

## 13.2.2 Trumid Financial LLC – Application for Exemptive Relief – Notice of Commission Order

## TRUMID FINANCIAL LLC (TRUMID)

## APPLICATION FOR EXEMPTIVE RELIEF

## NOTICE OF COMMISSION ORDER

On June 8, 2020, the Commission issued an order under section 15.1 of National Instrument 21-101 *Marketplace Operation (NI 21-101)*, section 12.1 of National Instrument 23-101 *Trading Rules (NI 23-101)*, and section 10 of National Instrument 23-103 *Electronic Trading and Direct Access to Marketplaces (NI 23-103)* and, together with NI 21-101 and NI 23-101, the **Marketplace Rules**) exempting Trumid from the application of all provisions of the Marketplace Rules that apply to a person or company carrying on business as an alternative trading system (**ATS**) in Ontario (**Order**), subject to terms and conditions as set out in the Order.

The Commission published Trumid’s application and draft exemption order for comment on March 5, 2020 on the OSC website at [https://www.osc.gov.on.ca/en/Marketplaces\\_20200305\\_rfc-trumid-application-exemption-marketplace-rules.htm](https://www.osc.gov.on.ca/en/Marketplaces_20200305_rfc-trumid-application-exemption-marketplace-rules.htm) and at (2020), 43 OSCB 2282. One comment letter was received from CanDeal.ca Inc. (**CanDeal**). A copy of the comment letter is posted at [https://www.osc.gov.on.ca/documents/en/Marketplaces/com\\_20200421\\_macintyre.pdf](https://www.osc.gov.on.ca/documents/en/Marketplaces/com_20200421_macintyre.pdf). We summarize below the main comments and Staff’s responses to them. Trumid’s response to the comments is included at Appendix A to this Notice. In issuing the Order, no substantive changes were made to the draft order published for comment.

A copy of the Order is published in Chapter 2 of this Bulletin.

Comment	Response
CanDeal comments that Trumid’s regulatory regime is not sufficiently like Ontario’s to be duplicative and warrant granting the exemption.	As a matter of policy, the Commission’s mandate is to provide protection to investors from unfair, improper, or fraudulent practices, to foster fair and efficient capital markets and confidence in capital markets, and to contribute to the stability of the financial system and the reduction of systemic risk. Consistent with past practices granting exemptions for foreign derivatives exchanges, swap execution facilities, and multilateral trading facilities, the Commission permits foreign entities to carry on business in Ontario under an exemption from the applicable requirements, provided it is satisfied that the risks are managed in a manner that is comparable to how they are managed under Ontario securities laws. This approach necessitates that the foreign entity is subject to an appropriate and comparable regulatory oversight regime in their home jurisdiction and that the Commission has information sharing arrangements in place with the home regulator(s). Furthermore, exempt marketplaces are “market participants” as defined in the <i>Securities Act</i> (Ontario) and, where appropriate, terms and conditions are imposed in their exemption orders.

## APPENDIX A

APPLICATION FOR EXEMPTION FROM MARKETPLACE RULES  
THAT APPLY TO ALTERNATIVE TRADING SYSTEM (“ATS”)

## SUMMARY OF COMMENTS AND RESPONSES

One comment letter was received from CanDeal.ca Inc.

Summarized Comments Received	Trumid Financial LLC Response
<p><b>Regulation of Trumid’s ATS</b> The commenter suggested that Trumid fails to discuss how it complies with requirements under the equivalent U.S. law. The commenter stated that Trumid provides inadequate explanation in the following circumstances:</p> <p>a) <b>Oversight of the ATS operation:</b> The commenter referenced section 2.1.1 of the Application and stated that Trumid asserts in a “mere two sentences that it exercises effective oversight of its operations.” The commenter noted that this is particularly important since Trumid is exempt under U.S. law from compliance with important rules applicable to bigger ATSs.</p> <p>b) <b>Decisions and public interest mandate:</b> The commenter referenced section 2.1.2 of the Application and suggested that while Trumid states that its business and regulatory decisions are in keeping with its public interest mandate because it is subject to U.S. requirements, in fact, the application of the rules is limited by Trumid’s size.</p> <p>c) <b>Board of Directors:</b> The commenter referenced section 2.1.4 and suggested that there are no details about the independence, skill set or diversity of the board or the criteria applied in selecting them. Further, the commenter stated that the Application does not explain how the managers are supervised in a meaningful way by the board of Trumid.</p>	<p>Trumid’s application for exemptive relief describes: overall regulation by a foreign regulator, governance structure and arrangements that provide effective oversight of the ATS’ operations, policies and procedures to identify and manage conflicts of interest, regulation of products through appropriate review and approval processes, oversight of product specifications and measurement, management and mitigation of any associated risks, transparent and fair requirements with respect to access to an ATS, appropriate authority and procedures for oversight of an ATS, including the detection and deterrence of abusive trading practices, market manipulation, and other unfair trading practices or disruptions of the market, and transparency and reporting.</p> <p>In addition to these obligations, Trumid has demonstrated how it exercises oversight via independent departments handling product development, testing, change management (code deployment), infrastructure and system operation. Trumid also employs real-time monitoring of the ATS with end of day checks by management. Trades, and trading in employee personal accounts, are regularly reviewed by a third-party, compliance consulting firm.</p> <p>While certain ATSs are subject to additional requirements based on the volume of trading, Trumid is nevertheless comprehensively governed and regulated in the U.S. In addition to this U.S. regulation, Trumid’s operations in Ontario are also subject to the terms and conditions set out in its exemptive relief order.</p> <p>We note that the governance requirements applicable to ATSs in the Marketplace Rules are quite limited. That said, other than ordinary course of business decisions, the board of directors of Trumid have oversight and decision-making authority. Board decisions require majority approval, including the approval of at least one of its external directors in all circumstances. As noted in section 2.1.4 of the application, the directors appointed have a diverse range of skills and experience, including significant experience related to securities markets and debt trading.</p>
<p><b>Products Traded</b> The commenter suggested that there is a lack of pertinent detail on the methods employed to measure and mitigate the risks associated with trading products that Trumid offers in section 3.3 of the Application.</p>	<p>Trumid allows for and permits the trading of only TRACE-eligible, U.S. corporate bonds and other fixed income securities included in Trumid’s eligible-to-trade, security-master list.</p> <p>Trumid complies with criteria established by the SEC and FINRA that are required to be satisfied before any new product is admitted for trading, including that new products must be capable of being traded in a fair, orderly and efficient manner and that the ATS must be designed to allow for orderly pricing. Provisions to measure, manage and mitigate the risks associated with trading products on</p>

	<p>Trumid's platform are appropriate to the nature of products traded, and include conformance to daily trading limits, market access controls and internal controls as described in Appendix B to the application.</p>
<p><b>Access: Ongoing supervision</b>                  The commenter stated that section 4.1.7 of the Application does not describe in meaningful detail Trumid's reliance on third party compliance consultants and its compliance system.</p>	<p>Third-party compliance consultants have been engaged to, among other things, provide compliance monitoring and review with respect to electronic correspondence, employee trading, and the Office of Foreign Asset Control or "OFAC" compliance. Additionally, the third-party consultants audit Trumid's anti-money laundering and compliance programs.</p>
<p><b>Regulation of Participants on the ATS</b>                  The commenter referenced section 5 of the Application where Trumid addresses the regulation of its participants. The commenter stated that if the conduct of participants was meaningfully regulated by Trumid's rule book, Trumid would not qualify as an ATS for the purpose of Canadian rules and a fundamental premise of the Application would be put in doubt.</p>	<p>As outlined in paragraph 5.3.1 of the Application, Trumid does not regulate the conduct of participants, nor does it discipline participants in any manner other than by exclusion from trading.</p>
<p><b>Fees</b>                  The commenter referenced section 12.1.1 of the Application and indicated that, beyond a reference to Trumid's fee schedule, the Application does not include any information about the process to set fees.</p>	<p>Trumid's description of its fees is set out in s. 7.1.17 of the Application. Furthermore, and as noted in s. 12.1 of the Application, Trumid's fees have been designed to be fair, transparent and non-discriminatory, as required by applicable U.S. regulation.</p>