

March 9, 2016

BY EMAIL

Sonali GuptaBhaya, Director, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
e-mail: sguptabhaya@iiroc.ca

-and-

Susan Greenglass, Director, Market Regulation
Ontario Securities Commission
Suite 1903, Box 55, 20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Dear Sirs/Mesdames:

Re: Proposed Provisions Regarding Best Execution (the “Proposed Amendments”)

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on the Proposed Amendments.

We support the efforts made by IIROC to require additional disclosure by Dealer Members of their best execution policies and procedures and believe the Proposed Amendments are a meaningful step forward. As a general principle, we are of the view that Dealer Members should handle client orders with the same level of care and scrutiny as would be applied when processing their own proprietary orders or orders of their affiliates. The matters that should be considered and applied in the same manner include the breadth and quality of market data, routing decisions, foreign exchange pricing and all other criteria that would be within the scope of the best execution standard. To the extent conflicts of interest exist between a Dealer Member’s business model and the interest of the client, the interest of the client should take priority.

We are supportive of the proposals which would subject non-Participant Dealer Members to the requirements relating to preparation and maintenance of policies and procedures for supervision

¹The CAC represents more than 15,000 Canadian members of the CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfainstitute.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

² CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has more than 135,000 members in 151 countries and territories, including 128,000 CFA charterholders, and 145 member societies. For more information, visit www.cfainstitute.org.

and compliance with best execution, as well as the need to review the policies of the executing Dealer Member. We also agree with the requirement for Dealer Members to review their best execution policies and procedures on at least an annual basis, as well as the specific statement to the effect that Dealer Members will now have to consider whether clients' orders could reasonably be expected to execute at a better price on an unprotected marketplace. As we are generally in favour of additional disclosure to investors, we also support the proposed requirement to inform investors, when providing market data, with a description of any missing market data, including an explanation of the risks of trading with incomplete trading data.

While we agree directionally with the proposed new disclosure requirements, we are concerned that the Proposed Amendments are not granular enough to assist investors in evaluating a dealer's routing choices.

Disclosure of additional information such as when and under what circumstances a Dealer Member will choose a particular venue, realized fill rates, potential for adverse selection and incentive considerations (including whether rebates were received or paid) is required by an investor in order to analyze over time a dealer's routing choices and thus draw conclusions with respect to how that particular dealer satisfies its best execution obligations. If Dealer Members were subject to standardized reporting of specific items such as those listed above in a comparable format, it would be easier for investors to contrast Dealer Members and make more informed investment decisions. The information could be disseminated in reports similar in format to that suggested by the Securities Industry and Financial Markets Association (SIFMA). The information could be made available to all investors, or to investors upon request. As discussed below, the information released should include information on commissions and mark ups received for OTC fixed income securities.

With respect to OTC fixed income securities, we understand that IIROC expects that "fair and reasonable" prices include, for the pricing of OTC securities for principal transactions, any mark-up or mark-down and for the pricing of agency transactions, any added commission. We believe that Dealer Members may have difficulty in describing policies and procedures with respect to fixed income transactions where the instruments are sourced from another dealer. While the information on spreads and commissions will be reported to IIROC under MTRS 2.0, the information is aggregated and not otherwise disclosed to the public. As a result, it will be difficult for investors to determine whether a Dealer Member's policies do in fact obtain prices that are "fair and reasonable". We would suggest that some further disclosure of this information is required in order for an investor to analyze a Dealer Member's adherence to its own best execution policy.

The training of Dealer Member employees will be key to the successful implementation of the Proposed Amendments. It could be helpful for Dealer Members to be provided with additional guidance with respect to ensuring they have "knowledgeable" employees in order to be certain that the training is meeting and will meet IIROC's requirements.

As it can be difficult to track down copies of each Dealer Member's policies and procedures, it would be helpful for investors to be able to quickly locate these policies on a Dealer Member's website, and we would strongly suggest that it would be very useful for IIROC to provide a central list that it maintains of these hyperlinks to the policies in an easily referenced location on IIROC's own website.

With respect to trading on foreign markets, the Proposed Amendments include a statement to the effect that the sending of bulk orders to a specified foreign organized regulated market without

considering other liquidity sources is not in compliance with achieving best execution. As noted in our comment above, we would add that such orders should be handled equitably and similarly between client and principal trades, and that all such orders should be required to use the same foreign exchange rates and trading mechanisms such that there is no mark up on client orders, in order to help achieve best execution. Transparency relating to the foreign exchange rates accessed and executed should also be made available to investors, as this forms an integral portion of the Dealer Members' fulfilling their best execution obligations relating to the particular securities transactions.

We are of the view that the 180 day transition period before the Proposed Amendments would become effective after publication of the notice of approval is a reasonable period of time for Dealer Members to comply with the amendments.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have or to meet with you to discuss these and related issues in greater detail. We appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *Michael Thom*

Michael Thom, CFA
Chair, Canadian Advocacy Council