

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Please distribute internally to:

Comments Due By: June 19, 2017

Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Senior Management
Trading Desk

Contact:
Answerd Ramcharan
Manager, Financial Information, Member Regulation
Policy
416-943-5850
aramcharan@iiroc.ca

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April 20, 2017

Amendments to trade-confirmation suppression requirements

Executive Summary

On March 29, 2017, the Board of Directors of IIROC (the **Board**) approved the publication for comment of proposed amendments to Dealer Member Rule (**DMR**) 200.2(l)(x)(B) on trade-confirmation suppression requirements (the **Amendments**).

The primary objective of the Amendments is to make the trade-confirmation suppression requirements more practical for Dealer Members whose quarterly compliant trade percentage is typically 90% or higher, but who may have one or two quarters over the last four quarters in which their quarterly compliant trade percentage is slightly below 90%.

Impacts

We believe Dealer Members and their institutional customers will benefit from not having to send and receive, respectively, a trade confirmation for a trade that is subject to DMR 800.49 (Broker-to-Broker Trade Matching) or National Instrument 24-101 (Institutional Trade Matching and Settlement) (**NI 24-101**) when specific criteria are met.



We believe that the Amendments will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. They do not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

How to Submit Comments

Comments are requested on all aspects of the Amendments, including any matter which they do not specifically address. Comments on the Amendments should be in writing and delivered by **June 19, 2017** to:

Answerd Ramcharan
Manager, Financial Information, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
email: aramcharan@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Commenters should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiroc.ca.



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1. Discussion of Amendments

1.1 Relevant background

In October 2013, IIROC implemented amendments to its trade confirmation and matching requirements to promote compliant trade matching practices and eliminate the sending of duplicative trade-related correspondence to clients. At that time, we agreed to monitor the industry's quarterly compliant trade percentage and reassess the trade-confirmation suppression requirements if significant efforts were made by the industry to consistently achieve a high quarterly percentage for trades that are subject to either DMR 800.49 or NI 24-101.

In the period from Q4 2013 to Q4 2016, the industry's quarterly compliant trade percentage¹ for trades subject to DMR 800.49 was 90% or higher, with the exception of Q4 2013 at 89% and Q2 2015 at 89%. Over the same period, the industry's quarterly compliant trade percentage² for trades subject to NI 24-101 was greater than 90%.

1.2 Current rule

Current DMR 200.2(l)(x)(B) allows a Dealer Member to suppress (i.e. to not provide) a trade confirmation to an institutional client for a trade that is subject to DMR 800.49 or NI 24-101 when specific criteria are met. One of the criteria, which is the main concern for Dealer Members and the focus of the Amendments, is that, for a trade subject to:

- DMR 800.49, the Dealer Member must not have filed a report under subsection 800.49(6), informing IIROC that it has not met the minimum 90% quarterly compliant trade percentage threshold, for a minimum of three consecutive quarters, or
- NI 24-101, the Dealer Member must not have filed a trade matching exception report required under NI 24-101 when the quarterly compliant trade percentage is below 90%, for a minimum of three consecutive quarters.

The "minimum of three consecutive quarters" criterion is impractical for many Dealer Members because it is not flexible and would require them to immediately start sending trade confirmations to their institutional clients if they have a subsequent quarter with a compliant trade percentage that was even slightly below 90%. In addition, dealers may only stop sending trade confirmations once they again meet the minimum of three consecutive compliant quarters. Consequently, some Dealer Members are reluctant to apply this trade confirmation suppression rule because the start and stop processes would be cumbersome, requiring

¹ (based on number of trades)



multiple notifications to their customers, vendors and staff, and systems to be reactivated and deactivated internally and externally.

The Amendments do not affect the following other criteria:

- The trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under IIROC's Rules or securities legislation.
- The Dealer Member maintains an electronic audit trail of the trade under IIROC's Rules or securities legislation.
- Prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the Dealer Member.
- The client is either:
 - another Dealer Member who is reporting or affirming trade details through an acceptable trade matching utility in accordance with DMR 800.49, or
 - an Institutional Customer who is matching DAP/RAP account trades (either directly or through a custodian) in accordance with NI 24-101.
- The Dealer Member and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under DMR 200.2(l).
- A client may terminate their trade confirmation waiver, referred to in DMR 200.2(l)(x)(B), by providing a written notice confirming this fact to the Dealer Member. The termination notice takes effect upon the Dealer Member's receipt of the notice.

1.3 Proposed rule

The Amendments remove the “three consecutive compliant quarters” requirement and allow a Dealer Member whose quarterly compliant trade percentage is slightly below 90% (not less than 85%) for one or two quarters over the last four quarters to suppress trade confirmations. A black-line comparison of the Amendments to the current DMR is set out in Appendix A. In addition, a black-line comparison of the proposed plain-language version of the Amendments to the most recently published proposed plain language rule is set out in Appendix B.



2. Analysis

2.1 Issues and alternatives considered

We considered two alternatives: (1) continue using the current requirements for trade confirmation suppression; and (2) propose the Amendments. We chose to propose the Amendments for the following reasons:

- Dealer Members and many institutional clients consider the trade confirmations to be duplicative of the trade-related information they already have real-time access to, and can download into their own systems, from an acceptable trade matching utility.
- More institutional clients are now able to rely on various audit-trail records and no longer rely on trade confirmations.
- As a result, more institutional clients are requesting that dealers stop sending trade confirmations because the information is duplicative, and could cause unintended back-office misunderstandings.
- Dealer Members' start and stop processes are cumbersome, requiring multiple notifications to their customers, vendors and staff, and systems to be reactivated and deactivated internally and externally.
- With only 2 minor exceptions, the industry's quarterly compliant trade percentage for trades that are subject to either DMR 800.49 or NI 24-101 is 90% or higher for the period from Q4 2013 to Q4 2016.
- We do not believe the Amendments will negatively impact the industry's move from a trade-date-plus-three-business-days (T+3) settlement cycle to a T+2 settlement cycle, which is scheduled for September 5, 2017.
- We will continue to monitor the industry's quarterly compliant trade percentage and take appropriate action if necessary to address any material concerns.

2.2 Comparison with similar provisions

We did not compare the current or proposed trade confirmation suppression requirements in DMR 200.2(l)(x)(B) to the requirements in other jurisdictions because we believe that the link between the requirements and a dealer's quarterly compliant trade percentage is unique to IIROC's rules and Canadian securities legislation.



3. Impacts of the Amendments

We expect that Dealer Members and institutional clients will benefit from the Amendments.

Dealer Members will:

- be able to further maximize existing trade matching systems and streamline the lifecycle of a trade
- be able to reduce resources and streamline operational processes that are currently required to generate, handle and send trade confirmations
- have lower costs or be able to better allocate resources to other initiatives.

Institutional clients will be able streamline their operational processes and minimize back-office misunderstandings.

We believe that the Amendments will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. They do not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. However, there could be technological implications for Dealer Members, vendors and institutional clients as a result of the Amendments.

Technological implications and implementation plan

The Amendments could have technological implications for Dealer Members, vendors and institutional clients if they apply the trade confirmation suppression requirements and streamline their operational processes.

4. Policy Development Process

4.1 Regulatory purpose

The Amendments are intended to:

- establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity
- foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities
- foster fair, equitable and ethical business standards and practices.

In deciding to propose the Amendments, we identified that there was a need to make the trade-confirmation suppression requirements more practical for Dealer Members while continuing to promote compliant trade matching practices.



This need was assessed as being in the public interest and not detrimental to the best interests of the capital markets. As a result, the Board has classified the Amendments as a Public Comment Rule proposal that is not contrary to the public interest.

4.2 Rule-making process

IIROC developed the Amendments and consulted with the Financial Administrators Section (FAS), the FAS Operations Subcommittee and the FAS Executive. These advisory committees supported the Amendments.

5. Appendices

Appendix A - Black-line comparison of the Amendments to the current DMR

Appendix B - Black-line comparison of the proposed plain-language version of the Amendments to the most recently published proposed plain language rule.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO TRADE-CONFIRMATION SUPPRESSION REQUIREMENTS
BLACK-LINE COMPARISON OF AMENDMENTS TO THE CURRENT DMR

1. Dealer Member Rule 200.2(l)(x)(B) is amended as shown by the following black-line changes:
 - “(B) In delivery against payment (DAP) and receipt against payment (RAP) trade accounts, provided that:
 - (I) The trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *the Corporation’s* Rules or securities legislation;
 - (II) The *Dealer Member* maintains an electronic audit trail of the trade under *the Corporation’s* Rules or securities legislation;
 - (III) Prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*;
 - (IV) The client is either:
 - (a) another Dealer Member who is reporting or affirming trade details through an acceptable trade matching utility in accordance with section 800.49; or
 - (b) An Institutional Customer who is matching DAP/RAP account trades (either directly or through a custodian) in accordance with National Instrument 24-101 - Institutional Trade Matching and Settlement;
 - (V) The Dealer Member and the client have real-time access to, and can download into their own system from the acceptable trade matching utility’s or the matching service utility’s system, trade details that are similar to the prescribed information under subsection 200.2(l); ~~and~~
 - (VI) ~~The~~ For the suppression of trade confirmations that relate to section 800.49 trades, the Dealer Member for the last four quarters:
 - (a) has not filed ~~a report as required~~ more than two reports under subsection 800.49(6) informing the *Corporation* that it has not met the quarterly compliant trade percentage ~~or has not filed a;~~ and
 - (b) none of the reports it filed under subsection 800.49(6) informing the Corporation that it has not met the quarterly compliant trade percentage has a quarterly compliant trade percentage of less than 85%.

Appendix A

(VII) For the suppression of sending trade confirmations that relate to National Instrument 24-101 - Institutional Trade Matching and Settlement trades, the Dealer Member for the last four quarters:

- (a) has not filed more than two trade matching exception ~~report as~~ required reports under securities legislation relevant to the trade, ~~for a minimum of three consecutive quarters;~~ and
- (b) none of the trade matching exception reports it filed under securities legislation relevant to the trade has a quarterly compliant trade percentage of less than 85%.

A client may terminate their trade confirmation waiver, referred to in sub-clause 200.2(l)(x)(B), by providing a written notice confirming this fact to the Dealer Member. The termination notice takes effect upon the Dealer Member's receipt of the notice."

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO TRADE-CONFIRMATION SUPPRESSION REQUIREMENTS
BLACK-LINE COPY OF PLAIN-LANGUAGE VERSION OF AMENDMENTS

1. A black-line comparison of the proposed plain-language version of the Amendments to the most recently published proposed plain language rules (PLR), where applicable, is as follows:

PLR sub-clause 3816(2)(x)(b)

- “(b) In delivery against payment and receipt against payment trade accounts, provided that:
- (I) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *IIROC requirements* or *securities laws*,
 - (II) the *Dealer Member* maintains an electronic audit trail of the trade under *IIROC requirements* or *securities laws*,
 - (III) prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*,
 - (IV) the client is either:
 - (A) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or
 - (B) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,
 - (V) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility’s or the matching service utility’s system, trade details that are similar to the prescribed information under this section 3816, ~~and~~
 - (VI) for the suppression of trade confirmations that relate to sections 4751, 4753, 4754, 4755 and 4756 trades, the *Dealer Member* for the last four quarters:
 - (A) has not filed ~~a report as required~~ more than two reports under section 4756 informing *IIROC* that it has not met the quarterly compliant trade percentage ~~or has not filed a,~~ and

Appendix B

(B) none of the reports it filed under section 4756 informing //ROC that it has not met the quarterly compliant trade percentage has a quarterly compliant trade percentage of less than 85%,

(VII) for the suppression of sending trade confirmations that relate to National Instrument 24-101 trades, the *Dealer Member* for the last four quarters:

(A) has not filed more than two trade matching exception ~~report as required reports~~ under *securities laws* relevant to the trade, ~~for a minimum of three consecutive quarters and~~

(B) none of the trade matching exception reports it filed under *securities laws* relevant to the trade has a quarterly compliant trade percentage of less than 85%.

A client may terminate their trade confirmation waiver, referred to in sub-clause 3816(2)(x)(b), by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.”