

## CSA Staff Notice [21-316] Information Processor for Corporate Debt Securities

December 29, 2015

### 1. Introduction

Canadian Securities Administrators (CSA) staff (CSA staff or we) are publishing this notice to inform the public that CanPX Inc. (CanPX) will continue to act as an information processor for corporate debt securities under National Instrument 21-101 *Marketplace Operation* (NI 21-101) for a period of six months from January 1, 2016 to June 30, 2016.

### 2. Requirements regarding Transparency of Corporate Debt Securities

Transparency of trading in corporate debt securities has been an important goal of the CSA. Providing information regarding trades in corporate bonds facilitates informed decision making by investors and contributes to the price discovery process.

Part 8 of NI 21-101 sets out the transparency requirements applicable to corporate debt securities. It requires marketplaces that display orders of corporate debt securities to provide information regarding orders for designated corporate debt securities to an information processor, as required by the information processor. Marketplaces, inter-dealer bond brokers and dealers are also required to provide trade information for corporate debt securities to an information processor, if one is in place, as required by the information processor.<sup>1</sup>

NI 21-101 also provides for the operation and regulation of an information processor.<sup>2</sup> The regulatory requirements applicable to the information processor are set out in Part 14 of NI 21-101 and include requirements to:

- provide prompt and accurate order and trade information;
- not unreasonably restrict fair access to such information;
- provide timely, accurate, reliable and fair collection, processing, distribution and publication of information for orders for, and trades in, securities;
- maintain reasonable books and records; and
- maintain resilient systems, including an annual independent systems review.

### 3. CanPX as the Information Processor for Corporate Debt Securities

CanPX has been an information processor for corporate debt securities since 2003. We have

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<sup>1</sup> For government debt securities, the requirements for marketplaces and inter-dealer bond brokers to provide order and trade information have been postponed until January 1, 2018.

<sup>2</sup> An information processor is defined as a person or company that receives and provides information under NI 21-101 and has filed Form 21-101F5 *Information Statement - Information Processor* (Form 21-101F5).

included a high-level description of CanPX's operations at Appendix A. Its status as an information processor was most recently renewed in 2014 for an 18 month period, until December 31, 2015.<sup>3</sup>

We have recently published a proposed plan to increase fixed income transparency by transitioning the role of the information processor to the Investment Industry Regulatory Organization of Canada (IIROC). CSA Staff Notice and Request for Comment 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market* (CSA Staff Notice 21-315), published on September 17, 2015, included a description of the plan. It described our goal to expand corporate bond transparency so that post-trade information is available for all corporate bonds, subject to a dissemination delay and to volume caps. Our intention is to leverage IIROC's fixed income reporting platform (the Market Trade Reporting System, or MTRS 2.0)<sup>4</sup> and publish a subset of the information reported to IIROC by its dealer members. We will also work with IIROC after implementation to analyze the data received on MTRS 2.0 and develop a plan to reduce the dissemination delay.

In response to the request for comment on the planned transparency plan, we received 14 comment letters and are currently reviewing them. It is our expectation that we will publish additional information about the timing of the dissemination of the post-trade information, as well as details regarding what this information would include, in the first quarter of 2016.

In order to accommodate the transition of the information processor to IIROC, and also to consider and address the comments received on CSA Staff Notice 21-315, it is necessary to extend CanPX's status as an information processor until June 30, 2016. CanPX has agreed to continue to comply with a number of undertakings, set out at Appendix B of this Notice.

#### 4. Questions

Please refer your questions to any of the following:

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Paula Kaner  
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Matt Sellers  
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<sup>3</sup> CSA staff announced the renewal of CanPX in CSA Staff Notice 21-314 *Information Processor for Corporate Debt Securities*, published in Ontario at (2014) 37 OSCB 6240.

<sup>4</sup> MTRS 2.0 was developed to facilitate the implementation of IIROC Rule 2800C *Transaction Reporting for Debt Securities*. This rule is being implemented in two stages. In the first stage, effective November 1, 2015, dealers that are Government Securities Distributors (GSDs) and affiliates that are GSDs are required to report. All other dealers will be required to report their transactions in the second stage, effective November 1, 2016.

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## **APPENDIX A OVERVIEW OF CANPX'S FUNCTIONS**

As the information processor for corporate debt securities, CanPX is responsible for designating the corporate debt securities for which it receives and disseminates post-trade information (the Designated Corporate Debt Securities).<sup>5</sup> It makes the selection in accordance with a set of selection criteria which are published on its website<sup>6</sup> and which include whether the bonds are highly liquid, whether they represent a majority of trade flow within the corporate bond markets, whether they include bonds with short-term, mid-term and long-term maturities, and whether they cover each industry classification. At this time, approximately 450 securities are included on the Designated Corporate Debt Securities list. The information disseminated is subject to volume caps and is disseminated every hour. There are volume caps of \$2 million for investment grade corporate debt securities and \$200,000 for non-investment grade corporate debt securities. These volume caps mask the true dollar size of large trades. The trade data is aggregated by CanPX's technical facilitator and is made available to market participants and investors through data vendors contracted by CanPX. In addition, CanPX makes available on its website, free of charge, end-of-day pricing information on the Designated Corporate Debt Securities.<sup>7</sup>

CanPX currently requires that only marketplaces and dealers that have achieved a market share of 0.5% of total corporate bond trading provide to it trade details regarding the Designated Corporate Debt Securities. Currently, this includes 12 investment dealers.

In addition to complying with the applicable requirements in NI 21-101, CanPX has agreed to comply with a number of undertakings that, among others, require CanPX to address conflicts of interest such as those related to the business activities of its board members, maintaining transparency for corporate debt securities, and maintaining the integrity of corporate debt data it disseminates.<sup>8</sup>

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<sup>5</sup> The CSA allowed CanPX to make the selection in order to promote an industry solution to corporate debt transparency, in response to significant industry pressure against a solution to fixed income transparency that is mandated by regulators.

<sup>6</sup> For a description of the criteria and process for selection, see <http://www.canpxonline.ca/selectioncriteria.php>.

<sup>7</sup> <http://www.canpxonline.ca/quotes.php>

<sup>8</sup> The existing undertakings in place until December 31, 2015 can be found at (2014) 37 OSCB 6243.

## APPENDIX B

### UNDERTAKINGS PROVIDED BY CANPX

**In connection with its role as the information processor for corporate debt securities, CanPX undertakes the following:**

#### **1. Changes to Form 21-101F5**

- a. As required by section 14.2 of National Instrument 21-101 *Marketplace Operation* (NI 21-101), CanPX will file with the CSA amendments to the information provided in Form 21-101F5. The significant changes referred to in section 14.2(1) of NI 21-101 will be reviewed and approved by CSA staff prior to their implementation. These significant changes include the following:
- changes to the governance of CanPX, including the structure of the Advisory Committee referred to in paragraph 2b below,
  - significant changes to the fees charged for corporate debt information distributed as the IP,
  - changes to the fee structure and fee / revenue sharing model related to the services provided as the IP,
  - changes to the data products offered as the IP,
  - changes to the threshold for reporting trades in corporate debt securities,
  - removal of marketplaces, dealers or inter-dealer bond brokers required to report trade data regarding corporate debt securities,
  - changes to the selection criteria for the corporate debt securities reported to CanPX,
  - any reduction in the number of corporate debt securities reported to CanPX,
  - significant changes to the systems, technology or technology provider used by CanPX, including those affecting capacity, or
  - changes affecting the independence of the IP from the contributors of corporate debt securities information (Data Contributors) or the business activities of its technology provider.

#### **2. Governance**

- a. CanPX's Board of Directors will meet at regular times, and no less than quarterly.
- b. CanPX will maintain its Advisory Committee that includes representation from Data Contributors, and from subscribers and vendors (Data Purchasers) and will provide a report within 15 days after each of its meetings that describes the topics discussed and their resolution.
- c. CanPX will notify CSA staff of any changes to the composition of the Advisory Committee and of any changes to its mandate within 15 days from making the change.
- d. The mandate of the Advisory Committee will continue to make reference to the ability of the

committee to contact the Director of the Market Regulation Branch of the Ontario Securities Commission and the Senior Director, Market Structures at the Autorité des marchés financiers with any concerns that it may have regarding the governance or operations of the IP.

- e. The Advisory Committee will maintain minutes of its meetings and these minutes will reflect the views and recommendations provided to CanPX's management. The minutes will be made available, upon request, to CSA staff.

### **3. Conflicts of Interest**

- a. CanPX will maintain and monitor compliance with policies and procedures to address the conflicts of interest related to the business activities of its board members.
- b. CanPX will maintain and monitor compliance with policies and procedures to address the potential conflicts of interest that arise due to the fact that its technology provider is also a marketplace and a distributor of data.
- c. CanPX will provide any changes to the policies and procedures referred to in paragraphs 3a and 3b to CSA staff for review and approval.

### **4. IP Products**

- a. CanPX will limit the products distributed as the IP to a consolidated feed (the Consolidated Data Product) that displays the information related to corporate debt securities provided to it in accordance with the requirements set out in Part 8 of NI 21-101 and Part 10 of the Companion Policy 21-101CP (Designated Corporate Debt Securities). CanPX will display this information no later than one hour from the time of the trade.
- b. CanPX will not distribute, as the IP, any additional products using the data provided to it under Part 8 of NI 21-101 unless it obtains prior approval from CSA staff.
- c. If CanPX intends to create and distribute, other than as the IP, any products using the data provided to it under Part 8 of NI 21-101:
  - i. the data required to be provided to the IP by Data Contributors will not be used for such other products without the permission of the Data Contributors; and
  - ii. the additional products will be made available for purchase separately from, and will not be bundled with, the Consolidated Data Product and any other products approved under paragraph 4b.

### **5. Data reported to and disseminated by CanPX**

- a. CanPX will maintain and monitor compliance with:

- i. policies and procedures to verify the timeliness and accuracy of information received and disseminated by the IP; and
  - ii. processes to resolve on a timely basis any data integrity issues identified.
- b. CanPX will provide any changes to the policies and procedures referred to in paragraph 5a to CSA staff for review and approval'
- c. CanPX will monitor the timeliness and accuracy of information received by and disseminated by the IP on an ongoing basis and take adequate measures to resolve any data integrity issues on a timely basis. CanPX will report to its Board of Directors at each of their quarterly meeting on the timeliness and accuracy of the information received by and disseminated by the IP, along with significant data integrity issues, for the most recent quarter. Within 15 days following the board meeting, a report will be provided by CanPX to CSA staff outlining the issues identified, if any, and the measures CanPX will take to address them.
- d. CanPX will provide to CSA staff updates to its plan to increase the number of Designated Corporate Debt Securities by January 31, 2016.
- e. CanPX will conduct an additional review of the adequacy of the list of Designated Corporate Debt Securities by January 31, 2016 and prepare a report outlining the results of this review and its analysis to CSA staff within 15 days of the completion of the review. The report must include an analysis showing the coverage of retail-sized bonds trades, coverage of corporate bonds traded and coverage of total bonds issued, as well as statistics indicating the types of bonds on the Designated Corporate Debt Securities and the frequency of trades for bonds not included on the list.
- f. CanPX will provide reports of the corporate debt securities removed from the Designated Corporate Debt Securities within 15 days of their removal. Such reports will include a brief analysis supporting the reason for their removal from the list.
- g. CanPX will provide updates to staff regarding developments on new or potential agreements with data distributors on a monthly basis.

## **6. Resources**

- a. CanPX will maintain sufficient financial resources to ensure its financial viability.
- b. CanPX will ensure that it has an adequate number of staff dedicated to its systems and operations to ensure the proper performance of its functions, including staff directly responsible for monitoring of the corporate debt data reported to it in accordance with the requirements of NI 21-101.

## **7. Agreements with Data Contributors**

- a. CanPX will ensure that all Data Contributors are given access to CanPX on fair and

reasonable terms.

- b. New standard agreements or contracts to be entered into between CanPX and Data Contributors in connection with the IP services will be provided to CSA staff for review and approval prior to their execution. In addition, any proposed material changes to these standard agreements or contracts will be provided to CSA staff for review and approval.

#### **8. Fees / Fee structure / Revenue sharing**

CanPX will make available, on its website, the fee schedule for the Consolidated Data Product, and any additional products subsequently approved by CSA staff to be distributed by CanPX as an information processor.

#### **9. Non-exclusivity**

CanPX acknowledges that the selection as an IP does not grant that IP exclusive rights to consolidate and disseminate order and trade data. CanPX will not seek such exclusivity through the terms of any contract with a Data Contributor or Data Purchaser.

#### **10. Term and notice**

- a. CanPX will continue to act as an information processor for corporate debt securities for a period of six months starting from January 1, 2016, ending on June 30, 2016.