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RE: **IIROC REQUEST FOR COMMENT on PROPOSED PROVISIONS RESPECTING CLIENT IDENTIFIERS** ("Proposal") published on May 17th, 2017.

National Bank Financial Inc. ("NBF") appreciates the opportunity to comment on this Proposal. We support the IIROC's statutory mandate to provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and restore confidence in capital markets.

NBF is part of the diverse National Bank Financial Group ("NBFG") which: (i) manufactures mutual funds, owns proprietary distribution channels and supplies services to third party distributors; (ii) operates a discount brokerage firm; and (iii) is an IIROC-regulated investment dealer across Canada. We take great interest in initiatives contained in the Comment Paper and their potential impact on investors, the mutual fund industry, the investment industry and financial intermediaries.

Accordingly, our intention is to share our concerns regarding the initiatives contained in the Proposal and our experiences. We trust that our comments will be taken into account during the review process and will provide a productive contribution to the outcome of the Proposal.

In the case of this Proposal, our comments herein reflect specifically those of the Capital Markets group comprised of Global Equity Derivatives & Institutional Equities.

We understand IIROC's intention with the Proposal is a good one: to improve the efficiency and quality of trade supervision and oversight. Certainly with a complete picture, in near real-time, IIROC will be better able to spot problems and reduce time-consuming inquiries from false-positives. We feel, however, that the limitations of the Proposal's breadth would not improve IIROC's situation sufficiently to justify all the costs and risks inherent to implementation. Therefore, while we aim to be constructive about specific elements of the Proposal, as demonstrated by our active participation in the relevant working group, we oppose this initiative as currently proposed.

Effectiveness – The Incomplete Picture

As proposed, the picture gleaned by IIROC from the submitted identifiers would be far from complete. Questions persist both within the working group and without on who specifically would be required to submit an LEI. As written, it would be "clients eligible to obtain an LEI". We find this to be overly broad for a number of reasons and it was our impression from the working group that IIROC agrees. From a feasibility standpoint we suggest that LEI eligibility be determined by how the routing broker-dealers classify the account. Retail operation should route with the account number as the identifier, while Institutional accounts should use an LEI. There are already good bright-line tests for these designations.

On the institutional side, there are significant workflow issues with attaching LEI`s to market-bound orders. Nearly half the volume from our Institutional desk is handled and routed in some bundled format – i.e. without a specific client attached to it until the end-of-day or allocation phase. Changing this workflow would be difficult in the best cases and impossible in many.

If we look at a scenario where all our retail orders have NBF-specific account numbers and half our Institutional order flow is unattributed, that leaves only DEA and Market Making (along with the half of institutional) with LEI's that can be tracked across broker-dealers.

This would result in an incomplete picture for IIROC. Add to this that the DEA & market making flow is already tagged with unique STAMP ID's and it doesn't seem like IIROC has much information to gain from the proposed initiative.

Costs of Implementation & Maintenance

We are sure you will hear a great deal from the broker-dealer community about the difficulty and expense of implementation of the Proposal. Understanding that actual dollar figures are most helpful, we estimate all-in costs to be $1mln-$5mln for full implementation for NBF's various business lines alone.

Many systems would need to be upgraded or changed. Most of this is directly borne by vendors but ultimately paid for by dealers. As discussed in the working group, it has been difficult for us to get solid estimates from our vendors in the absence of complete specs & timeline. But we know that we would have to upgrade and then maintain a number of internal systems and databases.

Cost-wise, encryption is the largest and potentially most expensive unknown. Where or with whom will the encryption burden reside? If with our vendors then the cost can be added to the vague guidance that they have so far reluctantly provided. If with the dealer, then frankly we face the same estimation without scope-of-work issues they have vis-à-vis pricing.

As far as administration and ongoing maintenance of the LEIs status' goes, we believe significant labour is involved in that as well.

Please consider also that, dollar expenditure aside, the broad implementation of such an initiative would sideline other projects across the spectrum of the industry as regulatory projects always jump to the head of development queues.

Information Security - Significant Risk

A major risk with this initiative is that LEI's are easily linked with their entities. The linking of order messages with LEI's adds considerable risk to the initiative especially insomuch as the LEIs are routed to multiple venues prior to being examined and stored at IIROC. Even with pricey encryption technology protecting the information in transit, there is a step change in the benefit to miscreants who seek this information.

We are not so sanctimonious as to request that IIROC be sure to take information security seriously. We are aware that it is a priority for your organization. IIROC already manages and stores a great deal of private data. Our point here is that as the financial benefit of leakage increases, so too does the risk of leakage. Adding specific LEI's to order messages vastly increases the financial benefit of cracking the security regime.

We did, in the working group, suggest a blind key where we would code an LEI and only reveal the un-coded LEI upon inquiry. This would prevent the building of a single perfect database of attributed order data. We acknowledge, however, that this would significantly devalue the initiative for IIROC's purposes in that IIROC would no longer have the immediate cross-market view desired.

Conclusion

Which brings us full circle to our first point: As the industry seeks ways to make the proposal simpler, safer, and cheaper to implement the value of the benefit gained by IIROC would be diluted.

NBF would like to continue to work with IIROC to find a feasible, valuable and highly phased-in approach to implementing a regime of client identifiers. We feel the working group made some good strides toward this end. Furthermore, we look forward to reviewing IIROC's amendments to this proposal after careful review of the public commentary forthwith.

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