State Street Corporation

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Theodora Lam
Policy Counsel, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9

Via e-mail: tlam@iiroc.ca

Re: Publication of Proposed Provisions Respecting Client Identifiers

Dear Ms. Lam:

State Street Corporation ("State Street") appreciates the opportunity to comment on the Investment Industry Regulatory Organization of Canada's ("IIROC") publication on proposed provisions respecting client identifiers.[1] The proposal seeks changes to both the Universal Market Integrity Rules and Dealer Member Rules ("DMR") to require the reporting of client identifiers, including the Legal Entity Identifier ("LEI"), to the IIROC in specified circumstances.

Headquartered in Boston, Massachusetts, State Street specializes in the provision of financial services to institutional investors. This includes investment servicing, investment management, data and analytics, and investment research and trading. With $33.867 trillion in assets under custody and administration and $2.723 trillion in assets under management, State Street operates in more than 100 geographic markets worldwide.[2] State Street is organized as a United States bank holding company, with operations conducted through several entities, primarily its wholly-insured depository institution subsidiary, State Street Bank and Trust Company. In Canada, State Street provides global custody and local financial services through its wholly-owned subsidiary, State Street Trust Company Canada, a Canadian federal trust company, the Canadian branch of State Street Bank and Trust Company and State Street Global Markets Canada Incorporated.

[1] "Publication of Proposed Provisions Respecting Client Identifiers" (June 28, 2018) *available at http://www.iiroc.ca/documents/2018/64753CBE-4686-438E-8EE9-7B9F6D196132_en.pdf.*
[2] As of June 30th, 2018.

As an initial matter, we believe that custody banks, such as State Street, should be represented in discussions related to client identifiers, such as the LEI. Custody banks can provide a unique perspective since they offer financial services to a broad range of buy-side clients and are focused on the overall infrastructure of reference data used to manage client investment activity. Furthermore, custody banks play a critical role in the post-execution lifecycle of financial transactions between market participants and provide services beyond just the safekeeping of assets, to include fund accounting, transfer agency services, middle office outsourcing and regulatory reporting on behalf of our clients. Moreover, State Street has significant experience in reference data and has already committed substantial resources to this important effort.

We strongly support the global adoption of unique identifiers, including the LEI, as this will improve market efficiency and transparency. In our opinion, more active steps must be taken to facilitate the broader use of LEIs in regulatory reporting and other supervisory requirements. We appreciate the IIROC's efforts in this regard, by mandating the use of LEIs in certain circumstances. However, as discussed in more detail below, we recommend that the IIROC go even further by requiring the use of LEIs by all institutional clients for equity securities, requiring the annual renewal of LEIs and encouraging Dealer Members to ensure that client LEIs have not lapsed.

<u>Mandate the Use of LEIs by Institutional Clients</u>

The IIROC's proposal seeks to narrow the scope of clients that would need to use an LEI as a client identifier. Specifically, it states that all institutional customers will need to use an LEI for debt securities, but for orders and trades in equity securities, only the following would require an LEI: (1) orders originated from accounts that are supervised under DMR 2700; (2) orders sent using direct electronic access; (3) orders entered under a routing arrangement; and (4) orders sent on behalf of eligible identified order-execution only clients. An account number will be used for those trading in equity securities that do not fall within these categories.

State Street disagrees with the IIROC's proposed approach and instead supports requiring institutional clients to use an LEI for all equity securities. The bifurcation of IIROC's requirement that LEIs be used by institutional clients for debt securities but not for all equity securities will cause a lack of clarity and inefficiencies in the market by making it difficult to aggregate entities that use different identifiers. It will also require institutions to maintain multiple directories for identifiers and reconcile these directories for each client. Moreover, permitting the use of both account numbers and LEIs could lead to data quality issues. Specifically, it will be more difficult to uniquely and precisely identify entities once exceptions and non-standard identifiers are permitted.

The better solution is to mandate the use of LEIs for all institutional clients, while continuing to bring down the costs of obtaining and renewing LEIs. This is evidenced by the recent ability to scale the use of LEIs for purposes of the Markets in Financial Instruments Directive ("MiFID") II regulation. Specifically, MiFID II imposed an LEI identification requirement for all trades and in response, the European Securities and Markets Authority and National Competent Authorities have observed a significant increase in LEI coverage for both issuers and clients.[3]

Require the Renewal of LEIs and Ensure LEIs do not Lapse

The IIROC's proposal states that for both debt and equity securities, Dealer Members do not need to ensure that client LEIs are annually renewed. Its justification for this position is that it is focusing on clients obtaining LEIs versus potential lapses in registration. IIROC may revisit this at a later date if Level 2, direct and ultimate parents of a legal entity, information seems to be useful for regulatory purposes.

State Street recommends that the IIROC require the annual renewal of LEIs and that it encourage Dealer Members to ensure that LEIs have not lapsed. As a matter of best practice, policies and procedures should be put in place to avoid the lapse of LEIs. If an LEI were to lapse, then it calls into question the veracity of the data associated with the LEI. As currently constituted, the owning entity typically has the requirement and mandate to ensure its data is up-to-date in the Global LEI System as changes happen, but at the very minimum once a year.

Moreover, the cost of renewing an LEI is nominal in comparison to the costs associated with the lapse of an LEI. According to Bloomberg, the cost of registering a single LEI is $65 and the annual renewal fee is $50. Costs drop even further to $60 for registration and $45 for the annual renewal, if there are 10 or more LEIs.[4]

Conclusion

In conclusion, State Street strongly supports an expansion of the IIROC LEI mandate for institutional clients to include both debt and equity securities. We believe that all LEIs should be renewed annually and the IIROC should encourage Dealer Members to ensure that client LEIs have not lapsed.

Please feel free to contact me at acarrington@StateStreet.com should you wish to discuss State Street's submission in further detail.

Sincerely,

Andrew Carrington

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[3] In light of these observations, the number of LEIs has increased to over 1.25 million. (See *https://www.gleif.org/en/lei-data/global-lei-index/lei-statistics.)*

[4] See *https://lei.bloomberg.com/docs/faq.* (We note, however, costs may vary by Local Operating Unit.)