this case, Casgrain estimates that we would need up to 9 to 12 months to apply the MTRS 2.0 changes), based on the later of the two implementation dates.

By aligning both implementations, Dealer Members will be capable to consolidate their resources on one project instead of different projects having different timelines.

We thank you once again for allowing us the opportunity to provide comments on the proposed Notice. Should you require additional information, please do not hesitate to contact the undersigned.

Sincerely yours,



André Zanga, CPA, CA  
Vice-President, Chief Financial Officer & Chief Compliance Officer