

September 4, 2003

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Securities Commission  
The Manitoba Securities Commission  
Ontario Securities Commission  
Commission des valeurs mobilières du Québec  
Office of the Administrator, New Brunswick  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 1900, Box 55  
Toronto, Ontario  
M5H 3S8

Denise Brousseau, Secretary  
Commission des valeurs mobilières du Québec  
800 Victoria Square, Stock Exchange Tower  
P.O. Box 246, 22<sup>nd</sup> floor  
Montreal, Quebec  
H4Z 1G3

Dear Sir and Madam:

**Re: Notice of Proposed Amendments to National Instrument 21-101 Marketplace  
Operation and Companion Policy 21-101CP and National Instrument 23-101  
Trading Rules and Companion Policy 23-101CP**

The Bank of Canada and the Department of Finance welcome the opportunity to comment on the latest amendments to the ATS Rules by the CSA, given our interest in the liquidity, efficiency, and integrity of Canadian capital markets.

The Bank and Finance have been supportive of the development of fixed income ATSs in Canada. We have been working in cooperation with provincial borrowers, market participants and the CSA on each of the proposals leading to the adoption of the ATS Rules. Since then, we have been participating in discussions with the Bond Market Transparency Committee (“BMTC”) with respect to the regulatory environment for fixed income markets and, more specifically, the appropriate levels of transparency for debt securities.

At this stage, the Bank and Finance are generally satisfied with the progress that has been made with the proposed amendments to the ATS Rules. We are pleased to see that the CSA have removed the concept of a market integrator for fixed income markets. However, we have some reservations pertaining to the proposed data consolidation and pre-trade and post-trade information requirements for government debt securities, which are outlined below in three parts: market integration, data consolidation, and transparency requirements.

### **Market Integration**

- As indicated above, the removal of the requirement for a market integrator in fixed income markets is a positive development. We view market integration as an equity market concept that is currently inappropriate for wholesale fixed income markets in Canada. Looking forward, we would expect a thorough cost-benefit analysis and a consultative discussion prior to the adoption of any market integration concept for fixed income markets.

### **Data Consolidation**

- We are pleased that the CSA have recommended CanPX act as an information processor for corporate debt securities. While we understand that, as the proposal stands, there is no mandated transparency for government securities, we would support a recommendation by the CSA of CanPX as an information processor for government debt securities. We believe that an information processor for government securities would be a welcome development and likely lead to increased transparency and integrity for fixed income markets.

### **Transparency Requirements**

- We share the CSA’s view that appropriate levels of transparency should be developed on a consultative basis. Furthermore, we believe that appropriate levels of transparency should take into account the evolution and the characteristics of a market and its participants. We also believe that a proper balance must be reached between the objective of increased transparency and ensuring that measures introduced to achieve this objective do not adversely affect market liquidity and efficiency.
- The CSA have proposed a three year exemption from providing order and trade information regarding government debt securities. While the CSA have expressed their belief that it is premature to impose transparency requirements in the government debt market, we are confident that government debt securities, which are

the most liquid of Canadian fixed income securities, could in fact support a higher level of transparency than corporate debt securities.

- With respect to the wording of the CSA's specific request for comment:

*"The CSA wish to seek comment on whether to maintain the status quo for three years by granting an exemption from the transparency requirements for government debt securities or require that IDBs and all marketplaces provide post-trade information regarding government debt securities to the information processor subject to volume caps and on a fully anonymous basis (no name of subscriber or marketplace)."*

We are concerned that the range of options provided in the specific request is too narrowly defined and excludes other potential solutions which could result in higher levels of transparency that are more appropriate for government securities. Moreover, we are concerned that the latter option (i.e., volume caps) would reduce the current level of transparency supported by systems based on executable prices, which are at the present time inter-dealer brokers (IDBs).

- Furthermore, we strongly believe that fixed income ATSS or marketplaces that are similar in nature should be subject to common transparency requirements. As such, we believe that systems displaying executable prices should have the same level of transparency as IDBs. Similarly, we are confident that IDBs and systems displaying executable prices could support a higher level of transparency than systems displaying indicative prices, without unduly affecting liquidity in the markets.

While it is clear that views have evolved with respect to transparency, we remain confident in the appropriateness of the regulatory principles governing market integrity embodied in IDA Policy 5 and note that the majority of market participants surveyed for the Deloitte and Touche Report (July 2002) share this belief.

Our interest in the development of a regulatory framework that promotes a more efficient and well-functioning Canadian fixed income remains strong. We are committed to extend the work that formed the basis of our submissions on the ATS proposal in 1999 and 2000 and our contribution to the Bond Market Transparency Committee to find appropriate measures to enhance the current level of transparency in Canadian fixed income markets in general and in government debt securities in particular.

We look forward to continued active collaboration with the CSA and market participants in the ongoing development of an appropriate regulatory framework.

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Sheryl Kennedy  
Deputy Governor

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Bob Hamilton  
Assistant Deputy Minister

Bank of Canada

Department of Finance