B.6
Request for Comments

B.6.1 CSA Notice and Request for Comment – Proposed Amendments to National Instrument 24-101 Institutional Trade Matching and Settlement and Proposed Changes to Companion Policy 24-101 Institutional Trade Matching and Settlement

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Notice and Request for Comment:

Proposed Amendments to
National Instrument 24-101
Institutional Trade Matching and Settlement

and

Proposed Changes to
Companion Policy 24-101
Institutional Trade Matching and Settlement

December 15, 2022

Part I. Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are publishing for comment proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (**NI 24-101** or **the Instrument**) and proposed changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement* (**NI 24-101 CP** or **the CP**). Collectively, the proposed rule amendments (**Proposed Amendments**) and companion policy changes will be referred to as the **Proposed Revisions**.

Some of the Proposed Revisions amend the Instrument and change the CP in anticipation of shortening the standard settlement cycle for equity and long-term debt market trades in Canada from two days after the date of a trade (**T+2**) to one day after the date of a trade (**T+1**). The move to a T+1 settlement cycle is expected to occur in 2024, at the same time as the markets in the United States move to a T+1 settlement cycle.

The Proposed Revisions would also repeal the exception reporting requirements in Part 4 of the NI 24-101, including the requirement to file NI Form 24-101F1 *Registered Firm Exception Reporting of DAP/RAP Trade Reporting and Matching* (**Form 24-101F1**) and make related changes to the NI 24-101 CP. Other Proposed Revisions are more housekeeping in nature as they are intended to clarify and update existing requirements. A blackline of the Proposed Revisions to the current versions of the Instrument and CP follows after this Notice in Annexes C and D, and will also be available on the websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.asc.ca
www.bcsc.bc.ca
https://nssc.novascotia.ca
https://fcnb.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.mbsecurities.ca

We are publishing this Notice and the Proposed Revisions for comment for 90 days. The comment period will expire March 17, 2023. See below under "Comment process" in Part V.

This Notice includes the following Annexes:

- Annex A: the proposed amendments to NI 24-101;
- Annex B: the proposed changes to 24-101CP;
- Annex C: Blackline version of NI 24-101 reflecting the proposed amendments to the Instrument;
- Annex D: Blackline version of NI 24-101CP reflecting the proposed changes to the CP; and
- Annex E: Local Matters (where applicable).

Part II. Purpose of Proposed Revisions

1. Background – History of NI 24-101

NI 24-101 came into force in 2007 and was intended to encourage more efficient and timely pre-settlement confirmation, affirmation, trade allocation and settlement instructions processes for institutional trades in Canada. This process is known as institutional trade matching (**ITM**).

Registered dealers and advisers trading on a DAP/RAP[1] basis for or with an institutional investor must have ITM policies and procedures designed to match a DAP/RAP trade as soon as practical after the trade is executed, but currently by noon on T+1 (**ITM deadline**). In addition, registered firms must complete and file a Form 24-101F1 for every calendar quarter where they do not meet the ITM threshold of matching 90 percent of trades by value and volume before the ITM deadline (**Exception Reporting Requirement**).[2] We note that this requirement is currently subject to a moratorium, discussed below.

The Instrument also requires clearing agencies (in particular, CDS Clearing and Depository Services Inc.) and matching service utilities to submit quarterly data on the matching of institutional equity and debt trades of their participants or users.

For more background information on NI 24-101, including its history and regulatory objective, please see the Consultation Paper that was published with the 2016 Notice and Request for Comment.[3]

2. Migration to T+1 settlement cycle

The Canadian securities industry is preparing for the migration to a standard T+1 settlement cycle in 2024 at the same time as the industry in the United States is moving to T+1.[4] While NI 24-101 does not expressly mandate a T+2 settlement cycle, and would not currently prevent the T+1 migration, there are a few provisions that require revision to facilitate the move to a T+1 settlement cycle and promote uniformity of settlement times across the industry.

We are therefore proposing to repeal "T+2" in the Instrument's definitions section, and to amend subsections 3.1(1) and 3.3(1) of Part 3 Trade Matching Requirements to require registered dealers and registered advisers to have policies and procedures in place designed to achieve institutional trade matching by **9 p.m. Eastern Time** on the date of a trade (**T**), as opposed to the current requirement of 12 p.m. (noon) Eastern Time on T+1. We are also proposing amendments to Form 24-101F2 *Clearing Agency Quarterly Operations Report of Institutional Trade Reporting and Matching* and Form 24-101F5 *Matching Service Utility Quarterly Operations Report of Institutional Trade Reporting and Matching* that would change the ITM data reporting requirements to **T at 12 p.m., T at 9 p.m., T+1 at 12 p.m., T+1 at 3 p.m., T+1 at 11:59 p.m., and after T+1**. These amendments are intended not only to support the upcoming move to settlement on T+1, but also the potential move to settlement on T.[5]

For a successful migration to T+1 settlement, registered firms and other capital market stakeholders will need to review and change, as required, their current clearing and settlement procedures and internal operations and processes. In addition, marketplaces and clearing agencies may need to update various rules and procedures that specifically mandate a particular

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1 See subsections 3.1(1) and 3.3(1) of the Instrument. A DAP/RAP trade is a trade in a security executed for a client account that permits settlement on a *delivery against payment* or *receipt against payment* basis through the facilities of a clearing agency, and for which settlement is completed on behalf of the client by a custodian other than the dealer that executed the trade. See the definition "DAP/RAP trade" in section 1.1 of the Instrument.

2 See section 4.1 of the Instrument.

3 See: https://www.osc.ca/en/securities-law/instruments-rules-policies/2/24-101/proposed-amendments-ni-24-101-institutional-trade-matching-and-settlement-changes-companion-policy, specifically Annex E to the Notice and Request for Comment.

4 For more information about the US move to T+1 please see: https://www.dtcc.com/ust1. For more information about Canada's move to T+1 please see: http://ccma-acmc.ca/en/t1-resources/.

5 The SEC has indicated in its T+1 rule proposals that it would like industry to begin considering and preparing for a move to a settlement date of T: https://www.sec.gov/news/press-release/2022-2.1

settlement cycle, that are keyed to the settlement date and require pre-settlement actions, or that generally facilitate the clearance and settlement of trades.

3. Repealing the Exception Reporting Requirement

We are proposing to repeal the Exception Reporting Requirement in Part 4 of the Instrument. This change will codify and replace the current reporting moratorium provided by blanket orders and a local rule in Ontario.

4. Other amendments to update and clarify NI 24-101

While our primary focus is to support the move to T+1 and reduce regulatory burden by eliminating the Exception Reporting Requirement, we have also proposed amendments to update and clarify NI 24-101.

Part III. Summary of the Proposed Revisions

Section 1 of this Part explains our Proposed Revisions in anticipation of the transition to a T+1 settlement cycle, including our proposal to amend the ITM deadline from noon on T+1 to 9 p.m. on T. Section 2 of this Part explains our Proposed Revisions relating to the repeal of the Exception Reporting Requirement. Section 3 describes the modernizing and clarifying amendments to NI 24-101 including Form 24-101F2 and Form 24-101F5. Section 4 describes proposed changes to the CP.

We welcome comments from stakeholders on all aspects of these amendments.

1. Proposed Revisions as a result of T+1 migration

a) References to "T+2"

NI 24-101 contains a number of references to T+2. They can be found in the definitions section of the Instrument (section 1.1), Forms 24-101F2 and F5, and Part 5 of the CP. We propose to remove these references or replace them with "T+1" as applicable.

b) Amending the ITM3 deadline

We are proposing to amend the ITM deadline from noon on T+1 to 9 p.m. on T. As noted above, in February 2022 the U.S. Securities and Exchange Commission (**SEC**) published for comment a number of proposed rule changes mandating a move to T+1 settlement. While the U.S. rule changes are not yet final at the time of drafting this Notice, and certain aspects – including their implementation date – may be adjusted in response to industry feedback, there appears to be little doubt that the United States financial sector will move to T+1 settlement.

Given the close ties between the Canadian and American markets, in particular the large number of inter-listed securities, in our view it is critical that CSA jurisdictions move to T+1 in concert with the U.S.

It is also our view that the current ITM deadline is no longer appropriate in a standard T+1 settlement environment. Permitting matching to occur until noon on T+1 leaves insufficient time to resolve issues with trade processing (technological and otherwise) and avoid failed trades. For this reason, we have proposed an ITM matching deadline of 9 p.m. on T. This deadline reflects input from industry, including the Canadian Capital Markets Association, which has struck several T+1 working groups in response to the SEC rule proposals.[6]

We welcome stakeholder feedback on whether 9 p.m. is an appropriate ITM deadline.

2. Repealing the Exception Reporting Requirement

In 2020, the CSA provided a three-year moratorium on the applicability of the Exception Reporting Requirement.[7] Specifically, registered firms are not required to deliver Form 24-101F1 to the CSA for so long as the moratorium is in effect, from July 1, 2020 to July 1, 2023.

Under the Exception Reporting Requirement, registered firms are required to deliver Form 24-101F1 to the CSA if less than 90% of trades executed by or for the registered firm during the quarter matched within the time required by NI 24-101. Form 24-101F1

[6] The proposed deadline also reflects the timing constraints imposed by the U.S. T+1 conversion date, which will likely not allow for a second CSA comment period. For this reason we have opted to propose what we understand to be the earliest viable deadline, on the basis that any public comments on the Proposed Revisions that the deadline is too early could be accommodated by moving the deadline to a later time in the final amendments to NI 24-102 *Clearing Agency Requirements*. By contrast, industry feedback requesting an earlier deadline would likely require a material change to the Proposed Revisions, triggering a second comment period that would jeopardize our ability to align the Canadian and American changeovers to T+1.

[7] In Ontario, the Minister approved a local rule providing for the three-year moratorium. The other Canadian CSA jurisdictions imposed a three-year moratorium through blanket orders.

requires registered firms, among other things, to explain why they did not meet the exception reporting thresholds and the steps they have taken to address the delay.[8]

CSA Staff have had discussions with stakeholders who confirmed that the Exception Reporting Requirement is burdensome and has limited utility. CSA Staff agree with these comments and have identified the revocation of the Exception Reporting Requirement as a means of permanently removing unnecessary regulatory burden. Given that the applicable information can be obtained from clearing agencies and matching service utilities, CSA Staff are of the view that the Exception Reporting Requirement no longer meaningfully contributes to the CSA's oversight.

Our proposed amendment would permanently repeal the Exception Reporting Requirement. We note, however, that the amendment would not relieve registered firms from complying with other requirements in NI 24-101 such as establishing, maintaining, and enforcing policies and procedures to achieve the matching threshold for institutional trades.

CSA Staff recognize that the reporting moratorium is set to expire prior to the proposed implementation date for the Proposed Amendments. We anticipate that the moratorium will be extended in all CSA jurisdictions until such time as the proposed amendment, if approved, comes into effect.

3. Other proposed amendments to NI 24-101

While our primary focus is to support the move to T+1 and reduce regulatory burden by eliminating the Exception Reporting Requirement, we have also proposed the following amendments to update and clarify NI 24-101:

- Adding a reference to cyber-resilience to the system requirements in s. 6.5a(iv) of Part 6 to reflect the increasing importance of cybersecurity to the core system requirements of matching service utilities;
- Updating the instructions for Exhibit N of Form F3 to remove the reference to …"during normal business hours; and
- Housekeeping amendments in the form of changing references to months in the various Form instructions from "MMM" to "MM" and correcting minor typographical punctuation errors.

4. Proposed changes to NI 24-101CP

In support of the above-noted rule amendment proposals, we propose the following changes to NI 24-101CP:

- Changing the references to the time of trade matching deadlines in s. 2.2;
- Clarifying the language of s. 2.3(1)(c) by changing "The Instrument does not provide" to "The Instrument does not prescribe";
- Removing the guidance associated with the Exception Reporting Requirement in Part 3;
- Updating the guidance on capacity, integrity, and security system requirements by removing the words "during normal business hours" from s. 4.5(3);
- Changing a reference to a T+2 settlement system to refer instead to a T+1 settlement system in s. 5.1;
- Updating references to IIROC Rules in the footnotes; and
- Housekeeping amendments such as minor typographical changes and updating the table of contents.

Part IV. Other matters

1. Authority for Instrument

In those jurisdictions in which amendments to the Instrument will be adopted, securities legislation provides the securities regulatory authority with authority in respect of the subject matter of the Instrument.

2. Alternatives considered to the Proposed Revisions

The alternative to the Proposed Revisions would be not to proceed with making amendments to the Instrument or changes to the CP to facilitate the move to T+1 settlement or to repeal the Exception Reporting Requirement, or to clarify and update provisions in the Instrument that are unclear or outdated. Not proceeding with the T+1-related Proposed Revisions would be inconsistent

[8] For more information about the three-year moratorium relating to the Exception Reporting Requirement, please see: https://www.osc.ca/en/securities-law/instruments-rules-policies/2/24-101/notice-amendment-national-instrument-24-101-institutional-trade-matching-and-settlement

with the desire to facilitate the move to T+1 and could lead to confusion in the markets with respect to settlement that could put investors at risk.

In addition, without the proposed amendments related to repealing the Exception Reporting Requirement, registered firms would be required to deliver Form 24-101F1, a form that the CSA has determined no longer meaningfully contributes to the CSA's daily oversight, resulting in undue regulatory burden.

3. Unpublished materials

In proposing revisions to the Instrument and the CP, we have not relied on any significant unpublished study, report, or other material.

4. Effective date for Proposed Revisions

If the Proposed Revisions are made following the comment process, all the Proposed Revisions will be brought into force or, in respect of the Companion Policy, be adopted at a date to be determined, to align with the transition in the United States.

Part V. Request for Comments

1. Questions

We welcome your comments on the Proposed Revisions. In addition to any general comments you may have, we also invite comments on the following specific questions:

a. In a T+1 settlement system, is an ITM deadline of 9 p.m. on T appropriate? Why or why not?

b. Are the data reporting requirements in Form 24-101F2 *Clearing Agency Quarterly Operations Report of Institutional Trade Reporting and Matching* and Form 24-101F5 *Matching Service Utility Quarterly Operations Report of Institutional Trade Reporting and Matching* of T at 12 p.m., T at 9 p.m., T+1 at 12 p.m., T+1 at 3 p.m., T+1 at 11:59 p.m., and after T+1 appropriate in a T+1 settlement system? Why or why not?

2. Comment process

Please submit your comments in writing on or before **March 17, 2023**. Please address your submission to all of the CSA as follows:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

Please deliver your comments only to the addresses that follow. Your comments will be forwarded to the remaining CSA member jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
E-mail: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of the written comments received during the comment period. All comments received will be posted on the websites of each of the Alberta Securities Commission at www.albertasecurities.com, the Autorité des marchés financiers at www.lautorite.qc.ca and the Ontario Securities Commission at www.osc.ca. Therefore, you should not include personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission. Questions with respect to this Notice and the Proposed Revisions may be referred to:

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Ontario Securities Commission
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Email: aferguson@osc.gov.on.ca

Stephanie Wakefield
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Jarrod Smith
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Dominique Martin
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Email: dominique.martin@lautorite.qc.ca

Francis Coche
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Deputy Director, Compliance and Oversight
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ANNEX A

PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 24-101 *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

AMENDING INSTRUMENT

1. National Instrument 24-101 Institutional Trade Matching and Settlement is amended by this Instrument.

2. Paragraph (b) of the definition "trade-matching party***" in section 1.1. is amended by adding ","" before "***unless the institutional investor is***".***

3. The definition "T+2***" in section 1.1 is repealed.***

4. Subsection 3.1(1) is amended by replacing "12 p.m. (noon) Eastern Time on T+1***" with "***9 p.m. Eastern Time on T***"***

5. Subsection 3.3(1) is amended by replacing "12 p.m. (noon) Eastern Time on T+1***" with "***9 p.m. Eastern Time on T***"***

6. Section 4.1 is repealed.

7. In Ontario, section 4.1.1 is deleted.

8. Subparagraph 6.5(a)(iv) is amended by adding "adequacy of cyber resilience and the***" before "***vulnerability of***"***

9. Form 24-101F1 Registered Firm Exception Report of DAP/RAP Trade Reporting and Matching is repealed.

10. Form 24-101F2 Clearing Agency Quarterly Operations Report of Institutional Trade Reporting and Matching is amended by

i. replacing "MMM***" with "***MM***", and***

ii. replacing the portion of the Form after the heading "Table 1 – Equity trades:***" and before the word "***Legend***" with the following:***

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T + 1 – noon								
T + 1 – 3 p.m.								
T + 1 – 11:59 p.m.								
> T + 1								
Total								

Table 2 – Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T + 1 – noon								
T + 1 – 3 p.m.								
T + 1 – 11:59 p.m.								
> T + 1								
Total								

11. Form 24-101F3 Matching Service Utility Notice of Operations is amended by

i. replacing "MMM***" with "***MM***" wherever it occurs, and***

ii. deleting the words "during normal business hours***" in the instructions for Exhibit N – Material systems failures.***

12. Form 24-101F4 Matching Service Utility Notice of Cessation of Operations is amended by replacing "MMM***" with "***MM***".***

13. Form 24-101F5 Matching Service Utility Quarterly Operations Report of Institutional Trade Reporting and Matching is amended by

i. replacing "MMM***" with "***MM***", and***

ii. replacing the portion of the Form after the heading "Table 1 – Equity trades:***" and before the word "***Legend***" with the following:***

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T + 1 – noon								
T + 1 – 3 p.m.								
T + 1 – 11:59 p.m.								
> T + 1								
Total								

Table 2 – Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T + 1 – noon								
T + 1 – 3 p.m.								
T + 1 – 11:59 p.m.								
> T + 1								
Total								

14. This instrument comes into force on •.

ANNEX B

PROPOSED CHANGES TO
COMPANION POLICY 24-101CP TO
NATIONAL INSTRUMENT 24-101 *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

CHANGING DOCUMENT

1. ***Companion Policy 24-101CP to National Instrument 24-101 Institutional Trade Matching and Settlement is changed by this Document.***

2. ***Footnote 3 in subsection 1.2(2) is changed by replacing "***Member Rule 800.49" ***with "***Rules, such as section 4753 of the IIROC Rules***".***

3. ***Footnote 5 in paragraph 1.2(3)(c) is changed by replacing "***IIROC Member Rule 200.1(h)" ***with "***section 3816 of the IIROC Rules***".***

4. ***Section 2.2 is changed by replacing "***12 p.m. (noon) Eastern Time on T+1***" with "***9 p.m. Eastern Time on T***".***

5. ***Paragraph 2.3(1)(c) is changed by replacing "***provide***" with "***prescribe***".***

6. ***Footnote 8 in subsection 2.4(2) is changed by replacing "***Member Rule 35" ***with "***IIROC Rule 2400 *Acceptable Back Office Arrangements****".***

7. ***Sections 3.1 and 3.2 are deleted.***

8. ***Section 3.3 "***Other Information Reporting Requirements***" is renumbered as section 3.1 and changed to "***Information Reporting Requirements***".***

9. ***Section 3.4 is deleted.***

10. ***Section 3.5 is renumbered as section 3.2 and changed by deleting "***registered firm,***".***

11. ***Subsection 4.5(3) is changed by deleting "***during normal business hours***".***

12. ***Section 5.1 is changed by replacing "***T+2***" with "***T+1***" and, in footnote 11, replacing "***IIROC Member Rule 800.27***" with "***section 4805 of the IIROC Rules***".***

ANNEX C

BLACKLINE TO
NATIONAL INSTRUMENT 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

Contents

Part 1
Definitions and Interpretation

Definitions

1.1 In this Instrument,

"clearing agency" means~~,~~ a recognized clearing agency that operates as a "securities settlement system" as defined in section 1.1 of National Instrument 24-102 *Clearing Agency Requirements;*

"custodian" means a person or company that holds securities for the benefit of another under a custodial agreement or other custodial arrangement;

"DAP/RAP trade" means a trade in a security

(a) executed for a client trading account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and

(b) for which settlement is completed on behalf of the client by a custodian other than the dealer that executed the trade;

"institutional investor" means a client of a dealer that has been granted DAP/RAP trading privileges by the dealer;

"marketplace" has the same meaning as in National Instrument 21-101 *Marketplace Operation;*

"matching service utility" means a person or company that provides centralized facilities for matching, but does not include a clearing agency;

"registered firm" means a person or company registered under securities legislation as a dealer or adviser;

"trade-matching agreement" means, for trades executed with or on behalf of an institutional investor, a written agreement entered into among trade-matching parties setting out the roles and responsibilities of the trade-matching parties in matching those trades and including, without limitation, a term by which the trade-matching parties agree to establish, maintain and enforce policies and procedures designed to achieve matching as soon as practical after a trade is executed;

"trade-matching party" means, for a trade executed with or on behalf of an institutional investor,

(a) a registered adviser acting for the institutional investor in processing the trade,

(b) if a registered adviser is not acting for the institutional investor in processing the trade, the institutional investor~~,~~ unless the institutional investor is

(i) an individual, or

(ii) a person or company with total securities under administration or management not exceeding $10 million,

(c) a registered dealer executing or clearing the trade, or

(d) a custodian of the institutional investor settling the trade;

"trade-matching statement" means, for trades executed with or on behalf of an institutional investor, a signed written statement of a trade-matching party confirming that it has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after a trade is executed;

"T" means the day on which a trade is executed;

"T+1" means the next business day following T;

"T+2" ~~means the second business day following T~~[Repealed].

"T+3" [Repealed September 5, 2017]

Interpretation — trade matching and clearing agency

1.2 (1) In this Instrument, matching is the process by which

(a) the details and settlement instructions of an executed DAP/RAP trade are reported, verified, confirmed and affirmed or otherwise agreed to among the trade-matching parties, and

(b) unless the process is effected through the facilities of a clearing agency, the matched details and settlement instructions are reported to a clearing agency.

(2) For the purposes of this Instrument, in Québec, a clearing agency includes a clearing house and a settlement system within the meaning of the *Securities Act* (Québec).

Part 2
Application

2.1 This Instrument does not apply to

(a) a trade in a security of an issuer that has not been previously issued or for which a prospectus is required to be sent or delivered to the purchaser under securities legislation,

(b) a trade in a security to the issuer of the security,

(c) a trade made in connection with a take-over bid, issuer bid, amalgamation, merger, reorganization, arrangement or similar transaction,

(d) a trade made in accordance with the terms of conversion, exchange or exercise of a security previously issued by an issuer,

(e) a trade that is a securities lending, repurchase, reverse repurchase or similar financing transaction,

(f) a purchase governed by Part 9, or a redemption governed by Part 10, of National Instrument 81-102 *Investment Funds,*

(g) a trade to be settled outside Canada,

(h) a trade in an option, futures contract or similar derivative, or

(i) a trade in a negotiable promissory note, commercial paper or similar short-term debt obligation that, in the normal course, would settle in Canada on T.

Part 3
Trade Matching Requirements

Matching deadlines for registered dealer

3.1 (1) A registered dealer must not execute a DAP/RAP trade with or on behalf of an institutional investor unless the dealer has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than 9 p.m. ~~12 p.m. (noon)~~ Eastern Time on T.~~+1.~~

(2) [Repealed]

Pre-DAP/RAP trade execution documentation requirement for dealers

3.2 A registered dealer must not open an account to execute a DAP/RAP trade for an institutional investor or accept an order to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

(a) enter into a trade-matching agreement with the dealer, or

(b) provide a trade-matching statement to the dealer.

Matching deadlines for registered adviser

3.3 (1) A registered adviser must not give an order to a dealer to execute a DAP/RAP trade on behalf of an institutional investor unless the adviser has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than 9 p.m.~~12 p.m. (noon)~~ Eastern Time on T.~~+1.~~

(2) [Repealed]

Pre-DAP/RAP trade execution documentation requirement for advisers

3.4 A registered adviser must not open an account to execute a DAP/RAP trade for an institutional investor or give an order to a dealer to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

(a) enter into a trade-matching agreement with the adviser, or

(b) provide a trade-matching statement to the adviser.

Part 4
Reporting by Registered Firms

Exception reporting requirement

4.1 ~~A registered firm must deliver Form 24-101F1 to the securities regulatory authority no later than 45 days after the end of a calendar quarter if~~

~~less than 90 per cent of the DAP/RAP trades executed by or for the registered firm during the quarter matched within the time required in Part 3, or~~

~~the DAP/RAP trades executed by or for the registered firm during the quarter that matched within the time required in Part 3 represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades.~~ [Repealed]

~~**Moratorium**~~

~~**4.1.1 Moratorium:** In Ontario, despite subsection 2(1) of Ontario Securities Commission Rule 11-501 *Electronic Delivery Of Documents To The Ontario Securities Commission*, section 4.1 does not apply to a registered firm beginning on July 1, 2020 and ending on July 1, 2023.[Lapsed in Ontario]~~

Part 5
Reporting Requirements for Clearing Agencies

5.1 A clearing agency must deliver Form 24-101F2 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

Part 6
Requirements for Matching Service Utilities

Initial information reporting

6.1 (1) A person or company must not carry on business as a matching service utility unless

(a) the person or company has delivered Form 24-101F3 to the securities regulatory authority, and

(b) at least 90 days have passed since the person or company delivered Form 24-101F3.

(2) During the 90 day period referred to in subsection (1), if there is a significant change to the information in the delivered Form 24-101F3, the person or company must inform the securities regulatory authority in writing immediately of that significant change by delivering an amendment to Form 24-101F3 in the manner set out in Form 24-101F3.

Anticipated change to operations

6.2 At least 45 days before implementing a significant change to any item set out in Form 24-101F3, a matching service utility must deliver an amendment to the information in the manner set out in Form 24-101F3.

Ceasing to carry on business as a matching service utility

6.3 (1) If a matching service utility intends to cease carrying on business as a matching service utility, it must deliver a report on Form 24-101F4 to the securities regulatory authority at least 30 days before ceasing to carry on that business.

(2) If a matching service utility involuntarily ceases to carry on business as a matching service utility, it must deliver a report on Form 24-101F4 as soon as practical after it ceases to carry on that business.

Ongoing information reporting and record keeping

6.4 (1) A matching service utility must deliver Form 24-101F5 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

(2) A matching service utility must keep such books, records and other documents as are reasonably necessary to properly record its business.

System requirements

6.5 For all of its core systems supporting trade matching, a matching service utility must

(a) consistent with prudent business practice, on a reasonably frequent basis, and, in any event, at least annually,

(i) make reasonable current and future capacity estimates,

(ii) conduct capacity stress tests of those systems to determine the ability of the systems to process transactions in an accurate, timely and efficient manner,

(iii) implement reasonable procedures to review and keep current the testing methodology of those systems,

(iv) review the adequacy of cyber resilience and the vulnerability of those systems and data centre computer operations to internal and external threats, including breaches of security, physical hazards and natural disasters, and

(v) maintain adequate contingency and business continuity plans;

(b) annually cause to be performed an independent review and written report, in accordance with generally accepted auditing standards, of the stated internal control objectives of those systems; and

(c) promptly notify the securities regulatory authority of a material failure of those systems.

Part 7
Trade Settlement

Trade settlement by registered dealer

7.1 (1) A registered dealer must not execute a trade unless the dealer has established, maintains and enforces policies and procedures designed to facilitate settlement of the trade on a date that is no later than the standard settlement date for the type of security traded prescribed by an SRO or the marketplace on which the trade would be executed.

(2) Subsection (1) does not apply to a trade for which terms of settlement have been expressly agreed to by the counterparties to the trade at or before the trade was executed.

Part 8
Requirements of Self-Regulatory Organizations and Others

8.1 A clearing agency or matching service utility must have rules or other instruments or procedures that are consistent with the requirements of Parts 3 and 7.

8.2 A requirement of this Instrument does not apply to a member of an SRO if the member complies with a rule or other instrument of the SRO that deals with the same subject matter as the requirement and that has been approved, non-disapproved, or non-objected to by the securities regulatory authority and published by the SRO.

Part 9
Exemption

Exemption

9.1 (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

Part 10
Effective Dates and Transition

Effective dates

10.1 [Lapsed]

Transition

10.2 [Lapsed]

[REPEALED]
Form 24-101F1
Registered Firm Exception Report of
DAP/RAP Trade Reporting and Matching

~~**CALENDAR QUARTER PERIOD COVERED:**~~

~~From: _____ to: _____~~

~~**REGISTERED FIRM IDENTIFICATION AND CONTACT INFORMATION:**~~

~~1. Full name of registered firm (if sole proprietor, last, first and middle name):~~

~~2. Name(s) under which business is conducted, if different from item 1 :~~

~~3a. Address of registered firm's principal place of business:~~

~~3b. Indicate below the jurisdiction of your principal regulator within the meaning of NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations:*~~

~~□ Alberta~~

~~□ British Columbia~~

~~□ Manitoba~~

~~□ New Brunswick~~

~~□ Newfoundland & Labrador~~

~~□ Northwest Territories~~

~~□ Nova Scotia~~

~~□ Nunavut~~

~~□ Ontario~~

~~□ Prince Edward Island~~

~~□ Québec~~

~~□ Saskatchewan~~

~~□ Yukon~~

~~3c. Indicate below all jurisdictions in which you are registered:~~

~~□ Alberta~~

~~□ British Columbia~~

~~□ Manitoba~~

~~□ New Brunswick~~

~~□ Newfoundland & Labrador~~

~~□ Northwest Territories~~

~~□ Nova Scotia~~

~~□ Nunavut~~

~~□ Ontario~~

~~□ Prince Edward Island~~

□ Québec

□ Saskatchewan

□ Yukon

4. Mailing address, if different from business address:

5. Type of business: O Dealer O Adviser

6. Category of registration:

7. (a) Registered Firm NRD number:

(b) If the registered firm is a participant of a clearing agency, the registered firm's CUID number:

8. Contact employee name:

Telephone number:

E-mail address:

INSTRUCTIONS:

Deliver this form for both equity and debt DAP/RAP trades together with Exhibits A, B and C pursuant to section 4.1 of the Instrument, covering the calendar quarter indicated above, within 45 days of the end of the calendar quarter if

(a) Less than 90 percent of the equity and/or debt DAP/RAP trades executed by or for you during the quarter matched within the time required in Part 3 of the Instrument, or

(b) The equity and/or debt DAP/RAP trades executed by or for you during the quarter that matched within the time required in Part 3 of the Instrument represent less than 90 percent of the aggregate value of the securities purchased and sold in those trades.

Include DAP/RAP trades in an exchange traded fund (ETF) security in the equity DAP/RAP trades statistics. Exhibit A(1) applies only to trades in equity and ETF securities. Exhibit A(2) applies only to trades in debt and other fixed-income securities.

EXHIBITS:

Exhibit A – DAP/RAP trade statistics for the quarter

If applicable, complete Table 1 or 2, or both, below for each calendar quarter. Deadline means noon Eastern time on T+1.

(1) Equity DAP/RAP trades (includes ETF trades)

Entered into the clearing agency by deadline (to be completed by dealers only)				*Matched (to be completed by dealers and advisers)*							
# of trades	**%**	**$ value of trades**	**%**	**# of trades matched**	**%**	**$ value of trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	%

(2) Debt DAP/RAP trades

Entered into the clearing agency by deadline (to be completed by dealers only)				Matched (to be completed by dealers and advisers)							
# of trades	**%**	**$ value of trades**	**%**	**# of trades matched**	**%**	**$ value of trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	**%**

Legend
"# of Trades" is the total number of transactions in the calendar quarter;
"$ Value of Trades" is the total value of the transactions (purchases and sales) in the calendar quarter.

Exhibit B – Reasons for not meeting exception reporting thresholds

Describe the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument. Reasons given could be one or more matters within your control or due to another trade-matching party or service provider. If you have insufficient information to determine the percentages, the reason for this should be provided. See also Companion Policy 24-101 to the Instrument.

Exhibit C – Steps to address delays

Describe what specific steps you are taking to resolve delays in the equity and/or debt DAP/RAP trade reporting and matching process in the future. Indicate when each of these steps is expected to be implemented. The steps being taken could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. If you have insufficient information to determine the percentages, the steps being taken to obtain this information should be provided. See also Companion Policy 24-101 to the Instrument.

CERTIFICATE OF REGISTERED FIRM

The undersigned certifies that the information given in this report on behalf of the registered firm is true and correct.

DATED at _____ this ____ day of _____ 20 ___

_____
(Name of registered firm - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

Form 24-101F2
Clearing Agency
Quarterly Operations Report of
Institutional Trade Reporting and Matching

CALENDAR QUARTER PERIOD COVERED:

From: _____ to: _____

IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of clearing agency:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of clearing agency's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 5.1 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Include client trades in an exchange-traded fund (ETF) security in the equity trades statistics.

Exhibits must be provided in an electronic file, in the following file format: " "CSV"" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

EXHIBITS:

1. DATA REPORTING

Exhibit A – Aggregate matched trade statistics

For client trades, provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report. Provide separate aggregate information for trades that have been reported or entered into your facilities as matched trades by a matching service utility.

Month/Year: _____ (MM~~M~~/YYYY)

Table 1 --- Equity trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T+1 – noon								
T + 1 – 3 p.m.								
T+1 – 11:59 p.m.								

~~T+2~~								
>T+1~~2~~								
Total								

Table 2 — Debt trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T – 9 p.m.								
T+1 – noon								
T + 1 – 3 p.m.								
T+1 – 11:59 p.m.								
~~T+2~~								
>T+1~~2~~								
Total								

Legend
"# of Trades" is the total number of transactions in the month;
"$ Value of Trades" is the total value of the transactions (purchases and sales) in the month.

Exhibit B – Individual matched trade statistics

Using the same format as Exhibit A above, provide the relevant information for each participant of the clearing agency in respect of client trades during the quarter that have been entered by the participant and matched within the timelines indicated in Exhibit A.

CERTIFICATE OF CLEARING AGENCY

The undersigned certifies that the information given in this report on behalf of the clearing agency is true and correct.

DATED at _____ this ____ day of _____ 20 ___

_____
(Name of clearing agency - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

Form 24-101F3
Matching Service Utility
Notice of Operations

DATE OF COMMENCEMENT INFORMATION:

Effective date of commencement of operations: _____ (DD/MM~~M~~/YYYY)

TYPE OF INFORMATION: O INITIAL SUBMISSION O AMENDMENT

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

6. Legal counsel:

   Firm name:

   Telephone number:

   E-mail address:

GENERAL INFORMATION:

1. Website address:

2. Date of financial year-end:_____ (DD/MM~~M~~/YYYY)

3. Indicate the form of your legal status (e.g., corporation, limited or general partnership), the date of formation, and the jurisdiction under which you were formed:

   Legal status: O CORPORATION O PARTNERSHIP
   O OTHER (SPECIFY):

   (a) Date of formation:_____ (DD/MM~~M~~/YYYY)

   (b) Jurisdiction and manner of formation:

4. Specify the general types of securities for which information is being or will be received and processed by you for transmission of matched trades to a clearing agency (e.g. exchange-traded domestic equity and debt securities, exchange-traded foreign equity and debt securities, equity and debt securities traded over-the-counter).

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.1 of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable must be furnished in lieu of the exhibit. To the extent information requested for an exhibit is identical to the information requested in another form that you have filed or delivered under National Instrument 21-101 *Marketplace Operation,* simply attach a copy of that other form and indicate in this form where such information can be found in that other form.

If you are delivering an amendment to Form 24-101F3 pursuant to section 6.1(2) or 6.2 of the Instrument, and the amended information relates to an exhibit that was delivered with such form, provide a description of the change and complete and deliver an updated exhibit.

EXHIBITS:

1. CORPORATE GOVERNANCE

Exhibit A – Constating documents

Provide a copy of your constating documents, including corporate by-laws and other similar documents, as amended from time to time.

Exhibit B – Ownership

List any person or company that owns 10 per cent or more of your voting securities or that, either directly or indirectly, through agreement or otherwise, may control your management. Provide the full name and address of each person or company and attach a copy of the agreement or, if there is no written agreement, briefly describe the agreement or basis through which the person or company exercises or may exercise control or direction.

Exhibit C – Officials

Provide a list of the partners, officers, directors or persons performing similar functions who presently hold or have held their offices or positions during the current and previous calendar year, indicating the following for each:

1. Name.

2. Title.

3. Dates of commencement and expiry of present term of office or position and length of time the office or position held.

4. Type of business in which each is primarily engaged and current employer.

5. Type of business in which each was primarily engaged in the preceding five years, if different from that set out in item 4.

6. Whether the person is considered to be an independent director.

Exhibit D – Organizational structure

Provide a narrative or graphic description of your organizational structure.

Exhibit E – Affiliated entities

For each person or company affiliated to you, provide the following information:

1. Name and address of affiliated entity.

2. Form of organization (e.g., association, corporation, partnership).

3. Name of jurisdiction and statute under which organized.

4. Date of incorporation in present form.

5. Brief description of nature and extent of affiliation or contractual or other agreement with you.

6. Brief description of business services or functions.

7. If a person or company has ceased to be affiliated with you during the previous year or ceased to have a contractual or other agreement relating to your operations during the previous year, provide a brief statement of the reasons for termination of the relationship.

2. FINANCIAL VIABILITY

Exhibit F – Audited financial statements

Provide your audited financial statements for the latest financial year and a report prepared by an independent auditor.

3. FEES

Exhibit G – Fee list, fee structure

Provide a complete list of all fees and other charges imposed, or to be imposed, by you for use of your services as a matching service utility, including the cost of establishing a connection to your systems.

4. ACCESS

Exhibit H – Users

Provide a list of all users or subscribers for which you provide or propose to provide the services of a matching service utility. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser or other party).

If applicable, for each instance during the past year in which any user or subscriber of your services has been prohibited or limited in respect of access to such services, indicate the name of each such user or subscriber and the reason for the prohibition or limitation.

Exhibit I – User contract

Provide a copy of each form of agreement governing the terms by which users or subscribers may subscribe to your services of a matching service utility.

5. SYSTEMS AND OPERATIONS

Exhibit J – System description

Describe the manner of operation of your systems for performing your services of a matching service utility (including, without limitation, systems that collect and process trade execution details and settlement instructions for matching of trades). This description should include the following:

1. The hours of operation of the systems, including communication with a clearing agency.

2. Locations of operations and systems (e.g., countries and cities where computers are operated, primary and backup).

3. A brief description in narrative form of each service or function performed by you.

6. SYSTEMS COMPLIANCE

Exhibit K – Security

Provide a brief description of the processes and procedures implemented by you to provide for the security of any system used to perform your services of a matching service utility.

Exhibit L – Capacity planning and measurement

1. Provide a brief description of capacity planning/performance measurement techniques and system and stress testing methodologies.

2. Provide a brief description of testing methodologies with users or subscribers. For example, when are user/subscriber tests employed? How extensive are these tests?

Exhibit M – Business continuity

Provide a brief description of your contingency and business continuity plans in the event of a catastrophe.

Exhibit N – Material systems failures

Provide a brief description of policies and procedures in place for reporting to regulators material systems failures. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes ~~during normal business hours~~.

Exhibit O – Independent systems audit

1. Briefly describe your plans to provide an annual independent audit of your systems.

2. If applicable, provide a copy of the last external systems operations audit report.

7. INTEROPERABILITY

Exhibit P – Interoperability agreements

List all other matching service utilities for which you have entered into an *interoperability* agreement. Provide a copy of all such agreements.

8. OUTSOURCING

Exhibit Q – Outsourcing firms

For each person or company (outsourcing firm) with whom or which you have an outsourcing agreement or arrangement relating to your services of a matching service utility, provide the following information:

1. Name and address of the outsourcing firm.

2. Brief description of business services or functions of the outsourcing firm.

3. Brief description of the outsourcing firm's contingency and business continuity plans in the event of a catastrophe.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this _____ day of _____ 20 ___

_____
(Name of matching service utility - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

Form 24-101F4
Matching Service Utility
Notice of Cessation of Operations

DATE OF CESSATION INFORMATION:

Type of information: O VOLUNTARY CESSATION

O INVOLUNTARY CESSATION

Effective date of operations cessation: _____ (DD/MM~~M~~/YYYY)

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Legal counsel:

   Firm name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.3 of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable must be furnished in lieu of the exhibit.

EXHIBITS:

Exhibit A

Provide the reasons for your cessation of business.

Exhibit B

Provide a list of all the users or subscribers for which you provided services during the last 30 days prior to you ceasing business. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser, or other party).

Exhibit C

List all other matching service utilities for which an *interoperability* agreement was in force immediately prior to cessation of business.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this _____ day of _____ 20 ____

_____
(Name of matching service utility - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

Form 24-101F5
Matching Service Utility
Quarterly Operations Report of
Institutional Trade Reporting and Matching

CALENDAR QUARTER PERIOD COVERED:

From: _____ to: _____

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.4 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Include DAP/RAP trades in an exchange-traded fund (ETF) security in the equity DAP/RAP trades statistics.

Exhibits must be reported in an electronic file, in the following format: "CSV" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

If any information specified is not available, a full statement describing why the information is not available must be separately furnished.

EXHIBITS

1. SYSTEMS REPORTING

Exhibit A – External systems audit

If an external audit report on your core systems was prepared during the quarter, provide a copy of the report.

Exhibit B – Material systems failures reporting

Provide a brief summary of all material systems failures that occurred during the quarter and for which you were required to notify the securities regulatory authority under section 6.5(c) of the Instrument.

2. DATA REPORTING

Exhibit C – Aggregate matched trade statistics

Provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report.

Month/Year: _____ (MM~~M~~/YYYY)

Table 1 — Equity trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T~~+1 - noon~~ – 9 p.m.								
T+1 – noon								
T + 1 – 3 p.m.								
T+1 – 11:59 p.m. ~~T+2~~								
>T+1~~2~~								
Total								

Table 2 — Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T – noon								
T~~+1 - noon~~ – 9 p.m.								
T+1 – noon								
T + 1 – 3 p.m.								
T+1 – 11:59 p.m. ~~T+2~~								
>T+1~~2~~								
Total								

Legend
"# of Trades" is the total number of transactions in the month;
"$ Value of Trades" is the total value of the transactions (purchases and sales) in the month.

Exhibit D – Individual matched trade statistics

Using the same format as Exhibit C above, provide the relevant information for each user or subscriber in respect of trades during the quarter that have been entered by the user or subscriber and matched within the timelines indicated in Exhibit C.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this ____ day of _____ 20 ___

_____
(Name of matching service utility- type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

ANNEX D

BLACKLINE TO
COMPANION POLICY 24-101CP *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

Contents

PART 1
INTRODUCTION, PURPOSE AND DEFINITIONS[1]

Purpose of Instrument

1.1 National Instrument 24-101—*Institutional Trade Matching and Settlement* (Instrument) provides a framework in provincial securities regulation for more efficient and timely trade settlement processing, particularly institutional trades. The increasing volumes and dollar values of securities traded in Canada and globally by institutional investors mean existing back-office systems and procedures of market participants are challenged to meet post-execution processing demands. New requirements are needed to address the increasing risks. The Instrument is part of a broader initiative in the Canadian securities markets to implement straight-through processing (STP).[2]

General explanation of matching, clearing and settlement

1.2 (1) *Parties to institutional trade* — A typical trade with or on behalf of an institutional investor might involve at least three parties:

- a registered adviser or other *buy-side* manager acting for an institutional investor in the trade—and often acting on behalf of more than one institutional investor in the trade (i.e., multiple underlying institutional client accounts)—who decides what securities to buy or sell and how the assets should be allocated among the client accounts;
- a registered dealer (including an Alternative Trading System registered as a dealer) responsible for executing or clearing the trade; and
- any financial institution or registered dealer (including under a *prime brokerage* arrangement) appointed to hold the institutional investor's assets and settle trades.

(2) *Matching* — A first step in settling a securities trade is to ensure that the buyer and the seller agree on the details of the transaction, a process referred to as trade confirmation and affirmation or trade *matching*[3] A registered dealer who executes trades with or on behalf of others is required to report and confirm trade details, not only with the counterparty to the trade, but also with the client for whom it acted or the client with whom it traded (in which case, the client would be the counterparty). Similarly, a registered adviser or other buy-side manager is required to report trade details and provide settlement instructions to its custodian. The parties must agree on trade details — sometimes referred to as *trade data elements* — as soon as possible so that errors and discrepancies in the trades can be discovered early in the clearing and settlement process.

(3) *Matching process* — Verifying the trade data elements is necessary to *match* a trade executed on behalf of or with an institutional investor. Matching occurs when the relevant parties to the trade have, after verifying the trade data elements, reconciled or agreed to the details of the trade. Matching also requires that any custodian holding the institutional investor's assets be in a position to affirm the trade so that the trade can be ready for the clearing and settlement process through the facilities of the clearing agency. To illustrate, trade matching usually includes these following activities:

(a) The registered dealer notifies the buy-side manager that the trade was executed.

(b) The buy-side manager advises the dealer and any custodian(s) how the securities traded are to be allocated among the underlying institutional client accounts managed by the buy-side manager.[4] For so-called *block*

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1 In this Companion Policy, the terms "CSA", "we", "our" or "us" are used interchangeably and generally mean the same thing as *Canadian securities regulatory authorities* defined in National Instrument 14-101 — *Definitions.*

2 For a discussion of Canadian STP initiatives, see Canadian Securities Administrators' (CSA) Discussion Paper 24-401 on *Straight-through Processing* and Request for Comments, April 16, 2004 (2004) 27 OSCB 3971 to 4031 (Discussion Paper 24-401); and CSA Notice 24-301—*Responses to Comments Received on Discussion Paper 24-401 on Straight-through Processing, Proposed National Instrument 24-101 Post-trade Matching and Settlement, and Proposed Companion Policy 24-101CP to National Instrument 24-101 Post-trade Matching and Settlement,* February 11, 2005 (2005) 28 OSCB 1509 to 1526.

3 The processes and systems for matching of "non-institutional trades" in Canada have evolved over time and become automated, such as retail trades on an exchange, which are matched or *locked-in* automatically at the exchange, or direct non-exchange trades between two participants of a clearing agency, which are generally matched through the facilities of the clearing agency. Dealer to dealer trades are subject to Investment Industry Regulatory Organization of Canada (IIROC) Rules, such as IIROC Rule 4753~~Member Rule 800.49~~, which provides that trades in non-exchange traded securities (including government debt securities) among dealers must be entered or accepted or rejected through the facilities of an "Acceptable Trade Matching Utility" by no later than 6 pm on the day of the trade.

4 We remind registered advisers of their obligations to ensure fairness in allocating investment opportunities among their clients. An adviser must establish, maintain and apply policies and procedures that provide reasonable assurance that the firm and each individual acting on its behalf fairly allocates investment opportunities among its clients. If the adviser allocates investment opportunities among its clients, the firm's fairness policies should, at a minimum, indicate the method used to allocate the following: (i) price and commission among client orders when trades are bunched or blocked; (ii) block trades and initial public offerings (IPOs) among client accounts, and (iii) block trades and IPOs among client orders that are partially filled, such as on a pro-rata basis. The fairness policies should also address any other situation where investment opportunities must be allocated.
A summary of the fairness policies must be delivered to each client at the time the adviser opens an account for the client, and in a timely manner if there is a significant change to the summary last delivered to the client.
See sections 14.3 and 14.10 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and section 14.10 of the Companion Policy to NI 31-103.

settlement trades, the dealer sometimes receives allocation information from the buy-side manager based only on the number of custodians holding institutional investors' assets instead of on the actual underlying institutional client accounts managed by the buy-side manager.

(c) The dealer reports and confirms the trade details to the buy-side manager and clearing agency. The trade details required to be confirmed for matching, clearing and settlement purposes are generally similar to the information required in the customer trade confirmation delivered pursuant to securities legislation or self-regulatory organization (SRO) rules.[5]

(d) The custodian or custodians of the assets of the institutional investor verify the trade details and settlement instructions against available securities or funds held for the institutional investor. After trade details are agreed, the buy-side manager instructs the custodian(s) to release funds and/or securities to the dealer through the facilities of the clearing agency.

(4) *Clearing and settlement* — The *clearing* of a trade begins after the execution of the trade. After matching is completed, clearing will involve the calculation of the mutual obligations of participants for the exchange of securities and money—a process which generally occurs within the facilities of a clearing agency. The *settlement* of a trade is the moment when the securities are transferred finally and irrevocably from one participant to another in exchange for a corresponding transfer of money. In the context of settlement of a trade through the facilities of a clearing agency, often acting as central counterparty, settlement will be the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and its participants. Through the operation of novation and set-off in law or by contract, the clearing agency becomes a counterparty to each trade so that the mutual obligation to settle the trade is between the clearing agency and each participant.

Section 1.1 - Definitions and scope

1.3 (1) *Clearing agency* — While the terms "clearing agency" and "recognized clearing agency" are generally defined in securities legislation,[6] we have defined *clearing agency* for the purposes of the Instrument to narrow its scope to a recognized clearing agency that operates as a securities settlement system. The term *securities settlement system* is defined in National Instrument 24-102 *Clearing Agency Requirements* as a system that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Today, the definition of *clearing agency* in the Instrument applies to CDS Clearing and Depository Services Inc. **(CDS).** For the purposes of the Instrument, a clearing agency includes, in Québec, a clearing house and settlement system within the meaning of the *Securities Act* (Québec). See subsection 1.2(2).

(2) *Custodian* — While investment assets are sometimes held directly by investors, most are held on behalf of the investor by or through securities accounts maintained with a financial institution or dealer. The definition of *custodian* includes both a financial institution (non-dealer custodian) and a dealer acting as custodian (dealer custodian). Most institutional investors, such as pension and mutual funds, hold their assets through custodians that are prudentially-regulated financial institutions. However, others (like hedge funds) often maintain their investment assets with dealers under so-called *prime-brokerage* arrangements. A financial institution or dealer in Canada need not necessarily have a direct contractual relationship with an institutional investor to be considered a custodian of portfolio assets of the institutional investor for the purposes of the Instrument if it is acting as sub-custodian to a global custodian or international central securities depository.

(3) *Institutional investor* — A client of a dealer that has been granted DAP/RAP trading privileges is an institutional investor. This will likely be the case whenever a client's investment assets are held by or through securities accounts maintained with a custodian instead of the client's dealer that executes its trades. While the expression "institutional trade" is not defined in the Instrument, we use the expression in this Companion Policy to mean broadly any DAP/RAP trade.

(4) *DAP/RAP trade* — The concepts *delivery against payment* and *receipt against payment* are generally understood by the industry. They are also defined terms in the Notes and Instructions (Schedule 4) to IIROC Form 1, Part II. All DAP/RAP trades, whether settled by a non-dealer custodian or a dealer custodian, are subject to the requirements of Part 3 of the Instrument. The definition of DAP/RAP trade excludes a trade for which settlement is made on behalf of a client by a custodian that is also the dealer that executed the trade.

(5) *Trade-matching party* — An institutional investor, whether Canadian or foreign-based, may be a trade-matching party. As such, it, or its adviser that is acting for it in processing a trade, should enter into a trade-matching agreement or provide a trade-matching statement under Part 3 of the Instrument. However, an institutional investor that is an individual or a person or company with total securities under administration or management not exceeding $10 million, is not a trade-matching party. A custodian that settles a trade on behalf of an institutional investor is also a trade-matching party and should enter into a trade-matching agreement or provide a trade-matching statement. However, a foreign global custodian or international central securities depository that holds Canadian portfolio assets through a local Canadian sub-custodian would not normally be considered a trade-matching party if it is not a clearing agency participant or otherwise directly involved in settling the trade in Canada.

[5] See, for example, section 14.12 of NI 31-103 and IIROC ~~Member~~ Rule ~~200.1(h)~~3816 *Trade Confirmations*.
[6] See, for example, s. 1(1) of the *Securities Act* (Ontario).

(6) *Application of Instrument* — Part 2 of the Instrument enumerates certain types of trades that are not subject to the Instrument.

PART 2
TRADE MATCHING REQUIREMENTS

Trade data elements

2.1 Trade data elements that must be verified and agreed to are those identified by the SROs or the best practices and standards for institutional trade processing established and generally adopted by the industry. See section 2.4 of this Companion Policy. To illustrate, trade data elements that should be transmitted, compared and agreed to may include the following:

(a) *Security identification:* standard numeric identifier, currency, issuer, type/class/series, market ID; and

(b) *Order and trade information:* dealer ID, account ID, account type, buy/sell indicator, order status, order type, unit price/face amount, number of securities/quantity, message date/time, trade transaction type, commission, accrued interest (fixed income), broker settlement location, block reference, net amount, settlement type, allocation sender reference, custodian, payment indicator, IM portfolio/account ID, quantity allocated, and settlement conditions.

Trade matching deadlines for registered firms

2.2 The obligation of a registered dealer or registered adviser to establish, maintain and enforce policies and procedures, pursuant to sections 3.1 and 3.3 of the Instrument, will require the dealer or adviser to take reasonable steps to achieve matching as soon as practical after the DAP/RAP trade is executed and in any event no later than ~~12~~ 9 p.m. ~~(noon)~~ Eastern Time on T~~+1~~. The policies and procedures requirement of Part 3 of the Instrument is consistent with the overarching obligation of a registered firm to manage the risks associated with its business in accordance with prudent business practices.[7]

Choice of trade-matching agreement or trade-matching statement

2.3 (1) *Establishing, maintaining and enforcing policies and procedures —*

(a) Under sections 3.2 and 3.4, a registered dealer's or registered adviser's policies and procedures must be designed to encourage trade-matching parties to (i) enter into a trade-matching agreement with the dealer or adviser or (ii) provide or make available a trade-matching statement to the dealer or adviser. The purpose of the trade-matching agreement or trade-matching statement is to ensure that all trade-matching parties have established, maintain, and enforce appropriate policies and procedures designed to achieve matching of a DAP/RAP trade as soon as practical after the trade is executed. If the dealer or adviser is unable to obtain a trade-matching agreement or statement from a trade-matching party, it should document its efforts in accordance with its policies and procedures.

(b) The parties described in paragraphs (a), (b), (c), and (d) of the definition "trade-matching party" in section 1.1 of the Instrument need not necessarily all be involved in a trade for the requirements of sections 3.2 and 3.4 of the Instrument to apply. There is no need for an adviser to be involved in the matching process of an institutional investor's trades for the requirement to apply. In this case, the trade-matching parties that should have appropriate policies and procedures in place would be the institutional investor, the dealer and the custodian.

(c) The Instrument does not ~~provide~~ prescribe the form of a trade-matching agreement or trade-matching statement other than it be in writing. Subsections (2) and (3) below provide some guidance on these documents. A trade-matching agreement or trade-matching statement should be signed by a senior executive officer of the entity to ensure its policies and procedures are given sufficient attention and priority within the entity's senior management. A senior executive officer would include any individual who is (a) the chair of the entity, if that individual performs the functions of the office on a full time basis, (b) a vice-chair of the entity, if that individual performs the functions of the office on a full time basis, (c) the president, chief executive officer or chief operating officer of the entity, and (d) a senior vice-president of the entity in charge of the entity's operations and back-office functions.

(2) *Trade-matching agreement —*

(a) A registered dealer or registered adviser need only enter into one trade-matching agreement with the other trade-matching parties for new or existing DAP/RAP trading accounts of an institutional investor for all future trades in relation to such account. The trade-matching agreement may be a single multi-party agreement among the trade-matching parties, or a network of bilateral agreements. A single trade-matching agreement is also

[7] See s. 11.1 of NI 31-103, which requires registered firms to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices.

sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. If the dealer or adviser uses a trade-matching agreement, the form of such agreement may be incorporated into the institutional account opening documentation and may be modified from time to time with the consent of the parties.

(b) The agreement must specify the roles and responsibilities of each of the trade-matching parties and should describe the minimum standards and best practices to be incorporated into the policies and procedures that each party has in place. This should include the timelines for accomplishing the various steps and tasks of each trade-matching party for timely matching. For example, the agreement may include, as applicable, provisions dealing with:

For the dealer executing and/or clearing the trade:

- how and when the notice of trade execution (NOE) is to be given to the institutional investor or its adviser, including the format and content of the NOE (e.g., electronic);
- how and when trade details are to be entered into the dealer's internal systems and the clearing agency's systems;
- how and when the dealer is to correct or adjust trade details entered into its internal systems or the clearing agency's systems as may be required to agree to trade details with the institutional investor or its adviser;
- general duties of the dealer to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

For the institutional investor or its adviser:

- how and when to review the NOE's trade details, including identifying any differences from its own records;
- how and when to notify the dealer of trade differences, if any, and resolve such differences;
- how and when to determine and communicate settlement details and account allocations to the dealer and/or custodian(s);
- general duties of the institutional investor or its adviser to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

For the custodian settling the trade at the clearing agency:

- how and when to receive trade details and settlement instructions from institutional investors or their advisers;
- how and when to review and monitor trade details submitted to the clearing agency on an ongoing basis for items entered and awaiting affirmation or challenge;
- how and when to report to institutional investors or their advisers on an ongoing basis changes to the status of a trade and the matching of a trade;
- general duties of the custodian to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

(3) *Trade-matching statement* — A single trade-matching statement is sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. A registered dealer or registered adviser may accept a trade-matching statement signed by a senior executive officer of a trade-matching party without further investigation and may continue to rely upon the statement for all future trades in an account, unless the dealer or adviser has knowledge that any statements or facts set out in the statement are incorrect. Mass mailings or emails of a trade-matching statement, or the posting of a single uniform trade-matching statement on a ~~Website~~website, would be acceptable ways of providing the statement to other trade-matching parties. A registered firm may rely on a trade-matching party's representations that the trade-matching statement was provided to the other trade-matching parties without further investigation.

(4) *Monitoring and enforcement of undertakings in trade-matching documentation* — Registered dealers and advisers should use reasonable efforts to monitor compliance with the terms or undertakings set out in the trade-matching agreements or trade-matching statements in accordance with their policies and procedures.

Registered dealers and advisers should also take active steps to address problems if the policies and procedures of other trade-matching parties appear to be inadequate and are causing delays in the matching process. Such steps might include imposing

monetary incentives (e.g. penalty fees) or requesting a third party review or assessment of the party's policies and procedures. This approach could enhance cooperation among the trade-matching parties leading to the identification of the root causes of failures to match trades on time.

Determination of appropriate policies and procedures

2.4 (1) *Best practices* — We are of the view that, when establishing appropriate policies and procedures, a party should consider the industry's generally adopted best practices and standards for institutional trade processing. It should also include those policies and procedures into its regulatory compliance and risk management programs.

(2) *Different policies and procedures* — We recognize that appropriate policies and procedures may not be the same for all registered dealers, registered advisers and other market participants because of the varying nature, scale and complexity of a market participant's business and risks in the trading process. For example, policies and procedures designed to achieve matching may differ among a registered dealer that acts as an "introducing broker" and one that acts as a "carrying broker".[8] In addition, if a dealer is not a clearing agency participant, the dealer's policies and procedures to expeditiously achieve matching should be integrated with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer. Establishing appropriate policies and procedures may require registered dealers, registered advisers and other market participants to upgrade their systems and enhance their interoperability with others.[9]

Use of matching service utility

2.5 The Instrument does not require the trade-matching parties to use the facilities or services of a matching service utility to accomplish matching of trades within the prescribed timelines. However, if such facilities or services are made available in Canada, the use of such facilities or services may help a trade-matching party's compliance with the Instrument's requirements.

PART 3
INFORMATION REPORTING REQUIREMENTS

~~**Exception reporting for registered firms**~~

~~**3.1**~~

~~(a) Part 4 of the Instrument requires a registered firm to complete and deliver to the securities regulatory authority Form 24-101F1 and related exhibits. Form 24-101F1 need only be delivered if less than 90 percent of the DAP/RAP trades (by volume and value) executed by or for the registered firm in any given calendar quarter have matched within the time required by the Instrument. Tracking of a registered firm's trade matching statistics may be outsourced to a third party service provider, including a clearing agency or custodian. However, despite the outsourcing arrangement, the registered firm retains full legal and regulatory liability and accountability to the Canadian securities regulatory authorities for its exception reporting requirements. If a registered firm has insufficient information to determine whether it has achieved the percentage target of matched DAP/RAP trades in any given calendar quarter, it must explain in Form 24-101F1 the reasons for this and the steps it is taking to obtain this information in the future.~~

~~(b) Form 24-101F1 requires registered firms to provide aggregate quantitative information on their equity and debt DAP/RAP trades.~~

~~DAP/RAP trades in exchange-traded funds are reportable in the equities category of DAP/RAP trades. Form 24-101F1 should only be submitted for DAP/RAP trades for the type of security (equity or debt) that did not meet the 90 percent threshold by the relevant timeline. If a registered firm does not meet the threshold for both equity and debt DAP/RAP trades, then it should submit the Form for both equity and debt DAP/RAP trades (i.e., by completing both tables in Exhibit A of Form 24-101F1). If the firm does not meet the threshold only for one type of security (i.e., for equity but not debt, or for debt but not equity), it should only submit the Form for the one type of security, by completing only one of the tables in Exhibit A of Form 24-101F1. A registered firm must also provide qualitative information on the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument and the specific steps they are taking to resolve delays in the trade reporting and matching process in the future. Registered firms should provide information that is relevant to their circumstances. For example, dealers should provide information demonstrating problems with NOEs or reporting of trade details to the clearing agency. Reasons given for the failure could be one or more matters within the registered firm's control or due to another trade-matching party or service provider.~~

[8] See IIROC ~~Member~~ Rule ~~35~~ 2400 — ~~*Introducing Broker / Carrying Broker Arrangements.*~~*Acceptable Back Office Arrangements.*

[9] See Discussion Paper 24-401, at p. 3984, for a discussion of *interoperability.*

~~(c) The steps being taken by a registered firm to resolve delays in the matching process could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. Dealers should confirm what steps they have taken to inform and encourage their clients to comply with the requirements or undertakings of the trade-matching agreement and/or trade-matching statement. They should confirm what problems, if any, they have encountered with their clients, other trade-matching parties or service providers. They should identify the trade-matching party or service provider that appears to be consistently not meeting matching deadlines or to have no reasonable policies and procedures in place. Advisers should provide similar information, including information demonstrating problems with communicating allocations or with service providers or custodians.~~

~~Regulatory reviews of registered firm exception reports~~

~~3.2~~

~~(a) We will review the completed Forms 24-101F1 on an ongoing basis to monitor and assess compliance by registered firms with the Instrument's matching requirements. We will identify problem areas in matching, including identifying trade-matching parties that have no or weak policies and procedures in place to ensure matching of trades is accomplished within the time prescribed by Part 3 of the Instrument. Monitoring and assessment of registered firm matching activities may be undertaken by the SROs in addition to, or in lieu of, reviews undertaken by us.~~

~~(b) The Canadian securities regulatory authorities may consider the consistent inability to meet the matching percentage target as evidence that either the policies and procedures of one or more of the trade-matching parties have not been properly designed or, if properly designed, have been inadequately complied with. Consistently poor qualitative reporting may also be considered as evidence of poorly designed or implemented policies and procedures. See also section 2.3(4) of this Companion Policy for a further discussion of our approach to compliance and enforcement of the trade-matching requirements of the Instrument.~~

I~~Other i~~nformation reporting requirements

3.3~~1~~ Clearing agencies and matching service utilities are required to include in Forms 24-101F2 and 24-101F5 certain trade-matching information in respect of their participants users or subscribers. The purpose of this information is to facilitate monitoring and enforcement by the Canadian securities regulatory authorities or SROs of the Instrument's matching requirements.

~~Forms delivered in electronic form~~

~~3.4~~ ~~Registered firms are encouraged to complete their Form 24-101F1 on-line on the CSA's website at the following URL addresses:~~

~~In English: http://www.securitiesadministrators.ca/industry_resources.aspx?id=52~~

~~In French: http://www.autorites-valeurs-mobilieres.ca/ressources_professionnelles.aspx?id=52~~

Confidentiality of information

3.2~~5~~ The forms delivered to the securities regulatory authority by a ~~registered firm,~~ clearing agency and matching service utility under the Instrument will be treated as confidential by us, subject to the applicable provisions of the freedom of information and protection of privacy legislation adopted by each province and territory. We are of the view that the forms contain intimate financial, commercial and technical information and that the interests of the providers of the information in non-disclosure outweigh the desirability of making such information publicly available. However, we may share the information with SROs and may publicly release aggregate industry-wide matching statistics on equity and debt DAP/RAP trading in the Canadian markets.

PART 4
REQUIREMENTS FOR MATCHING SERVICE UTILITIES

Matching service utility

4.1 (1) Part 6 of the Instrument sets out reporting, systems capacity, and other requirements of a matching service utility. For the purposes of the Instrument, the term *matching service utility* expressly excludes a clearing agency. A matching service utility would be any entity that provides the services of a post-execution centralized matching facility for trade-matching parties. It may use technology to match in real-time trade data elements throughout a trade's processing lifecycle. A matching service utility would not include a registered dealer who offers "local" matching services to its institutional investor-clients. In Québec, a person or company that seeks to provide centralized facilities for matching must, in addition to the requirements of the Instrument, apply for recognition as a matching service utility or for an exemption from the requirement to be recognized as a matching service utility pursuant to the *Securities Act* (Québec) or *Derivatives Act* (Québec). In certain other jurisdictions, in addition to the requirements

of the Instrument, such person or company may be required to apply either for recognition as a clearing agency or for an exemption from the requirement to be recognized as a clearing agency.[10]

(2) A matching service utility would be viewed by us as an important infrastructure system involved in the clearing and settlement of securities transactions. We believe that, while a matching service utility operating in Canada would largely enhance operational efficiency in the capital markets, it would raise certain regulatory concerns. Comparing and matching trade data are complex processes that are inextricably linked to the clearance and settlement process. A matching service utility concentrates processing risk in the entity that performs matching instead of dispersing that risk more to the dealers and their institutional investor-clients. Accordingly, we believe that the breakdown of a matching service utility's ability to accurately verify and match trade information from multiple market participants involving large numbers of securities transactions and sums of money could have adverse consequences for the efficiency of the Canadian securities clearing and settlement system. The requirements of the Instrument applicable to a matching service utility are intended to address these risks.

Initial information reporting requirements for a matching service utility

4.2 Subsection 6.1(1) of the Instrument requires any person or company that carries on or intends to carry on business as a matching service utility to deliver Form 24-101F3 to the securities regulatory authority. We will review Form 24-101F3 to determine whether the person or company that delivered the form is an appropriate person or company to act as a matching service utility for the Canadian capital markets. We will consider a number of factors when reviewing the form, including:

(a) the performance capability, standards and procedures for the transmission, processing and distribution of details of trades executed on behalf of institutional investors;

(b) whether market participants generally may obtain access to the facilities and services of the matching service utility on fair and reasonable terms;

(c) personnel qualifications;

(d) whether the matching service utility has sufficient financial resources for the proper performance of its functions;

(e) the existence of, and interoperability arrangements with, another entity performing a similar function for the same type of security; and

(f) the systems report referred to in section 6.5(b) of the Instrument.

Change to significant information

4.3 Under section 6.2 of the Instrument, a matching service utility is required to deliver to the securities regulatory authority an amendment to the information provided in Form 24-101F3 at least 45 days before implementing a significant change involving a matter set out in Form 24-101F3. In our view, a significant change includes a change to the information contained in the General Information items 1-10 and Exhibits A, B, E, G, I, J, O, P and Q of Form 24-101F3.

Ongoing information reporting and other requirements applicable to a matching service utility

4.4 (1) Ongoing quarterly information reporting requirements will allow us to monitor a matching service utility's operational performance and management of risk, the progress of interoperability in the market, and any negative impact on access to the markets. A matching service utility will also provide trade matching data and other information to us so that we can monitor industry compliance.

(2) Completed forms delivered by a matching service utility will provide useful information on whether it is:

(a) developing fair and reasonable linkages between its systems and the systems of any other matching service utility in Canada that, at a minimum, allow parties to executed trades that are processed through the systems of both matching service utilities to communicate through appropriate, effective interfaces;

(b) negotiating with other matching service utilities in Canada fair and reasonable charges and terms of payment for the use of interface services with respect to the sharing of trade and account information; and

(c) not unreasonably charging more for use of its facilities and services when one or more counterparties to trades are customers of other matching service utilities than the matching service utility would normally charge its customers for use of its facilities and services.

[10] See, for example, the scope of the definition of "clearing agency" in s. 1(1) of the *Securities Act* (Ontario), which includes providing centralized facilities "for comparing data respecting the terms of settlement of a trade or transaction".

Capacity, integrity and security system requirements

4.5 (1) The activities in section 6.5(a) of the Instrument must be carried out at least once a year. We would expect these activities to be carried out even more frequently if there is a significant change in trading volumes that necessitates that these functions be carried out more frequently in order to ensure that the matching service utility can appropriately service its clients.

(2) The independent review contemplated by section 6.5(b) of the Instrument should be performed by competent and independent audit personnel, in accordance with generally accepted auditing standards. Depending on the circumstances, we would consider accepting a review performed and written report delivered pursuant to similar requirements of a foreign regulator to satisfy the requirements of this section. A matching service utility that wants to advocate for that result must submit a request for discretionary relief.

(3) The notification of a material systems failure under section 6.5(c) of the Instrument should be provided promptly from the time the incident was identified as being material and should include the date, cause and duration of the interruption and its general impact on users or subscribers. We consider promptly to mean within one hour from the time the incident was identified as being material. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes ~~during normal business hours~~.

PART 5
TRADE SETTLEMENT

Trade settlement by dealer

5.1 Section 7.1 of the Instrument is intended to support and strengthen the general settlement cycle rules of the SROs and marketplaces. Current SRO and marketplace rules mandate a standard T+1~~2~~ settlement cycle period for most transactions in equity and long-term debt securities.[11] If a dealer is not a participant of a clearing agency, the dealer's policies and procedures to facilitate the settlement of a trade should be combined with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer.

PART 6
REQUIREMENTS OF SELF-REGULATORY ORGANIZATIONS AND OTHERS

Standardized documentation

6.1 Without limiting the generality of section 8.2 of the Instrument, an SRO may require its members to use, or recommend that they use, a standardized form of trade-matching agreement or trade-matching statement prepared or approved by the SRO, and may negotiate on behalf of its members with other trade-matching parties and industry associations to agree on the standardized form of trade-matching agreement or trade-matching statement to be used by all relevant sectors in the industry (dealers, buy-side managers and custodians).

[11] See, for example, IIROC ~~Member~~ Rule 4800 ~~800.27~~ and TSX Rule 5-103(1).

ANNEX E

LOCAL MATTERS

ONTARIO SECURITIES COMMISSION NOTICE

1. Introduction

The CSA have proposed revisions to NI 24-101. The Proposed Revisions are described in the related CSA Notice and Request for Comments – "Proposed Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* and Proposed Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement*" (**CSA Notice**) that precedes this notice.

Unless otherwise defined in this notice, defined terms or expressions used in this notice share the meanings provided in the CSA Notice.

The Ontario Securities Commission (**Commission**) is publishing this notice to supplement the CSA Notice.

2. Substance and purpose of the Proposed Revisions

Please see the CSA Notice.

3. Summary of the Proposed Revisions

Please see the CSA Notice.

4. Authority for the proposed amendments to the Instrument

The proposed amendments to the Instrument described in the CSA Notice will be made under the following provisions of the *Securities Act* (Ontario) (**Act**):

- Paragraph 11 of subsection 143(1) of the Act authorizes the Commission to make rules regulating the listing or trading of publicly traded securities or the trading of derivatives, including rules relating to clearing and settling trades.
- Subparagraph 2(i) of subsection 143(1) of the Act authorizes the Commission to make rules in respect of standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients.
- Paragraph 12 of subsection 143(1) of the Act authorizes the Commission to make rules regulating recognized clearing agencies, including prescribing requirements in respect of the review or approval by the Commission of any by-law, rule, procedure, interpretation or practice and prescribing restrictions on its ownership, control and direction.

5. Regulatory Impact Assessment

A. Overview

As described in the CSA Notice, some of the Proposed Revisions amend the Instrument and change the Companion Policy in anticipation of shortening the standard settlement cycle for equity and long-term debt trades in Canada from two days after the date of a trade (**T+2**) to one after the date of a trade (**T+1**). The other Proposed Revisions repeal the requirements of registered firms to complete and file exception reports on Form 24-101F1 if they do not meet, with respect to their institutional trades, the institutional trade matching (**ITM**) threshold of 90 percent (**ITM threshold**) of trades by value and volume matched by the ITM deadline during a calendar quarter (**Exception Reporting Requirement**). Lastly, the Proposed Revisions include housekeeping changes intended to clarify and update existing requirements.

In defining the scope for estimating costs to stakeholders, the regulatory impact assessment focuses on the shortening of the settlement cycle to T+1 as the repeal of the Exception Reporting Requirement does not impose business or regulatory costs for market participants. Rather, the repeal of the Exception Reporting Requirement is a permanent removal to reduce unnecessary regulatory burden and is considered a benefit of the Proposed Revisions.

The shortening of the settlement cycle to T+1 impacts a breadth of industry participants including clearing agencies, investment dealers, custodian banks, transfer agents, back-office service providers and investors. However, the scope of the universe of trades and impacted participants that will transition to T+1 settlement is broad compared to the trades subject to the requirements of NI 24-101.[1] Specifically, only trades subject to matching deadlines for registered dealers and advisers are within scope per NI 24-101. The shortening of the settlement cycle impacts registered dealers and advisers trading on a delivery against payment

[1] Based on April, 2022 volumes and values for combined equity and debt trades, those subject to the requirements of 24-101 represented approximately 15% of total value or 3% of total volumes compared to the universe of transactions

(**DAP**)/receipt against payment (**RAP**) basis for or with an institutional investor, as they must have ITM policies and procedures designed to match a DAP/RAP trade as soon as practical after the trade is executed, but no later than noon on T+1 (**ITM deadline**) per NI 24-101.[2]

As a result, the regulatory impact assessment focuses on the incremental compliance costs associated with the Proposed Revisions. As a point of reference for the impact of the Proposed Revisions, we also examined the overall compliance costs associated with the industry's move to T+1. This is detailed in Appendix A.

B. Current regulatory framework

Migration to T+1

NI 24-101 came into force in 2007 and was intended to encourage more efficient and timely pre-settlement confirmation, affirmation, trade allocation and settlement instructions processes for institutional trades in Canada. This process is known as ITM.

Registered dealers and advisers trading on a DAP/RAP basis for or with an institutional investor must have ITM policies and procedures designed to match a DAP/RAP trade as soon as practical after the trade is executed, but currently by no later than noon on T+1.

Exception Reporting Requirement

Under the Exception Reporting Requirement, registered firms must complete and file a Form 24-101F1 for every calendar quarter where they did not meet the ITM threshold of matching 90 percent of trades by value and volume before the ITM deadline. Form 24-101F1 requires registered firms, among other things, to explain why they did not meet the exception reporting thresholds and the steps they have taken to address the delay. This requirement is currently subject to a moratorium. Specifically, in 2020, the CSA provided a three-year moratorium on the applicability of the Exception Reporting Requirement. As a result, registered firms are not required to deliver Form 24-101F1 to the Commission from July 1, 2020 to July 1, 2023.[3]

C. Rationale for intervention

Migration to T+1

The Canadian securities industry is preparing for the migration to a standard T+1 settlement cycle at the same time as the industry in the United States is moving to T+1. Failure to do so would be detrimental to the Canadian capital markets due to the interconnectedness of our markets (i.e., the large volumes and value of cross-border trades and the large number of inter-listed securities). At the same time, there would appear to be no benefit and potentially negative consequences from moving prior to the United States.

The move to T+1 with the United States markets is consistent with previous efforts by the Canadian securities industry to align trade settlement timelines and processes with those of the United States. Previous Canadian industry settlement initiatives have attempted to be consistent with United States industry efforts because market practices in both countries are generally the same, and the securities clearing and settlement systems in both countries are closely integrated.

The Proposed Revisions would facilitate the industry move to T+1.

Exception Reporting Requirement

The moratorium on the Exception Reporting Requirement has not had a negative impact on regulatory oversight and codifying this relief provides certainty to market participants. Market participants confirmed that the Exception Reporting Requirement is burdensome and has limited utility. CSA Staff agree with these comments and have identified the revocation of the Exception Reporting Requirement as a means of permanently removing unnecessary regulatory burden. Given that information in Form 24-101F1 can be obtained from clearing agencies and matching service utilities, CSA Staff are of the view that the Exception Reporting Requirement no longer meaningfully contributes to the CSA's oversight.

The Proposed Revisions would permanently repeal the Exception Reporting Requirement. However, the amendments would not relieve registered firms from complying with other requirements in NI 24-101 such as establishing, maintaining and enforcing policies and procedures to achieve the matching threshold for institutional trades.

D. Proposed intervention

The Proposed Revisions seek to change the ITM deadline from no later than noon on T+1 to no later than 9 p.m. Eastern Time on T. NI 24-101 applies to registered dealers and registered advisers subject to trade matching requirements. Specifically, the

[2] See subsections 3.1(1) and 3.3(1) of NI 24-101. A DAP/RAP trade is a trade in a security executed for a client account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and for which settlement is completed on behalf of the client by a custodian other than the dealer that executed the trade. See the definition "DAP/RAP trade" in section 1.1 of the Instrument.

[3] See https://www.securities-administrators.ca/resources/exception-reporting-ni-24-101/

change to the ITM deadline impacts registered dealers executing DAP/RAP trades with or on behalf of an institutional investor and registered advisers executing DAP/RAP trades for the account of an institutional investor.

In addition, the Proposed Revisions repeal the Exception Reporting Requirement in Part 4 of NI 24-101 including the delivery of Form 24-101F1. This change will codify and replace the current reporting moratorium imposed by local blanket orders.

E. Stakeholders affected

The stakeholders who will be directly impacted by the Proposed Revisions relating to the move to T+1 are clearing agencies and registered dealers trading on a DAP/RAP basis for or with an institutional investor. These direct incremental compliance costs are associated with the Proposed Revisions. In addition, we note the shortening of the settlement cycle to T+1 impacts industry participants outside of the requirements of NI 24-101. These impacted stakeholders include custodian banks, transfer agents, back-office service providers and investors. The impact on these stakeholders is further discussed in Appendix A. We have, where information is available, quantified the anticipated number of stakeholders that will be impacted.

1. Domestic recognized clearing agencies

While it is noted that NI 24-101 does not expressly mandate a T+2 settlement cycle, nor would currently prevent the T+1 migration, there are several provisions that require revision to facilitate the move to a T+1 settlement cycle. In particular, domestic recognized clearing agencies will need to change various rules and procedures that currently mandate a two day settlement cycle, that are keyed to the settlement date, or that generally facilitate the prompt clearance and settlement of trades. We estimate there are two domestic recognized clearing agencies where operations will be impacted because of the move to T+1.

2. Investment dealers

Investment dealers that are direct members of domestic recognized clearing agencies must adhere to the rules of the clearing agencies. These participants have direct access to the clearing agency and are contractually bound by the clearing agency's participant rules. These direct participants will incur compliance costs to adapt to any changes alongside the clearing agency. We estimate there are 36 investment dealers that are direct participants of domestic clearing agencies.

For investment dealers that are not direct participants of a domestic recognized clearing agency, these indirect participants access a clearing agency's services via direct participants. As such, they are clients of the clearing agency's direct participants. We estimate there are 131 non-self clearing investment dealers that will be affected. Investment dealers will incur costs associated with developing new procedures to comply with T+1 settlement of trades.

F. Anticipated costs and benefits

1. Methodology

The analysis below outlines the qualitative and estimated quantitative impact of the incremental costs and benefits associated with the Proposed Revisions.

Estimating the implementation costs associated with the Proposed Revisions begins with establishing the baseline, or what the future would look like in the absence of the Proposed Revisions. For our purposes, the baseline is not a reflection of the current trade settlement requirements and considers future changes that would likely to occur under normal circumstances. On December 21, 2021, the Canadian Capital Markets Association (**CCMA**)[4] announced that it would lead coordinating efforts within Canada and cross-border to shorten the trade settlement cycle from T+2 to T+1.[5] The move to T+1 is an industry-led initiative that will occur even in the absence of the Proposed Revisions. As such, the bulk of the costs associated with the move to T+1 cannot be attributed to the Proposed Revisions. We anticipate that the incremental costs associated with the Proposed Revisions will represent a small portion of total implementation costs. As a point of reference for the impact of the Proposed Revisions, the total industry impact of shifting to T+1 is also examined in Appendix A.

The process for identifying and evaluating costs and benefits in this assessment has been informed by industry and regulatory research and stakeholder feedback. A guiding consideration is the goals of securities regulation relating to protecting investors, facilitating efficient and competitive markets, fostering capital formation, and promoting system stability.

The quantitative estimates below focus on compliance costs and are guided by the Securities and Exchange Commission's approach put forward in their T+1 proposing release.[6] Only the qualitative benefits from shifting to T+1 are considered below due to the significant uncertainty and lack of data needed to quantify the benefits.

[4] CCMA is a national, federally incorporated not-for-profit organization representing dealers, custodians, asset managers and industry associations.
[5] https://ccma-acmc.ca/en/wp-content/uploads/Canada-Announces-Faster-Securities-Settlement-December-1-2021.pdf
[6] See Proposed rule: Shortening the Securities Transaction Settlement Cycle https://www.sec.gov/rules/proposed/2022/34-94196.pdf

2. Benefits to stakeholders

Migration to T+1

The Proposed Revisions are likely to help minimize the number of failed and delayed settlements and provide regulatory clarity. In particular, the Proposed Revision to move the ITM deadline so that trade matching is achieved as soon as practical after a trade is executed and no later than 9 p.m. on T will support trade agreement well ahead of T+1 for market participants captured by the ITMS Instrument. This will improve the chance that T+1 settlement can be achieved.

The Proposed Revisions also provide clarity that Canadian securities regulation is aligned with the industry's move to T+1. This should strengthen incentives for the market to take the necessary operating and infrastructure investments to support a T+1 settlement cycle.

Both these results should add to the overall benefits of shifting to T+1 which include using capital more productively, greater efficiency, improved liquidity, and lower risk management costs (see Appendix A).

Exception Reporting Requirement

Prior relief was granted to registered dealers or advisers through a three-year moratorium from the application of section 4.1 of NI 24-101. The relief provided a three-year moratorium on the applicability of section 4.1 of NI 24-101 where registered dealers or advisers are not required to deliver Form 24-101F1 to the participating jurisdictions. This three-year moratorium covers the period beginning on July 1, 2020 and ending on July 1, 2023. Staff recognize that the moratorium is set to expire prior to the proposed implementation date for the Proposed Revisions. We anticipate that the moratorium will be extended in all CSA jurisdictions until such time as the Proposed Revisions, if approved, come into effect. The Proposed Revisions to permanently repeal the Exception Reporting Requirements represents a benefit to stakeholders by removing unnecessary regulatory burden. Stakeholders have confirmed that the Exception Reporting Requirement, if not repealed, would be burdensome, unnecessary and may not be useful. As a result, CSA Staff have identified the Exception Reporting Requirement as an area to permanently remove unnecessary regulatory burden.

3. Costs to stakeholders

Migration to T+1

As noted above, the baseline used to calculate the incremental costs assumes that T+1 will be implemented in the absence of the Proposed Revisions. Incremental costs are those that the impacted entity incurs directly as a result of the Proposed Revisions. We anticipate that impacted market participants will incur minor incremental costs associated with learning about the regulation and updating existing policies and procedures that refer to NI 24-101. We assume each firm will spend a total of 7 hours on these activities, incurring a total cost of approximately $700 per entity.[7] We do not anticipate that there will be significant variation in the amount of time spent by entities in the different categories of market participant. We estimate that impacted market participants will collectively incur a total of $120,000 in incremental costs as a result of the Proposed Revisions. This represents approximately 0.09% of the estimated total initial T+1 implementation costs (see Appendix A). Table 1 sets out the total incremental costs borne by category of market participants.

Table 1: Incremental costs associated with the Proposed Revisions by category of market participant

	Incremental cost per entity	Number of entities	Total costs per category of entity
Domestic Recognized Clearing Agencies	$700	2	$1,400
Investment Dealers – Clearing Agency Participants	$700	36	$25,200
Investment Dealers - non-self clearing	$700	131	$91,700
		Total	**$120,000[8]**

Exception Reporting Requirement

The repeal of the Exception Reporting Requirement does not impose business or regulatory costs for market participants. Rather, the repeal of the Exception Reporting Requirement reduces unnecessary regulatory burden.

[7] Compliance Analyst (5 hours @ $80/ hour) and Chief Compliance Officer (2 hours @ $150/hour. Hourly rates are based on the 2021 Robert Half Accounting and Finance Salary Guide.

[8] Totals may not add up due to rounding.

4. Alternatives considered

No alternatives to the Proposed Instrument were considered. The migration to a T+1 settlement cycle in Canada will be crucial to follow the United States industry move due to the competitive and cost risks of not staying in sync with United States settlement practices.

Appendix A- Overall industry benefits and costs associated with shortening the settlement cycle

To accompany the estimate of incremental costs associated with the Proposed Revisions, it is beneficial to evaluate the overall compliance costs associated with the industry's move to T+1.

A. Stakeholders affected

Although not directly impacted as a result of the Proposed Revisions, the stakeholders will be affected by the change in the settlement cycle. The overall impact of shortening the settlement cycle to T+1 affects industry participants in addition to clearing agencies and investment dealers, which are affected by the requirements of NI 24-101 (see section E above). These other impacted participants include custodian banks, transfer agents, back-office service providers and investors.

1. Custodian banks & transfer agents

As a result of the compressed processing timeframes to accommodate T+1, transfer agents and custodian banks will also need to update procedures. Specifically, matching processes requires that any custodian holding an investor's assets be in a position to affirm the trade so that the trade can be ready for the clearing and settlement process through the facilities of the clearing agency. In addition, transfer agents will be required to maintain and update the register of issuer securities in accordance with the revised timelines. We estimate there are 42 custodian banks and transfer agents that will be impacted by the move to T+1.

2. Back-office service providers

Industry participants may outsource clearing and settlement processes to service providers.[9] These back-office service providers will also need to modify processes alongside the industry move to T+1 and will incur implementation compliance costs. For the purposes of quantifying the compliance costs for the regulatory impact analysis, service providers have been excluded to avoid double counting the compliance costs. Specifically, the calculation of initial compliance costs is based on the assumption that the market participants remain responsible for migrating to a T+1 settlement cycle. It is acknowledged that many market participants will utilize back-office service providers to assist in the transition for certain functions, thus transferring some implementation costs to service providers.

3. Investors

As described in further detail below, a shorter settlement cycle will reduce settlement risk by decreasing the number of unsettled transactions at any time. This reduction in settlement risk will have a downstream impact on retail and institutional investors in the form of reduced liquidity constraints as investment dealers may require less contribution of financial resources for margin accounts and/or prefunding of cash accounts for purchases. In addition, a reduction in the settlement cycle speeds up the expected time investors can access proceeds following a sale.

B. Anticipated costs and benefits

1. Methodology

The analysis below outlines the overall qualitative and estimated quantitative impact of shifting to a T+1 settlement process. As noted above, the OSC examined the overall impact of shifting to T+1 for completeness and as point of reference for the impact of Proposed Revisions. The process for identifying and evaluating costs and benefits has been informed by industry and regulatory research and stakeholder feedback. A guiding consideration is the goals of securities regulation relating to protecting investors, facilitating efficient and competitive markets, fostering capital formation, and promoting system stability.

The quantitative estimate below focuses on compliance costs and is also guided by the U.S. Securities and Exchange Commission's approach put forward in their T+1 proposing release.[10] A key assumption in this analysis is that most activities needed for migrating to T+1 relate to testing systems and market participants modifying their behaviour. The estimate does not include costs associated with infrastructure and IT changes. A major reason for excluding these costs is the lack of information and significant uncertainty around the types and extent of infrastructure needed for implementing T+1. As a result, the compliance costs listed below likely underestimate the overall cost of implementing T+1.

Similarly, only the qualitative benefits from shifting to T+1 are considered below due to the significant uncertainty and lack of data needed to quantify the benefits.

[9] Examples of such service providers include SS&C Technologies Canada Corp., Broadridge Financial Solutions, Paramax Solutions Inc., and Torstone Technology.

[10] See Proposed rule: Shortening the Securities Transaction Settlement Cycle https://www.sec.gov/rules/proposed/2022/34-94196.pdf

2. Overall benefit of migrating to T+1

(i) Reduction of friction costs from aligning settlement cycle with the United States

Reduced friction costs are the main benefit from aligning timing of Canada's move to T+1 with the US.

Friction costs are the direct and indirect costs associated with the completion of a financial transaction. These costs can be monetary (e.g., trading commissions, management fees) or non-monetary (e.g., opportunity costs). Mismatched trade settlement cycles impose additional friction costs on cross-border transactions between counterparties in jurisdictions with different settlement cycles. For example, a market participant operating in a jurisdiction with T+2 settlement may have to rely on short-term borrowings to fund investment purchases so that settlement aligns with a T+1 jurisdiction. Cross-border harmonization of settlement cycles would help market participants better manage cash flows and potentially reduce and simplify their financing needs.

Alignment with the United States capital markets represents a benefit of the Proposed Revisions to amend the ITM deadline to accommodate T+1 settlement. Previous studies have stressed the importance of Canadian capital markets changing the settlement cycle at the same time as the United States due to the impact on inter-listed securities and cross-border transactions.[11] Positioning settlement timelines to match those in the United States is a benefit by avoiding the drawbacks of differential settlement between Canada and the United States such as higher settlement costs, higher risk and movement of trading activity to the United States.

(ii) The shorter settlement cycle and lower settlement risk

A benefit of migrating to T+1 is through the shorter settlement cycle and the resulting reduction in settlement risk.

Settlement risk mainly involves the risk of loss from a party defaulting on a transaction. Shortening the settlement cycle to T+1 will reduce settlement risk by decreasing the number of transactions that are waiting to be settled at any time and, therefore, the potential loss from default. A shorter cycle also reduces the size of losses from default by mitigating the impact of price volatility as prices have less time to move away from the transaction price.

In general, the benefits of reduced settlement risk promote financial stability and capital formation in the economy. The benefits mainly play out through the clearing agency requiring less collateral from clearing participants. The clearing agency guarantees transactions and therefore bears some settlement risk. As a result, they require clearing participants to post collateral to offset the risk of default. Reduced settlement risk means the clearing agency can require less collateral.

The impact of lower collateral requirements along with the shorter settlement cycle should result in:

- *Capital previously intended as collateral being used more productively in the economy*. For example, instead of holding capital for collateral, dealers can use the capital for other purposes. Moreover, dealers likely do not need to hold as many assets in liquid securities that are needed for collateral.
- *Investors receiving proceeds of their transactions sooner.* As a result, they can deploy the proceeds sooner potentially facilitating greater investment in the economy.
- *Dealers and investors improving their liquidity positions.* Lower collateral requirements mean less of dealers' capital is tied up and more is available to meet payments. In addition, the shorter settlement cycle means that investors can more easily liquidate their securities, improving their ability to meet their liquidity needs.
- *Savings from lower risk management costs.* Reduced settlement risk and collateral requirements by the clearing agency can mean lower risk management costs for dealers.

3. Costs to stakeholders

In the Spring of 2022, OSC staff consulted with the CCMA and other stakeholders on the availability of industry estimates of implementation costs. Due to a lack of industry data at the time of publication, we considered a number of existing studies and the approach taken by regulators in other jurisdictions. Given the interconnectedness of the U.S. and Canadian capital markets, we determined it would be reasonable to adapt the methodology used by the U.S. Securities and Exchange Commission to estimate the costs associated with moving to T+1. Please refer to the methodology section for additional information on the adapted methodology and underlying assumptions.

(i) Initial T+1 implementation costs

For our purposes, these are the compliance costs that will be borne by market participants to migrate to T+1. The estimates reflect the per entity costs of certain implementation activities necessary to migrate to T+1 (e.g., configuring trading systems, updating

[11] See Charles River Associates study from November 1999 - https://ccma-acmc.ca/en/wp-content/uploads/Charles-River-Report-Nov10.pdf

documentation and investor education). The estimates take into account the impact of firm size on implementation costs borne by certain categories of market participants, with large firms expected to incur higher costs. We estimate that market participants will incur approximately $134M in initial implementation costs. Table 2 sets out the estimated per entity cost and total costs by category of market participants.

Table 2: Initial T+1 implementation costs by category of market participant

Type of Entity	Total Cost per Entity	Number of Entities	Total Costs per Category of Entity
Domestic Recognized Clearing Agencies Investment Dealers - Clearing Agency Participants	$4,990,000	2	$9,980,000
Small	$810,000	8	$6,480,000
Medium	$2,170,000	8	$17,360,000
Large	$3,620,000	20	$72,400,000
Investment Dealers - non-self clearing	$50,000	131	$6,550,000
Custodian Banks & Transfer Agents	$510,000	42	$21,420,000
		Total	**$134,000,000**[12]

Due to a lack of data on the necessary investment in IT systems, these cost estimates only reflect the labour costs associated with implementation activities. We encourage impacted market participants to provide estimates of the costs associated with updating existing IT systems.

(ii) Potentially higher initial costs for entrants increasing barriers to entry

If the cost of implementing systems to facilitate T+1 are considerably higher than for T+2, this can increase barriers for participants entering the market, putting pressure on the level of competition.

Assessing the potential for this is difficult as estimates of the infrastructure costs associated with implementing T+1 are not available. However, to date, stakeholders and studies reviewed by staff have not highlighted this as a significant issue. In addition, reduced settlement risk can encourage entry for some participants, effectively offsetting some of the barriers created by T+1 infrastructure costs. As such, it appears unlikely that any potential costs from barriers to entry will outweigh the benefits of moving to T+1.

[12] Totals may not add up due to rounding