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DELIVERED VIA EMAIL

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Re: Request for Comments – IIROC Notice #17-0109 Proposed Provisions Respecting Client Identifiers

This letter is submitted on behalf of National Bank Financial Inc. and its three divisions which include National Bank Independent Network (“NBIN”); National Bank Direct Brokerage (“NBDB”) and National Bank Financial Wealth Management (“NBFWM”). We appreciate the opportunity to provide comments on this initiative and would like to outline the areas where we feel that the impact may outweigh the advantages to IIROC and the industry in general, as well as aspects that need further clarification.

In regards to the proposal, we have found that there are some specific concepts that require more clarity as to the scope and intent of the proposal. In order to provide more concrete response to the questions posed, we require more clarity in a few areas:

1. The Use of LEI’s and the scope of the client segment for which this will be applicable

The use of LEI as a client identifier for “clients eligible to obtain an LEI” could apply to any non-individual account. This would include in its scope a segment of retail clients for which it would be challenging to obtain and maintain an LEI. There is a stringent documentation requirement to obtain an LEI which could be difficult to meet for certain clients. In addition, the cost associated with the initial application and ongoing maintenance of this number would be onerous for both dealers and their clients.

We would suggest that only institutional clients require an LEI. “Institutional client” is already a defined segment of clients in the Dealer Member Rules and many of them may already be providing an LEI for other purposes. Applying the LEI requirements to only institutional clients comes with additional benefits:

- 1) Institutional clients have more resources with which to acquire and maintain LEIs.
- 2) The number of accounts that Dealer Members would be required to review annually to maintain up to date records would be significantly lower. Approximately 40% of our non-individual accounts would meet the definition of an institutional customer.

We feel that this reduction in the scope of the requirements for an LEI would not have a significant impact on the stated goals of the proposal since institutional customers are responsible for most order volume and value.

2. Impact on clients not eligible to obtain on LEI

We feel that adding the client account number to the trades for non-LEI eligible clients would provide minimal improvements to IIROC's current surveillance processes. One of the stated goals of this initiative is to obtain cross dealer visibility and this will not be achieved by using an account number that is unique only to the Dealer Member that submitted the trade. The additional cost for implementing this in the trade execution process far out-weighs any benefit derived from the change.

3. Trades entered in bulk

The concept in the proposal that has some ambiguity is the statement "the client for or on behalf of whom the order is entered". Is the expectation that we identify the client who placed the order or the beneficiary of that order? This needs to be considered in situations where a registrant, such as a portfolio manager, may enter an order for a group of individual clients. In these cases we feel that the proposed rule changes should apply to identifying the party exercising discretion in initiating the order and not the beneficiaries of the order. Identifying the post allocation beneficial owners would require providing the identifying information on a post trade basis which would greatly increase the cost and complexity of reporting while providing little to further the goals of real time transparency.

Below we have provided our responses to some of the questions raised in the Notice for which we would like to provide our feedback.

Question 2. Please provide comments that relate to the efforts, cost and time needed to implement the Proposed Amendments.

With regard to the costs, efforts and time needed to implement we feel that there is a dependency on scope. In the case where an LEI will be required much of the work to be done will be focused on the client outreach process of educating the clients; collecting the information and maintaining this on an annual basis. The number of clients and their relative sophistication will impact the amount of effort, cost and time required.

Regardless of scope, based on our experiences with the development required to meet MTRS, we would expect to incur significant costs. We feel that these costs would be in the range of \$1million to \$5million which does not include any costs incurred by the vendors. As well, we would expect that IIROC's own costs to implement would be passed along to all Dealer Members in the form of a one-time charge or overall increase in annual fees. We have listed below some of the specific areas where our costs would be incurred:

- modification to client account documentation (new client application form) to collect LEIs
- modification to the book of record to provide a location to maintain LEIs
- implementation of a technical solution to support the annual validation of LEIs
- modification of trading systems to
 - a) transmit client identifiers and
 - b) know which identifier to transmit (or to block the transmission of an order where the absence of an LEI indicates a document deficiency)
- development of the link between the trading systems and the book of record that maintains the LEI and/or account number
- application of an encryption tool to the client identifiers

- development of an amendment process to the reporting in order to support post order amendments including a method of correcting identifiers on orders entered but not executed
- development of internal oversight and controls to ensure compliance with the requirements.

It should also be noted, that while question 2 asks about implementation costs, the requirement to validate the LEI on an annual basis will represent a significant additional costs in order to manage the client outreach. We anticipate that there would be significant efforts needed to educate the clients on the new requirements for an LEI, the process to obtain one and the annual renewal process. In addition, given the current concerns related to cybersecurity, efforts would need to be made to ease any privacy concerns of the clients.

Question 3. *Should we consider a phased-in implementation approach? If so, how?*

It would be necessary to have a long transition period for existing accounts in order to ensure appropriate time to complete the client outreach required. A shorter timeline could be implemented for new accounts where the LEI could be collected at the initiation of the relationship with the client.

In general, due to the magnitude of the required changes outlined in our response to question 2, we feel that a minimum of a 2 year implementation timeline would be necessary starting from the release of the final rules.

Question 8. *The proposal is intended to require all Dealer Members, including those that are not Participants, to ensure all clients have an appropriate client identifier and that non-Participant dealers pass on the correct client identifier to their executing dealers. Is this expectation sufficiently clear in the proposal? If not, what additional changes are necessary?*

It will be important to clearly outline the division of responsibilities between the executing and non-executing dealers. Although it is the usual practice for the non-executing dealer to provide all required client information to the executing dealer, the preference would be that this is clearly articulated in the final proposal. Workshops similar to those held for the new Best Execution rules would be beneficial.

In conclusion we would like to state that although we recognize the need for IROC to enhance market integrity and investor protection we are concerned by the extent to which the proposed changes will impact Dealer Members and their clients. We would also like to mention that we have participated in the IIAC Working Group for Client Identifiers and are generally in support of their comment letter. We appreciate the efforts that have been made to seek feedback from the stakeholders and look forward to the updated proposals.

Yours truly,



Martin Gagnon

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