

CDS Clearing and Depository Services Inc. (CDS[®])

Daily Subscription Fee for IIROC Compliance Reporting – Regulation 800.49

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

Background

On November 23, 2012, the Investment Industry Regulatory Organization of Canada (“IIROC”) received the securities commissions’ approval for amendments to IIROC Dealer Member Rule 800.49 (“Rule 800.49”) on broker-to-broker non-exchange trade matching and IIROC Dealer Member Rule 200.1(h) (“Rule 200.1(h)”) on trade confirmation exceptions.¹

Rule 800.49 stipulates:

For each non-exchange trade, involving a CDS eligible security that is executed by a Dealer Member with another Dealer Member, each Dealer Member must:

- (i) Enter the trade into an acceptable trade matching utility or*
- (ii) Accept or reject any trade entered into an acceptable trade matching utility by another Dealer Member.*

at or before 6 p.m. (Toronto time) on the day the trade was executed.

Among other things, Rule 200.1(h) stipulates that a Dealer Member is not required to send a trade confirmation if certain criteria are met, one of which is that Dealer Members maintain quarterly compliant trade percentages.

On January 2, 2013, IIROC inquired whether CDS would make changes to its Broker-to-Broker Trade Matching Service (“B2B/TM”) in support of the changes to Rule 800.49 and Rule 200.1(h). In order to facilitate the implementation of the amendments, IIROC requested the following changes to CDS’s B2B/TM:

- I. Change the Participant non-compliance reporting from the current “report within one-hour of trade execution” rule to a new “report at or before 6 p.m. (Toronto time) on the day the trade was executed” rule;
- II. Assume responsibility, in IIROC’s place, for producing and distributing the quarterly street summary report and the quarterly individual Participant CUID summary reports;
- III. Produce and distribute monthly individual Participant CUID summaries to assist IIROC Dealer Members with their compliance with Rule 800.49 and their management of the related trade confirmation exemption in Rule 200.1(h); and
- IV. Continue providing IIROC with a daily file that contains daily compliance statistics for each IIROC Dealer Member.

On March 28, 2013, CDS’s Strategic Development Review Committee (“SDRC”) approved the necessary funding for CDS to proceed with this development. In addition, the SDRC agreed that it would support a daily subscription fee specific to this service.

This implementation was originally scheduled to be effective August 12, 2013; CDS now intends to implement on September 28, 2013 to be effective on October 1, 2013. It is proposed that the new fee also take effect October 1, 2013.

¹ Refer to the Rules Notice 10-0097 dated April 9, 2010 and the Notice of Commission Approval: IIROC Dealer Member Rules posted on December 6, 2012 on the Ontario Securities Commission website.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

CDS seeks approval to introduce a subscription fee for a new reporting service: **IIROC Compliance Reporting – Regulation 800.49**. The proposed fee is **\$6.50 per day**. The fee will be invoiced monthly to subscribing CDS Participants, and will appear in the Information and Support Services section of the CDS 2013 Price Schedule and subsequent price schedules as updated from time-to-time. CDS aims to make the new fee effective October 1, 2013 to coincide with the implementation of the service.

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The proposed subscription fee will only affect CDS Participants who are eligible to use the broker-to-broker trade matching service in CDSX, are IIROC Dealer Members, and who choose to subscribe to the reporting service. The reporting service is entirely optional.

C.1 Competition

The objective of the IIROC compliance reporting service is to assist IIROC Dealer Members in monitoring their B2B/TM activities for compliance with IIROC Dealer Member Rule 800.49 and Rule 200.1(h). Consistent with CDS's recognition requirements, subscribing to this service shall not create unreasonable barriers to access, nor will it disadvantage Dealer Member Participants who choose not to subscribe to the service. The proposed fee does not promote the tied selling of other services or rebate or otherwise provide concessions linked to a Participant's level of participation.

C.2 Risks and Compliance Costs

The proposed fee for this reporting service does not introduce or impose any new limitations on participation in the B2B/TM service in CDSX or on CDS's Risk Model. The cost to the Participant is a daily subscription fee which will be invoiced monthly to those Participant Dealer Members who choose to subscribe. Participant Dealer Members who choose not to subscribe for the service may choose to develop their own monitoring procedures.

C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

Rule 800.49 and Rule 200.1(h) are trade matching and trade confirmation exemption rules imposed by the IIROC on its Dealer Members.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

In accordance with CDS's recognition requirements pertaining to committee governance, fairness and appropriateness of fee setting, and pricing model transparency, CDS followed the prescribed internal processes and deliberations described below.

D.1 Development Context

On November 23, 2012, IIROC received the securities commissions' approval for amendments to Rule 800.49 (broker-to-broker non-exchange trade matching) and Rule 200.1(h) (trade confirmation

exceptions). IIROC requested that CDS consider changing the current B2B/TM compliance reporting to support the amendments and to expand such reporting to provide monthly and quarterly member and summary reports. In March, the Debt and Equity subcommittee of the SDRC endorsed these changes and a corresponding fee. Development was approved by the SDRC on March 28, 2013.

D.2 Procedure Drafting Process

New fees and/or fee changes are proposed by CDS's Product Management group. Once proposed, new fees are presented to the CDS Participant Fee Committee ("Fee Committee") for its review and comment. CDS's regulators may participate in committee meetings as observers.

At its July 3, 2013 meeting, the Fee Committee met and as result the fee was accepted. CDS Risk Management and Audit Committee ("RMAC") took note of the Fee Committee's observations, when they reviewed the fee.

D.3 Issues Considered

CDS proposes that a flat fee be applied to this service because the cost of the service relates to a fixed output (i.e. compliance reporting) that is not influenced by transaction volume.

D.4 Consultation

The proposed fee was presented to the Debt and Equity subcommittee of the SDRC as well as the SDRC (full committee) for discussion prior to tabling the proposal with the Fee Committee. The proposed fee was accepted by the SDRC. On review, the Fee Committee agreed that the basis for implementing this new fee was acceptable and that the proposed daily subscription fee was acceptable.

The proposed fee covers the delivery of daily, monthly and quarterly compliance statistics and non-compliant trade details. The service will be delivered over a secure web interface. Subscribers will be able to save current data to their desktops (less than or equal to 6 months – two quarterly compliance periods) in Excel and PDF formats. A facility, subject to an existing research fee (7020), will also be available to access and print historical data. CDS will maintain compliance statistics and non-compliant trade data for up to seven years. The proposed fee will appear in the Information and Support section of the CDS 2013 Price Schedule and subsequent price schedules as updated from time-to-time, as IIROC Compliance Reporting – Regulation 800.49.

D.5 Alternatives Considered

Three options were discussed amongst IIROC and the SDRC Debt and Equity subcommittee members. The first was to replace only the current trade matching compliance report (RMS58) and continue providing IIROC with daily trade details. The second was to consider monthly reporting and quarterly reporting. The final option was to simply discontinue B2B/TM reporting.

The consensus was that it would be more efficient for IIROC Dealer Members if CDS provided a flexible yet consistent approach to meet eligible participating members' daily, monthly and quarterly compliance reporting needs. The alternative was that each IIROC Dealer Member would need to establish its own compliance monitoring processes and procedures and to standardize those procedures with IIROC.

D.6 Implementation Plan

CDS intends to implement the proposed fee at the same time as the implementation of the IIROC compliance reporting service effective October 1, 2013. The scheduled date of implementation has been communicated regularly to CDS Participants through the SDRC and its subcommittees, as well as through Relationship Management client meetings. The Relationship Managers and CDS Customer Service will provide their clients with details of the upcoming changes, and provide customer-related training prior to implementation. At the same time, CDS will ask IIROC Dealer Members to subscribe to the service by completing form CDSX843 (Web Services Request for CDS Participants). When the forms are returned, CDS will attach subscriber CUIDs to the new service. Clients will be able to assign specific users to the service, and may do so any time prior to implementation, though billing will be effective October 1, 2013.

The proposed fee will carry the service code 6201 and will appear in the Information and Support section of the CDS 2013 Price Schedule, listed as IIROC Compliance Reporting – Regulation 800.49. A facility will also be available to access and print historical data. The latter would be subject to an existing research fee (7020 – Special research request; \$100) which appears in the Information and Support section of the CDS 2013 Price Schedule.

CDS will distribute a bulletin to all CDS Participants a week prior to implementation reminding them of the upcoming changes.

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*, and by the British Columbia Securities Commission pursuant to section 24(d) of the British Columbia *Securities Act*, and as a clearing house by the Autorité des marchés financiers pursuant to Section 169 of the Quebec *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX[®], a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*. The Ontario Securities Commission, the British Columbia Securities Commission, the Autorité des marchés financiers and the Bank of Canada will hereafter be collectively referred to as the “Recognizing Regulators”.

The proposed fee may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation of the proposed fee is planned for October 1, 2013.

E. TECHNOLOGICAL SYSTEM CHANGES

E.1 CDS

- a) A new TRAX web service, TRAX – Trade Confirmation Statistics, will be implemented that will manage access to the IIROC Compliance Reporting – Regulation 800.49 facility.
- b) Access to the service is controlled by CUID and user ID.
- c) On a daily basis, CDSX will capture an activity record for each CUID subscribed to the TRAX – Trade Confirmation Statistics service.
- d) On a daily basis, CDSX will capture an activity record for each historical search.
- e) On a monthly basis, activity records will be reported to the CDS invoicing system and reported against service code “6201” or “7020”.

E.2 CDS Participants

- System changes are not required by Participants.
- Current invoicing protocols apply.
- Subscriber’s invoices will include a new line item for the service code “6201”.

E.3 Other Market Participants

This service relates only to IIROC Dealer Members.

F. COMPARISON TO OTHER CLEARING AGENCIES

The proposed fee is specific to CDSX Participants who use the CDSX Broker-to-Broker Trade matching utility. CDS is not aware of any similar compliance reporting support that may be provided by any other clearing agency to its members in response to similar regulation outside of Canada.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed fees are not contrary to the public interest.

H. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin, the British Columbia Securities Commission Bulletin or the Autorité des marchés financiers Bulletin to:

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Copies should also be provided to the Autorité des marchés financiers, the British Columbia Securities Commission and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

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CDS will make available to the public, upon request, all comments received during the comment period.