

1.1.7 CSA Staff Notice 23-304 – Joint CSA/SRO Notice – Status of the Transaction Reporting and Electronic Audit Trail System

**JOINT CSA/SRO NOTICE 23-304 –
STATUS OF THE TRANSACTION REPORTING
AND ELECTRONIC AUDIT TRAIL SYSTEM
(TREATS)**

A. Introduction

The electronic audit initiative is a project initiated and managed by the Canadian Securities Administrators (CSA) with the participation of Market Regulation Services Inc. (RS), the Bourse de Montréal Inc. (Bourse), the Investment Dealers Association of Canada (IDA) and the Mutual Fund Dealers Association (MFDA) (together, the Regulators or we) to investigate, design and implement a solution to facilitate compliance with Canadian securities audit trail requirements introduced in National Instrument 23-101 *Trading Rules* (NI 23-101).

B. Background

National Instrument 21-101 *Marketplace Operations* (NI 21-101) and NI 23-101 create a framework for the operation of different kinds of marketplaces such as traditional exchanges and alternative trading systems (together, the 'National Instruments' or the 'ATS Rules'). Part 11 of NI 23-101 and Part 8 of NI 23-101CP deal with the audit trail requirements. NI 23-101 imposes obligations on dealers and inter-dealer bond brokers (dealers) to record and report in electronic form certain information regarding orders and trades.

In June 2003, the CSA formed the Industry Committee on Trade Reporting and Electronic Audit Trail Standards (TREATS Committee), to review the appropriate standards for data consolidation and the electronic audit trail requirements. On July 26, 2004, the TREATS Committee submitted a report providing its recommendations (the Report)¹ to the Regulators.

In April 2004, the Regulators selected a consultant to prepare documentation to identify and further clarify the high-level requirements for the Regulators' facility for requesting and receiving audit trail information from dealers and marketplaces. These high-level requirements formed the basis of a request for information (RFI) that was used to solicit recommendations on how best to fulfill the objectives of TREATS from both technical and operational perspectives. The RFI process officially concluded in December of 2004.

After considering the recommendations of the TREATS Committee, as set out in the Report, and the responses to the RFI, the Regulators developed more detailed requirements for the electronic facility, and decided to replace the existing Standard Electronic Client Transaction Reporting System (SELECTR) data format specification and the associated REGNET system used by some Regulators.

In December 2005, the Regulators also determined that it would be appropriate to defer the inclusion of mutual funds from the scope of the TREATS initiative to a future date, having regard to such factors as the significant differences in the manner in which mutual funds are traded as compared to other categories of securities. As a result of the Regulators' decision to defer inclusion of mutual funds in the TREATS initiative, the MFDA will not be participating directly in the Request for Proposal (RFP) process. However, the MFDA will continue to participate in the ongoing work in this area, as appropriate.

C. The TREATS Facility

The objective of the TREATS project is to enable the dealers and marketplaces (collectively, the Participants) to construct and Regulators to receive part or all of an electronic audit trail of order and trade transaction data which will enhance the monitoring capabilities of the dealers and Regulators and facilitate dealer compliance with regulatory requirements.

The Regulators hope to facilitate this objective by developing an efficient, common, secure and reliable electronic communication and tracking facility for requesting and receiving transaction data relating to the following types of securities: listed securities including equities, debt and options; over-the-counter equity securities; over-the-counter debt securities including government bonds, corporate bonds and debentures; and exchange traded derivatives relating to equities, indices and fixed income securities.

¹ The Report is found at Appendix A to CSA Staff Notice 23-302 – Joint Regulator Notice – Electronic Audit Trail Initiative (TREATS) published on April 15, 2005 [(2005) 28 OSCB 3561].

In order to ensure the efficiency and commonality of the data that will be requested by the Regulators as well as consistency in the data that will be recorded and reported by the Participants, the Regulators have committed to agree on the name, definition and format of each data element that has to be recorded by the Participants.

The proposed TREATS facility would enable Regulators to request of and receive from Participants predetermined groups of data elements that are based on events such as receipt of a new order, cancellation of an order, splitting of an order, combining (i.e. batching) of two or more orders, routing of an order to a marketplace, and execution of an order.

Regulators may make two types of requests to Participants through the TREATS facility: automatic and on-request. Automatic requests are standing requests for periodic provision over an indefinite time of data elements that are pre-defined by the Regulators. Automatic requests will only be initiated or changed by means of a rule or rule change. On-request requests are not predetermined. Rather, they are requests for one or more pre-defined groupings of data elements from a full list of data elements, to be reported once or at a specified frequency during a specific period of time.

When a request is made the facility will notify the requestor if a "similar" request has been made by another Regulator in order to facilitate co-ordination among the Regulators. The facility will validate the data submitted by the Participants so as to reduce the time for problem resolution by Regulators and Participants. Requests and responses will be tracked by the facility.

D. TREATS Project Tasks Timeline

The TREATS project includes the following tasks:

1. Developing a facility to communicate, validate and track reporting requests (Responsibility of Regulators);
2. Establishing technology requirements of the interfaces between the facility and Regulators as well as between the facility and dealers (Responsibility of Regulators);
3. Identifying 'Automatic' and 'On-Request' Business Use Cases (Responsibility of Regulators); and
4. Implementation of recording and business processes that will enable dealers to respond to Regulators' requests (Responsibility of Dealers and Marketplaces).

The RFP will address the first two tasks.

The RFP is intended to solicit firm proposals from suppliers to address the presented business and technical requirements for the TREATS solution and to provide information that will help the Regulators in their selection process and the decision to move forward with this initiative.

The RFP and related documents set forth the desired functional and technical specifications. A copy of the RFP has been posted at www.osc.gov.on.ca².

The RFP is being issued to a shortlist of potential vendors in March 2006 and the vendors will have approximately 8 weeks to respond to the RFP, which will be by beginning of May 2006. The Regulators will then make a decision regarding the TREATS project (including on what basis to proceed) by July 2006, so that any necessary rule amendments can be made before the December 2006 deadline for implementation of the audit trail requirements. The Regulators may decide not to proceed with developing the facility.

The Regulators will be meeting with industry representatives from dealers, marketplaces and service providers to establish and confirm documentation of business use cases and data modeling to assist the Regulators' and Participants' efforts to achieve the objectives of TREATS. At the end of the process for the third task stated above, the Regulators will be able to confirm whether the requirements in the National Instruments are complete or will amend those National Instruments through the usual rule-making process. Although some Participants have begun to prepare for implementation, the Regulators understand that plans for implementation (fourth task) can not be completed until the first three tasks have been completed.

The following provides some estimated times for various tasks.

² The RFP can be found at Market Regulation / Special Projects / TREATS on the OSC web site.

Proposed Project Timeline for TREATS

First Quarter 2006	<ol style="list-style-type: none"> 1. Obtain approval from each Regulator to issue RFP documents; 2. Issue RFP; and 3. Complete Business Use Cases.
Second Quarter 2006	<ol style="list-style-type: none"> 1. Complete Data Modeling. 2. Receive responses from RFP. 3. Conduct Cost Benefit Analysis. 4. Publish required amendments to the ATS Rules.
Third Quarter – Fourth Quarter 2006	<ol style="list-style-type: none"> 1. Make decisions regarding RFP. 2. Proceed with contract regarding the facility if the Regulators decide to go forward. 3. Finalize amendments to the ATS Rules. 4. Develop and build the TREATS facility. 5. Issue technical specifications of TREATS facilities and Regulator's "Automatic" and "Upon Request" details.
Second Quarter 2007	Testing of TREATS facility.

The decision to proceed with building the facility and the steps going forward will depend upon the responses to the RFP and the results of the Cost Benefit Analysis conducted by the Regulators. Therefore, the Project timelines and steps may change.

The date for implementation of the requirements set out in NI 23-101 will be amended to reflect the decisions regarding the ATS rule amendments and the status of the TREATS facility.

E. Communications to Participants

Communications and input from Participants is a key part of the implementation of the TREATS requirements. The Regulators have used and will continue to use a variety of tools to communicate with industry including: websites, meetings, notices and requests for comment. For example, a draft of the RFP was presented for comment to the Industry Advisory Group (IAG), a broad group established by the Regulators during the RFP development stage to consult and provide input on various issues. An electronic discussion forum (the TREATS Discussion Forum) was established to promote input without requiring multiple in-person meetings. Regulators and industry participants were able to both post discussion points and review discussion threads. The Regulators have also had meetings with IAG participants to review the project developments to insure that there is opportunity for meaningful comment and input.

Access to the TREATS Discussion Forum is being expanded to include direct industry participant access. The Regulators will continue to use it to post information and receive comments. To gain access to the TREATS Discussion Forum, please complete the online registration process at <http://treats.zeroforum.com/zerouser?cmd=register>. Upon answering a few questions, a password will be e-mailed to the user for immediate access. Upon registering and logging-in, please go to <http://treats.zeroforum.com> and select "Project News" for more information on how to use the TREATS Discussion Forum.

The IAG has been and will continue to be involved in providing input regarding the RFP. Working groups of industry participants were used and will be established to address specific issues.

A Notice and Request for Comments will be published for any ATS rule amendments. The Regulators will also update Participants regularly on developments regarding business use cases, status of the RFP, technical specifications of the TREATS facility and timelines. This will allow Participants to assess whether and when any changes to their internal systems and processes are necessary to meet the TREATS requirements.

The Regulators will endeavour to provide details and information on an ongoing basis to ensure that industry participants clearly understand the implications of this initiative and are able to suitably plan and prepare for the changes that will result. We will continue to publish notices as key information arises.

If there are any questions at this stage, please contact:

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