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RE: IIROC REQUEST FOR COMMENT on PROPOSED AMENDMENTS to UMIR & DMR REQUIRING CLIENT IDENTIFIERS ("Proposal") published on June 28, 2018.

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

NBF Inc. is part of the diverse National Bank group of companies that: (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 the 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.

NBF Inc. has, in previous letters on this topic, highlighted broad concerns with the overall benefits of the Client Identifiers proposal not being in line with the associated overall costs that will be incurred by both its business and by the industry as a whole.

We appreciate the opportunity to provide comments on this Proposal. We also acknowledge that IIROC has made many changes to the original proposal to help mitigate many of the concerns brought forward by us and other dealers. However, as outlined below, we still seek further clarity on some major items and would like to suggest a longer transition period for implementation on certain aspects.

Encryption

NBF Inc. appreciates that IIROC is well-versed in the transmission, handling, and holding of confidential information. We have no doubt that IIROC's approach to Client Identifiers will be met with the same serious organizational protocols IIROC already has in place. Considering the increased value of trade data when affixed with client identifiers, we seek more clarity around the plans for encryption in this Proposal.

Most specifically, our concern is with the data at rest. We feel that the database of information gathered through this new process represents a very appealing target for cyber-attackers.

NBF Inc. suggests that the retention period be shortened to the minimum amount of time possible. We would recommend a one-year period and feel that this would provide IIROC with sufficient time to conduct their surveillance and investigations more efficiently. If the primary purpose of the project is for improved real & near-time monitoring, then NBF Inc. suggests that the one-year period would be sufficient. Should IIROC have concerns about trades outside of this one-year period at a later date, the Client Identifiers will still be on hand at the dealer level and can be supplied easily to support any investigation.

We suggest also that encryption be deemed *mandatory*, rather than optional for dealers. The whole industry is at risk in the event of a breach, not just the dealer that is subject to a breach. Dealers should not have an option to reduce costs at, seemingly, their own risk when it can impact the entire industry. We have experienced in the past that, when a change is deemed *mandatory* by regulators, it is much easier to get prioritized in vendor development queues than when it is optional. It is within IIROC's purview to assist in the prioritization of important technology changes within the industry as a whole.

Phasing and Implementation Timelines

We recognize that IIROC has put consideration into the strategy for the phased-in approach to the implementation of these new regulations; and in general this makes sense. Our concern is with the proposed implementation timeline of Phase 1 which is 90 days. We request that this timeline be increased to at least 180 days or ideally 1 year. Although through MTRS, the LEI is already an optional field, we would still be required to collect the LEI for the applicable clients. This will involve significant time and resources to communicate, educate, collect, and feed this information into downstream systems.

Phase 2 should also have at least a 1-year implementation as there will be significant technology developments required. In parallel, we will need to collect the required LEI's as in Phase 1, which will require a large project with extended timeline.

NBF Inc. appreciates that IIROC has permitted some leniency regarding a grace period for obtaining new customer's LEI, allowing dealers to trade for customers without the identifier for a certain reasonable period. From the outset in both our reading of the proposals and ongoing discussions with the regulators there has been no indication of pursuing a "no-LEI, no-trade" approach.

However, we seek additional guidance on the acceptable duration of this grace period.

We anticipate that in a large number of our institutional clients we will be able to procure LEI's quickly and effectively. The remaining clients, with whom we have contact less often, and in many cases who simply do not trade in Canada with any frequency, we anticipate it will be more difficult to obtain these LEIs in a timely fashion. Let us, as a community, continue to strive to make it easier for foreigners to start trading in Canada rather than more difficult!

Foreign Related Entities

It is our reading of the Proposal that in the case of foreign broker-dealer clients, we would need only procure the LEI of the dealer itself rather than that of their end client. This is sensible and in keeping with many existing workflows in place for these types of relationships.

We seek more clarity, however, on how this relationship should be handled in the case of *related* foreign dealers. If the foreign dealer is a subsidiary (or parent) of the Canadian dealer, is it IIROC's expectation that there be a look-through to the LEI of the end client?

NBF ↔ NBCFI ↔ Customer

is the same but not the same as

NBF ↔ Unrelated Foreign Dealer ↔ Customer

Treating these two setups in the same way, NBF Inc. would need to get LEI's for very few U.S. customers since most of these entities face our U.S. subsidiary (NBCFI). This approach would make implementation vastly simpler, as well as put us on equal footing to unrelated foreign dealers with whom we also compete for order flow.

However, it is unclear to us whether this approach would be in the spirit of what IIROC is trying to achieve with this Proposal. In the case of a wholly-owned subsidiary or foreign parent company, firms do, in fact, have relatively simple look through to the nature and identity of the end client, if not their actual LEI's. Grouping these foreign clients in under the LEI of the sub/parent doesn't seem to be the right answer. But it could easily be interpreted to be so, especially as it's the easier route.

As such, we seek further clarity on how to handle these scenarios so that at the very least all Canadian entities can operate within the same guidelines.

Ordering and Executing Broker

Specific to the Carrying Broker business within the National Bank Independent Network (NBIN), a division of NBF Inc., we would like some clarity around the responsibilities for maintaining LEI/account number information for the end clients of the non-executing broker. It is our understanding that NBIN would only be required to report the Non-Executing Broker identifier on orders sent to a marketplace. Since NBIN is not passing the end Client Identifiers to the exchange, are we required to maintain this information? And if so, what is the required retention period?

Conclusion

NBF Inc. 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 and the proposed amendments reflect this. We look forward to hearing IIROC's further clarifications and amendments to this Proposal after careful review of the public commentary forthwith.



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