Canadian Bond
Investors' Association
Association canadienne des
investisseurs obligataires

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Dear Sirs/Mesdames,

Re: Non-Viable Contingent Capital (NVCC) and New Issuance Process

The purpose of this letter is to raise the concerns of the Canadian Bond Investors' Association (CBIA) with the new issuance process for Non-Viable Contingent Capital (NVCC). We reference the July 11, 2014 issuance by Royal Bank of Canada ("RBC") of the inaugural subordinated debenture NVCC instrument in Canada. The CBIA received a number of calls from members reflecting investor discontent with the new issue process. This has brought to light a concern which the CBIA has previously raised with securities regulators.

The CBIA was established in 2011 and represents 33 of the largest fixed income institutional investor organizations in Canada, including those from the insurance (buy-side), asset manager (including bank-owned) (buy-side), pension and investment counsel sectors. Those institutions represent more than $615 billion of fixed income assets under management. As such, the CBIA is the independent voice of Canadian bond investors, which in turn owe a fiduciary duty to the millions of pensioners, policyholders and retail investors who depend on CBIA members and other similar industry participants for the sound management of these investments.

In our letter dated April 8, 2013 to securities regulators (attached), we highlighted the new issue process in Canada as an area of major concern. While that letter focused specifically on access to bond indentures, the recent NVCC issue by RBC was highly deficient in terms of timely access of information to bond investors.

In order to foster robust capital markets, the CBIA strongly advocates that issuers follow best practices, especially when marketing new issuers and new structures. Best practices for new debt structures include furnishing all material documents on a timely basis and with a minimum of three business days before pricing. They also include providing public investor calls with a scheduled opportunity for questions and answers and allowing rating agencies to provide preliminary reports. We believe these best practices are important for institutional investors to meet their fiduciary duty to clients. We believe that securities regulators share this view, and in fact demand this of investment managers they register.

The RBC NVCC issue of July 11, 2014 fell short of a number of these best practices. The syndicate provided only a brief, pre-recorded net roadshow to investors less than two days ahead of the deal and provided no opportunity to ask questions on the public call. When the deal came to market, no final rating agency comments were available to potential investors and only “expected” ratings were listed on the term sheet. The CBIA believes this is not in line with best practices when a deal of this significance is in the market involving an instrument that is new to institutional investors.

The RBC issuance of an NVCC subordinated debt instrument was the first of its kind in Canada, and as such there was a significant amount of new disclosure concerning the pricing of these instruments and the mechanics on conversion that had not been made available to Canadian investors previously. The terms and conditions of this instrument reflect material changes to the regulatory treatment of bank debt that resulted from several years of regulatory discussions by the government and the Basel Committee on Banking Supervision. As such, we believe it was improper to have a deal of this magnitude and importance rushed through the system and a number of our members believe it was an abuse of the new issue process.

In our April 8, 2013 letter, the CBIA requested improved disclosure procedures during the new issue process. In our letter we wrote:

“Investors are often afforded insufficient time to review key terms and conditions of bond indentures when an issue comes to market.”

Further, we offered:

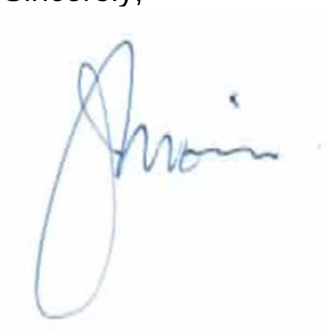
“As a minimum more time is required for review of indentures. For new issuers we believe that a minimum of three working days should be allowed for investors to review final form indentures and prospectus supplements and to disclose concerns with legal counsel.”

In summary, we ask that the Canadian securities regulators look at the new issue process for this security and whether it was appropriate in the circumstances.

Further we again request that a minimum review period be established and fully enforced for new issuers and for instruments or securities that are new to the market.

The CBIA would be pleased to work with securities regulators to develop a best practices set of rules that should be enforced in the marketplace.

Sincerely,



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cc.

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