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Submitted via Email

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**Re: Amendments to the Rules of Bourse de Montreal Inc. regarding Client and Order Identifiers**

The Investment Industry Association of Canada (IIAC) appreciates the opportunity to comment on the above-noted TMX Circular 044-023.

The IIAC is the national association representing investment firms that provide products and services to Canadian retail and institutional investors. The IIAC represents financial services firms, and registration categories, of every size and type, operating in Canadian and global capital markets. The IIAC represents members that manufacture and distribute a variety of securities including mutual funds and other managed equity and fixed income funds and provide a diverse array of portfolio management, advisory and non-advisory services. IIAC members trade in debt, derivatives, foreign exchange and equity and equity related products on all marketplaces, provide carrying broker services and underwrite issuers in public and private markets.

**Objective of the Proposal**

The IIAC agree with the intended objectives of the proposal which is to align the Montreal Exchange Regulatory Division's ("MXRD") requirements with other regulators, more effectively manage risk of trading, enhance market integrity and investor protection, and ensure consistency of information across Canadian marketplaces.

## Executive Summary

The IIAC supports the MXRD's objectives, however, we believe, that certain elements of the amendments need to be changed or clarified to achieve the desired outcome.

- The MXRD should align their order and client markers requirements with those of the New Self Regulatory Organization of Canada ("New SRO"). There is value in symmetrical data between the SROs for cross-asset oversight to be successful.
- We ask for further clarity on the definition of the term algorithm and bundling marker.
- We raise questions on the requirement for Sponsored Access client identification.

We note that the proposed amendments introduce complexity and risk by mandating firms to develop a separate database to house and manage 'Short Codes' while at the same time maintaining client Legal Entity Identifiers ("LEIs") and client account numbers. This added complexity to firms' Order Management Systems ("OMSs") requires IIAC members to introduce new systems and processes which creates additional risks. In addition, while we applaud the Division for enhancing its oversight over trading, the creation of Short Codes falls short of aligning with its objective to conduct cross asset surveillance with the New SRO which uses different identifiers.

### **Requirement to assign a client Identifier to each direct client.**

Members of IIAC have worked over the past decade to implement LEIs for reporting on OTC derivatives to the Canadian Securities Administrator ("CSA"), reporting of fixed income trades to the New SRO and imbedding LEIs (institutional) and client account numbers (retail) in pre-trade OMSs for equity trading.

The introduction of yet another numbering system for client accounts not only creates complexity, requiring system enhancements and increasing operational risk but also opposes the objective of aligning with other regulators, reducing risks or ensuring consistency of information across Canadian marketplaces.

### **Requirement to assign a Unique Identifier to each client of the direct client that uses its own algorithm.**

The proposal requests market participants to identify whether end clients of direct clients use non-firm algos. Market participants do not own the relationship with the end clients and the possession of this information may create regulatory obligations to treat the end clients of our direct clients as the Participant's own. In addition, algorithm is defined as a computer algorithm by an automated order system that automatically determines individual parameters of the order such as whether to initiate the order, the timing, price or quantity of the order or how to manage the order after its submission, with limited or no human intervention. While we support the MXRD's objective to obtain increased transparency in this area of the market, it is not always easy for IIAC members to ascertain when an order is generated automatically by a system or human intervention at a client. Would an attestation from the client suffice? What is the frequency of obtaining this attestation be? What if the algo is for an omnibus client of a client: How is that treated? We would also like further clarity on the definition of algorithm because we believe Stop Loss orders or Iceberg orders are also generated automatically by a system as specific price. What are the requirements for such orders?

### **Requirement to submit the Client Identifier and Unique Identifier on order entry.**

As stated above this would require enhancement to the OMS and would not align with the current information that Members have their OMS.

### **Requirement to identify Bulk Orders**

The proposal requires that when an order is exclusively for two or more clients that have a common parent entity, the Participant must enter the common parent entity's assigned Client Identifier in the Short Code field. This is different than the New SRO's requirement to put BU and MC order marker flag for bundled orders and multiple Client Orders, respectively. Since the MXRD is requiring firms to use different types of order markers than the New SRO this will require new mapping and logic to be developed by IIAC members which, given the number of impacted accounts, will require additional time.

It is not clear how a Participant would denote a "Bulk Order" if at all. There are methods for denoting "Bundled Order" and "Multiple Client Order" using the Short Code field but there is nothing specified for denoting something as "Bulk Order". Which client identifier should be used for these orders, is it the parent entity or the fund's short code? In addition, it is not explicit in the requirements if there is an expectation for a Participant to "unbundle" these orders.

### **Requirement to report client information.**

The MXRD's proposed requirement to report LEI for institutional customers is in line with other regulatory requirements. However, Members have concerns around obtaining and providing information on our direct clients' end clients. There are significant challenges in obtaining unique identifiers from our direct clients for each of their end clients. Participants do not have an obligation to "look through" our counterparty, so being able to identify and supply additional information for our direct clients' end clients will pose difficulties. We would also like further clarity on the MXRD's reporting requirements pertaining to orders entered by retail clients. We are concerned that the MXRD's approach to retail accounts could vary significantly from that already implemented by the New SRO for debt and equity trading.

A new requirement to the Canadian marketplace is the need to report ISO 3166 Country Code for direct electronic access client that do not have an LEI. This new requirement will require additional IT development work to link the data.

IIAC Members request that the timing to report client information align with the LOPR reporting requirements which allows for reconciliation and communication between front office and other members of operations groups. At many Member firms this information resides in the same system as LOPR data. The operations and IT teams at Member firms would like greater clarity on the timeline and recommend that the MXRD create a technical working group to discuss this issue. Members also request that the MXRD provide documented guidance on marker correction submission similar to what the New SRO provided when it rolled out its RMCS portal.

### **Requirement to identify algorithmic orders.**

See our comment under unique identifiers.

### **Requirement to identify Sponsored Access.**

We require clarity on the proposed requirement to denote an order as True/False if a client is getting to market via Sponsored Access – Does that mean the existing Sponsored Access process will be overhauled – i.e., no MX-R portal tracking and no requirement to assign a unique SAM ID to each DEA client? If we were to continue the current process of assigning a unique SAM ID to each DEA client what is the purpose or the requirement to denote an order as Sponsored Access = True/False? In our view, the expectation to assign and manage a unique SAM ID/DEA client list as well as a client Short Code and mark the order as Sponsored Access = True appears to have a lot of overlap/redundancies. Put differently, the MX would already know if a client were trading using Sponsored Access today via the unique SAM ID/DEA client list requirement. How does the proposed marker change the existing DEA process, if at all? Is the Participant expected to continue issuing unique SAM IDs for Sponsored Access as well as maintaining a list of DEA clients as well as maintaining the list of Short Codes as well as marking every Sponsored Access order as “True”?

### **Impact on Cross-Asset Surveillance**

There is tremendous value for both SROs, and most specifically for Cross-Assets Surveillance, in receiving symmetrical data from MXR. Since one of the bases of Cross-Assets Surveillance is identifying a participant or access person transacting in both markets, receiving symmetrical client ID data would be a major advantage for both regulators. The New SRO would gain efficiency in building the IT systems supporting Cross-Assets Surveillance and the alerts would be more meaningful. Asymmetrical data would undeniably lead to less efficiency, more false positive alerts, and a greater number of "requests for information" from the regulator. There is a greater risk that actors looking to hide their activities could rely on the dynamic nature of the Short Code and its manual update process to obfuscate their manipulation of the markets. Finally, by using dynamic Short Code, in time, the investigative power of using historical data for analysis will be rendered useless. None of this serves the stated objective of the MXRD.

In addition to the benefits for the regulators and their Cross-Assets Surveillance, standardizing symmetrical data from the MXRD would also be of great benefit to IIAC members. Members also have a regulatory obligation to supervise cross-asset trading by their trading desks and clients. Having access to the same symmetrical client ID data as New SRO would greatly enhance the effectiveness of their own surveillance systems, enabling them to identify potential risks and compliance issues across multiple markets more efficiently. Standardizing this information would also improve collaboration between the New SRO, MXRD and IIAC Members, as all parties would be working with the same data, leading to a more streamlined and effective regulatory process overall. Overall, symmetrical data from MXRD would provide significant benefits for all stakeholders, enhancing their ability to effectively monitor and regulate cross-asset trading activities.

Therefore, we recommend that the MXRD require LEIs for institutional clients and account numbers for retail clients to keep the data for surveillance and oversight purposes symmetrical.

Missing from the proposal is the consideration of the different types of order flows at a given Participant. There are institutional desk proprietary order flows as well as agency. There are retail desk order flows as well as Order Execution Firm (“OEO”) order flows. We recommend that the MXRD provide a matrix of the various order flows to help the IIAC members understand the requirements as some firms have several management teams including infrastructure personnel working on their IT projects.

## **Conclusion**

Members of the IIAC support the objectives of the MXRD, however, the proposal fails to assist the regulators in conducting cross-asset surveillance. The methodology proposed with the addition of Short Code to achieve these objectives needs to be revisited in light of the substantial work already done to meet client identifier requirements for other traded asset classes. Significant systems development will be required to accommodate the current MXRD proposals, and this development can only begin once the rules are finalized and detailed business specifications are made available to the industry. Members would require additional time for testing these new requirements as well.

Members have significant resources dedicated to projects previously announced including North America's migration from T+2 to T+1. Considering the implication to the stability of the capital markets in North America we view T+1 as a priority. We request that the implementation deadline for these new MXRD rule proposals be moved by at least 12 months to no earlier than December of 2024.

The IIAC appreciates your consideration of our comments and recommendations. Should you have any questions regarding the comment letter, please do not hesitate to contact us.

Sincerely,

Investment Industry Association of Canada