

September 30, 2019

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Manager of Market Regulation
Ontario Securities Commission
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Dear Bruce:

RE: Proposed Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

The IIAC acknowledges and appreciates IIROC's efforts to reduce the operational complexity of its proposed amendments to Dealer Member Rules and Form 1 published on August 29th regarding the securities concentration test and designated rating organizations (the "Proposal"). The IIAC has spoken with a group of Members to obtain industry input on the Proposal and the feasibility of meeting the requirements within IIROC's planned implementation timeline. Based on our discussion with Members the IIAC requests that IIROC provide industry a **minimum of 18 months** (and preferably longer) to complete the necessary work associated with the Proposal.

While we detail below some of the reasons why an extension to the planned implementation period is required, we believe it beneficial if IIROC come and meet with IIAC Members, and impacted service providers, to learn more about the complexities of the initiative and answer any questions you may have.

Industry Challenges with the Proposal

IIAC Members indicated they will need to rely on a staged approach in order to meet the requirements. First, they will look to their service provider to obtain some necessary basic reports, such as a debt securities concentration report. Dealers would then have to undertake work internally to be able to ingest these reports from their service providers in order to run calculations such as capital requirements. While some of this work can be done in parallel, much of the internal requirements can-not be finalized and tested until delivery of reports from their service provider. Service providers are in discussions with their

clients currently to i) identify the required reports and ii) explore alternative solutions on generating the required reports.

Critical for the required reports is accurately identifying and grouping impacted debt securities. Members have noted that isolating the data required to recognize the relevant population of securities and append the corresponding credit ratings will be complex. Specifically, there are concerns about the completeness of the population of debt securities if members were to use the 'first six bites' of the CUSIP as the common identifier (i.e. the first six digits), as it would be difficult to map debt securities of issuers that use multiple 'first six bites'.

The exclusion of Principal-At-Risk notes (PARs) from the Proposal is also something that the industry will have to address as these instruments share identifiers common to other debt securities. If not properly filtered, these securities could inflate and inadvertently trigger potential concentration concerns where none exist.

The application of IIROC Rule 100.4C to offset between Government issued debt vs Corporate debt may be used to reduce the population. Although this netting eligibility is optional, firms choosing this path would need to build an application that applies eligible netting to their service bureau report.

Members welcome the changes included in the Proposal to extend to clients' accounts Dealer Member inventory netting allowances. To assist with their calculations, Members request clarity from IIROC on the permissibility of netting across client and inventory accounts.

Members also indicated that they will need to determine the best solution for connectivity to Designated Rating Organizations (DROs) by either developing a methodology to append DRO credit ratings to reports in-house, or to determine whether it is possible for service bureaus to access credit rating data on behalf of their clients. Discussions will need to take place with DROs to ensure the proper arrangements are in place to support their use of credit ratings for meeting the requirements of the Proposal.

Because some of the changes outlined above will touch core systems and processes, Members will also want to ensure adequate testing before they go into production.

Based on our conversations with the industry we believe the twelve-month implementation period proposed by IIROC in the Proposal will be extremely challenging for many of our Members to meet. We would welcome the opportunity for IIROC to meet with the IIAC and some of our Members and their service providers to discuss the challenges raised in this letter as well as other considerations that this letter may have not captured.

Sincerely,

Jack Rando

Jack Rando
Managing Director