Member of the Investment Industry Regulatory Organization of Canada

November 5, 2018

Via email

Mr. Bruce Grossman
Senior Information Analyst, Member Regulation Policy
IIROC
121 King Street West, Suite 2000
Toronto, ON M5H 3T9

Manager of Market Regulation
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8

RE: IIROC Request for Comments notice 18-0153 – Proposed Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

Dear Mr. Grossman,

Casgrain & Company Limited (thereafter "Casgrain" or "we") appreciates the opportunity to provide comments to the Investment Industry Regulatory Organization of Canada ("IIROC") on its Request for Comments published on August 9, 2018, regarding the Proposed Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations ("Proposed Amendments").

As the largest Canadian-owned independent investment dealer that specializes in the fixed income market, with more than 70-year experience, we take seriously any new regulation that may impede our ability to access such markets.

In general, Casgrain supports IIROC's initiative to bring certain debt securities with a normal margin rate of 10% or less into the existing securities concentration test. However, we are of the opinion that if the Proposed Amendments are approved in their current form, this may limit our ability to make market in corporate debt securities. Our comments are outlined below:

Adjusted concentration charge rate

We applaud the integration of a credit rating risk-weighted methodology into the framework, however, when the credit rating risk-weighted adjusted amount loaned surpasses the given threshold of 2/3 of the Dealer Member's risk adjusted capital before minimum capital charge, a portion of the benefit of the new methodology is negated by the adjusted concentration charge rate. We believe this to be excessive as the final amount of concentration charged to the Dealer Member does not fully represent the very high quality of the asset. Moreover, the risk adjustment factor for each of the ratings seems to be more conservative than the factor applied by Basel for corporate claims.

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We suspect that the underlying reason for IIROC to readjust the concentration charge rate for debt securities is to align it with the concentration charge on equity securities. Such treatment in unfair as debt securities and equities have different risk profiles. Reducing the adjusted concentration charge rate by 50% would be more appropriate, considering the high quality of the asset.

Concentration charge on net short positions

On a more philosophical debate, we question the fact of applying a concentration charge on net short debt security positions. As mentioned above, the risk profiles for debt and equities are different. A short position in equity is exposed to volatile price increases that are limitless, while price increases for debt securities are more gradual as they depend less on speculation and more on changes in an issuer's credit spread, rating or changes in the interest environment. We believe the current margin requirements for debt securities provides sufficient coverage against the increased risk associated with a Dealer Member maintaining a large short position in debt securities without the need to expose the Dealer Member to an additional concentration charge. Moreover, IIROC has the ability to require a bond surcharge in the context of volatile markets.

Should IIROC decide not to exclude short debt positions from its concentration charge, we suggest that the short position be evaluated at its loan value rather than its market value for the purpose of the concentration charge.

Operational impacts

In the request for comments notice 18-0153, IIROC specifically asks Dealer Members to provide operational impacts of the Proposed Amendments. The following are operational impacts that should be considered:

Costs of implementation

The main costs that Dealer Members will incur due to the Proposed Amendments will be the added costs of updating their service bureau systems. The final cost to each Dealer Member will depend on each service bureau and the number of Dealer Members which use the same service provider. An initial quote under the previous Proposed Amendments was approximately **1 million dollars**. As the previous Proposed Amendments were not based on the credit rating risk-weighted methodology, the costs will be higher as service providers will pass on the added costs of obtaining ratings from the newly defined DRO's and not to mention the added cost due to the complexity of the additional calculations. If these costs are too high, Dealer Members will have to decide whether it may be more cost efficient to produce the new reports internally, either manually or partially automated.

Implementation timeline

Another factor to consider will be the time allotted to allow Dealer Members to implement the Proposed Amendments. IIROC should ensure that Dealer Members and their service bureaus have sufficient time to enter into subscription agreements with the newly defined DRO's and to build the necessary reporting structure to ensure compliance with the Proposed Amendments. We suggest that the implementation timeline should align with that of the service bureaus.

Capital Markets

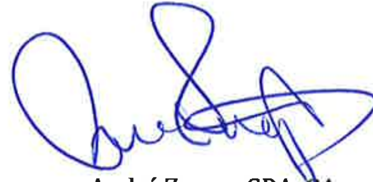
The final factor to consider is the limitations the Proposed Amendments may have on Dealer Members' ability to maintain its access to the corporate capital markets. This is especially true for smaller Dealer Members such as us, as the added capital charges will have a greater impact due to capital limitations. Furthermore, as previously mentioned, the Proposed Amendments may limit our ability to make market in such products, especially in highly rated short-term corporate bond transactions/deals, and may also jeopardize current corporate issuer syndication participations or limit our access to join new corporate issuer syndications group in the near future.

As previously mentioned, we believe that a concentration charge that is calculated with a 50% reduction to the adjusted concentration charge rate would be more appropriate and would have a lesser impact, especially for smaller Dealer Members.

We thank you once again for allowing us the opportunity to provide comments on the proposed Notice. Should you require additional information, please do not hesitate to contact the undersigned.

Sincerely yours,

Roger Casgrain, MBA, CFA
Executive Vice-President



André Zanga, CPA, CA
Vice-President, Chief Financial Officer &
Chief Compliance Officer