

Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 OSC Staff Notice 21-708 – OSC Staff Report on the Canadian Fixed Income Market and Next Steps to Enhance Regulation and Transparency of Fixed Income Markets

OSC STAFF NOTICE 21-708 – OSC STAFF REPORT ON THE CANADIAN FIXED INCOME MARKET AND NEXT STEPS TO ENHANCE REGULATION AND TRANSPARENCY OF FIXED INCOME MARKETS

I. Introduction

The OSC has previously committed to better understand the fixed income market and issues affecting participants in this market, in order to determine if any changes are needed to the current regulatory framework.¹

To achieve this goal, OSC staff (“Staff” or “we”) conducted a review of the fixed income market and have prepared a report on the current state of the market in Canada (“The Report”). The Report is available on the OSC website at www.osc.gov.ca. Below, we set out the steps we are taking to enhance the transparency and regulation of the fixed income market in the near term. We are developing a more detailed plan relating to the specific initiatives to be published at a future date.

II. The Canadian Fixed Income Market Report

Based primarily on publicly-available data, the Report is a fact-based snapshot of the fixed income market in Canada. In summary:

1. There is a limited amount of data available on the market fragmented across a number of sources, which makes it difficult to conduct a comprehensive assessment of the fixed income market;
2. The fixed income market is a decentralized, over-the-counter (OTC) market where large investors have significantly more bargaining power than small investors;
3. The adoption of electronic trading and alternative trading systems has been limited, especially for corporate bonds; and
4. Direct retail participation in the primary and secondary market is low and retail investors typically access the fixed income market by purchasing investment funds.

III. Next Steps

In light of the observations in the Report, Staff considered steps that could be taken at this time to enhance fixed income regulation to achieve the following objectives:

1. Facilitate more informed decision making among all market participants, irrespective of their size;
2. Improve market integrity; and
3. Ensure that the market is fair and equitable for all investors .

1. *Facilitate more informed decision making among all market participants, irrespective of their size*

Historically, the fixed income markets have been less transparent than the equity markets. This is the result of a number of factors, including differences in products traded and in market structure. Because transparency in fixed income markets is limited, there are concerns that it may be difficult for market participants, and particularly for retail investors, to assess whether a particular price they received for a fixed income security is fair and to determine the value of their fixed income investments. This lack of information impacts their ability to make informed decisions.

¹ OSC Notice 11-768 *Notice of Statement of Priorities for Financial Year to End March 31, 2014*, available at (2013) 36 OSCB 6663.

National Instrument 21-101 *Marketplace Operation* sets out transparency requirements for trades in both government and corporate fixed income securities. For government fixed income securities, an exemption from the transparency requirements has been in place for some time, and is due to expire on January 1, 2018. The exemption was extended in recognition that no other jurisdiction has implemented mandatory transparency of trading in government debt securities, and to allow staff to monitor international regulatory developments.

For corporate fixed income securities, post-trade transparency is available for a limited number of securities. The information is collected and disseminated by CanPX, the information processor for fixed income securities. Staff are currently reviewing whether the current transparency framework and the level of post-trade transparency for corporate debt securities are sufficient.

In the coming year, we will take additional steps to facilitate more informed decision making by market participants for all fixed income securities, specifically:

- a. Monitoring the implementation of new CSA cost and performance reporting rules in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which will help retail investors better understand the cost of their fixed income transactions, and which will be fully implemented by July 2016; and
- b. Working with the CSA to make it easier for investors to find relevant documents for fixed income offerings, especially trust indentures and credit agreements, in the SEDAR system.

2. *Enhance Market Integrity*

Because of a lack of both a centralized market and regulatory reporting requirements, regulators have limited data concerning market activity. IIROC has recently adopted Rule 2800C *Transactions Reporting for Fixed Income Securities* to require reporting by dealers of trade information for fixed income products for surveillance purposes. We support this effort to enhance market integrity and will oversee the implementation of IIROC Rule 2800C as this rule is phased in.² We will also analyze the debt transaction data going forward for information on market trends to and to assist in policy formulation.

3. *Evaluate whether Access to the Market is Fair and Equitable*

Concerns have been raised related to fairness of allocations by dealers to clients in the fixed income market. In particular, some smaller market participants noted that they have limited ability to participate in new debt offerings. Although IIROC has a fair allocation rule, it prohibits allocations of new issues to non-client accounts ahead of clients and does not cover allocations among clients. Staff will work with IIROC to gain a better understanding of how investment dealers are currently allocating new fixed income issues, which will help determine what, if any, regulatory response is needed.

Questions

Questions concerning the Report may be referred to:

Paul Redman
Principal Economist
Strategy & Operations
predman@osc.gov.on.ca

Tarun Patel
Senior Research Analyst
Strategy & Operations
tpatel@osc.gov.on.ca

Kevin Yang
Senior Research Analyst
Strategy & Operations
kyang@osc.gov.on.ca

² IIROC Rule 2800C *Transaction Reporting for Fixed Income Securities* will be implemented in two phases, with the first being effective on November 1 2015 and the second on November 1, 2016.

Questions concerning the initiatives to enhance regulation of the fixed income market may be referred to:

Timothy Baikie
Senior Legal Counsel
Market Regulation
tbaikie@osc.gov.on.ca

Ruxandra Smith
Senior Accountant
Market Regulation
ruxsmith@osc.gov.on.ca

Tracey Stern
Manager
Market Regulation
tstern@osc.gov.on.ca

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