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Submitted via Email

Attention:

gmf-fmg-consultation@bank-banque-canada.ca

To Whom it May Concern

RE: GOC MARKET FUNCTIONING STEERING GROUP: FAIL FEE CONSULTATION

The Investment Industry Association of Canada (“IIAC”) is the leading national industry association who represents the vast majority of individuals and firms providing financial advice to Canadians. Our members manufacture and distribute a variety of securities such as mutual funds, exchange-traded funds, segregated fund contracts and other managed equity and fixed income funds, and provide a diverse array of portfolio management, advisory and non-advisory services.

Summary: The IIAC and its member firms generally support the development of a fail fee mechanism in the Canadian markets but make the following observations in addition to the responses provided on the attached consultation template.

Key Recommendations:

- IIAC and its members generally support the introduction of a fail fee to help support the settlement system in times of either near zero or negative interest rates or heightened periods of stress on Canadian Fixed Income Markets.
- Generally, the parameters of the fail fee are viewed as appropriate for the present GoC market. While the thresholds of the dynamic component are viewed to be well calibrated there was a view by some members that as the BOC target rate rises the fail fee could be reduced or even turned off.

General Comments:

- A few IIAC members stated that it would be beneficial to study the adoption of the fail fee mechanism for free of payment deliveries at a future date.
- The IIAC and its members believe it would be helpful if more details regarding how CDCC fails will be handled were specified.
- One member questioned the potential need for guidance around specials that trade more expensive than the fail cost.
- Members reiterated that the persistent nature of the 50 basis point fee after the system is triggered is not necessary when the markets corrects.
- The unintended consequence of attempting to replace an implied cap on repo specials spreads is where knowing the penalty rate of a failed trade, large holders of GOC bonds could be incentivised to withhold lending there bonds until they can capture a large percentage of the penalty rate as P&L.
- A member noted that the only available data set that was used to calibrate the 4% warning level and the 5% activation level were all based on the behavior of the Canadian settlement system in a T+2 environment. There is some concern that these thresholds may not represent the behavior of the settlement system in a T+1 environment.

Thank you for your consideration of the issues raised in this response.

Yours sincerely,



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