

**13.3 Clearing Agencies**

**13.3.1 Material Amendments to CDS Procedures – Trade Confirmation and Matching Compliance as per IIROC Dealer Member Rules 800.49 and 200.1(h) Changes – Request for Comments**

**CDS Clearing and Depository Services Inc. (CDS®)**

**MATERIAL AMENDMENTS TO CDS PROCEDURES**

**TRADE CONFIRMATION AND MATCHING COMPLIANCE AS PER  
IIROC DEALER MEMBER RULES 800.49 AND 200.1(H) CHANGES**

**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 the revised 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.<sup>1</sup>

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.*

Rule 200.1(h) stipulates that a Dealer member is not required to send a trade confirmation if certain criteria are met. One of the criteria is that 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 these regulation changes.

In order to facilitate the implementation of the revised amendments to Rule 800.49 and Rule 200.1(h), 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. Take over the task from IIROC of producing and distributing the quarterly street summary report and the quarterly individual participant CUID summary reports;
- III. Produce and distribute monthly individual participant CUID summary; and
- IV. Continue providing IIROC 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 they would support a monthly subscription fee specific to this service.

This implementation will be effective August 12, 2013.

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<sup>1</sup> 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**

The proposed amendments reflect changes to IIROC Dealer member rules 800.49 and 200.1(h).

Currently, the Participant Trade Matching Compliance report (RMS 58) is produced daily and is available to IIROC dealer members to help them monitor their activities against IIROC's 800.49 regulation. This daily report provides trade reporting compliance data with respect to a "within one-hour" of trade execution rule. The details of this rule are described in Chapter 6, section 6.8 of the Trade and Settlement Procedures Guide.

IIROC also receives a daily file from CDS that contains the same data that is reported by CDS to its members in the Trade Matching Compliance report. IIROC accumulates this data and provides its members monthly individual participant CUID summary reports and a monthly street summary report.

The current Trade Matching Compliance report will be replaced with a new report that measures compliance based on the new "report at or before 6:00 p.m." rule. Reporting will be delivered via a web service instead of an RMS report. A daily file containing compliance data will continue to be provided to IIROC. In addition, CDS will provide IIROC dealer members monthly trade compliance summary statistics and quarterly trade compliance summary data. The information will be reported against industry data.

## **C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The impact of the proposed amendments is limited to CDS participants that are IIROC dealer members and are eligible for broker-to-broker trade matching in CDSX.

### **C.1 Competition**

The proposed CDS procedure amendments are not expected to impact competition. The purpose of these amendments is to assist IIROC dealer members monitor their B2B/TM activities against Rule 800.49 and Rule 200.1(h).

### **C.2 Risks and Compliance Costs**

These amendments address compliance reporting requirements solely. They do not introduce or impose any new functionality or limitations on participation in the B2B/TM service in CDSX or on CDS's Risk Model. Cost is limited to a daily subscription fee that CDS intends to table with the CDS's Fee Committee prior to implementation.

### **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**

The CPSS/IOSCO report *Principles for Financial Market Infrastructures* states in Principle 24 (Disclosure of market data by trade repositories) 'a trade repository should provide timely and accurate data to relevant authorities and the public in line with their respective needs.'

Implementing the changes related to this initiative supports this principle by providing IIROC and its members data required to meet the regulations outlined in Rule 800.49 and Rule 200.1(h).

## **D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS**

### **D.1 Development Context**

On November 23, 2012, IIROC received the securities commissions' approval for amendments to Rule 800.49 and Rule 200.1(h). IIROC requested that CDS consider changes to its current B2B/TM compliance reporting process in CDSX to address these amendments. These changes included producing monthly and quarterly reports that IIROC produces today. In March the Debt and Equity subcommittee of the SDRC agreed that CDS pursue these changes. Development was approved by the SDRC on March 28, 2013.

### **D.2 Procedure Drafting Process**

The CDS procedure amendments are drafted by CDS's Product Management group, and subsequently reviewed and approved by CDS's Strategic Development Review Committee (SDRC). The SDRC determines or reviews, prioritizes and oversees CDS-related systems development and other changes proposed by participants and CDS. The SDRC's

membership includes representatives from a cross-section of the CDS participant community and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on April 25, 2013.

### **D.3 Issues Considered**

The consensus among IIROC dealer members was that CDS continue to provide its CDSX participants with compliance reporting services. They also agreed to fund monthly and quarterly reports that are currently prepared and distributed by IIROC. Specifically, the members agreed to replace the current compliance report with a new one reflecting the new IIROC regulations. Finally, the SDRC agreed that it would support a fee for this service.

### **D.4 Consultation**

The scope of the development effort requested by the IIROC was reviewed with IIROC and the SDRC. The Debt and Equity subcommittee of the SDRC agreed to pursue this effort and development was approved by the SDRC.

CDS's Relationship Managers and Customer Service department provide continuous communication and status updates of all proposed changes to their clients, as well as soliciting input on those changes.

CDS facilitates consultation through a variety of means, including regularly scheduled SDRC subcommittee meetings, which provide a forum for detailed requirement review, and monthly meetings with service bureaus to discuss development impacts to them. All development initiatives are also presented to the Investment Industry Regulatory Organization of Canada's (IIROC) Financial Administrators Section (FAS) working group.

### **D.5 Alternatives Considered**

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

The consensus among SDRC members and IIROC dealer members was that CDS provide for its CDSX participants' daily, monthly and quarterly compliance reporting needs.

### **D.6 Implementation Plan**

The proposed procedure amendments and the scheduled date of implementation have been communicated regularly to CDS participants through the SDRC and its subcommittees, as well as through Relationship Management client meetings. The Relationship Managers and the Customer Service department will provide their clients with details of the upcoming changes, and provide customer-related training during the month of July 2013. CDS will distribute a bulletin to all CDS participants the week before implementation reminding them of the upcoming changes and confirming the effective date of those 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<sup>®</sup>, 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 amendments to Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation of this initiative is planned for August 12, 2013.

**E. TECHNOLOGICAL SYSTEM CHANGES**

**E.1 CDS**

CDSX will be impacted by these changes in the following way:

- a) Discontinue the Trade Matching Compliance Report (RMS 58)
- b) Implement a new CDS web service, TRAX™ - Trade confirmation statistics, which will provide the compliance statistics for participants
- c) Change the trade matching compliance algorithm to:
  - i. Measure compliance against the new 'report at or before 6:00pm' rule
  - ii. Include trades between IIROC dealer members only
  - iii. Exclude trades between CUIDs of the same dealer member (for example, trades between AAAA and AAAB)
- d) Develop a file to provide IIROC with the daily statistics

**E.2 CDS Participants**

Participants will retrieve their broker-to-broker trade matching confirmation statistics from a new web service instead of an RMS report.

**E.3 Other Market Participants**

There were no technological system changes identified for other market participants as a consequence of this initiative.

**F. COMPARISON TO OTHER CLEARING AGENCIES**

The proposed amendments are specific to CDSX participants who use the CDSX Broker-to-Broker Trade matching utility. The amendments are consistent with regulation changes to be imposed by IIROC on its members. 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 amendments 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.

**I. PROPOSED CDS PROCEDURE AMENDMENTS**

Access the proposed amendments to the CDS Procedures on the User documentation revisions web page (<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open>).