

6.1.2 CSA Notice 21-304 - Request for Filing of Form 21-101F5 Initial Operation Report for Information Processor by Interested Information Processors

**CANADIAN SECURITIES ADMINISTRATORS' NOTICE 21-304
REQUEST FOR FILING OF FORM 21-101F5 INITIAL OPERATION REPORT
FOR INFORMATION PROCESSOR BY INTERESTED INFORMATION PROCESSORS**

I. Background

National Instrument 21-101 - *Marketplace Operation* (NI 21-101) (which, together with National Instrument 23-101 - *Trading Rules* are hereafter referred to as the ATS Rules) sets out pre-trade and post-trade transparency requirements for marketplaces that trade exchange-traded securities, and for marketplaces, inter-dealer bond brokers (IDBs) and dealers that trade government and corporate debt securities.¹ For government debt securities, the requirements for marketplaces and IDBs to provide order and trade information have been postponed until December 31, 2006. On today's date, the Canadian Securities Administrators (CSA) have published a proposal to provide additional transparency for government debt securities.²

II. Current Status of Information Processors for debt and equity

i. Equity

As set out in the Notice of Proposed Amendments which is being published today, we made amendments in 2003 to the ATS Rules to require information on orders and trades for exchange-traded securities to be sent to an information processor, or if there is no information processor, then to an information vendor. Currently there is no information processor for the equity marketplaces.

We remain of the view that availability of pre-trade and post-trade information is essential to facilitate best execution and market integrity, especially with multiple marketplaces trading the same securities. Under current requirements, dealers and regulators need to take into consideration information from all marketplaces trading the same securities and take appropriate steps to access orders. We believe that an information processor would facilitate a central source of consolidated data that is consistent, easily accessible and meets the needs of both the regulators and the industry.

ii. Debt

The 2003 ATS Rules retained transparency and data consolidation requirements for corporate debt securities. In 2003, CanPX was approved as the information processor for corporate fixed income securities. We note that CanPX's approval expires on December 31, 2006. To the extent that transparency of additional debt securities, including government debt securities is phased in, the importance of having a robust system increases. While we will be considering extending CanPX's approval, we invite other entities that are interested in being the information processor to apply.

III. Filing to be an Information Processor and Timing for Review of Filing

We encourage any interested parties to apply as an information processor for the purpose of consolidating pre-trade and post-trade information for the equity and/or fixed income markets. Any party interested in being an information processor for equity and/or fixed income securities should file Form 21-101F5 - *Initial Operation Report for Information Processor* (Form 21-101F5) by August 31, 2006. For more information on the purpose of establishing an information processor and the functions expected of an information processor, please refer to NI 21-101, Part 14 and the Companion Policy to NI 21-101, Part 16. In evaluating the filing, the CSA will consider a number of factors, including, but not limited to:

- (a) the performance capability, standards and procedures for the collection, processing, distribution, and publication of information with respect to orders for, and trades in, securities;
- (b) whether all marketplaces may obtain access to the information processor on fair and reasonable terms which are not unreasonably discriminatory;
- (c) personnel qualifications;
- (d) whether the information processor has sufficient financial resources for the proper performance of its functions;

¹ NI 21-101, Parts 7 and 8.

² Notice published today (Notice of Proposed Amendments to NI 21-101 *Marketplace Operation*, Companion Policy 21-101CP, NI 23-101 *Trading Rules*, and Companion Policy 23-101CP) provides additional details and background on the requirements.

Request for Comments

- (e) the existence of another entity performing the proposed function for the same type of security; and
- (f) the systems report referred to in subsection 14.5(b) of NI 21-101.

The CSA are currently proposing amendments to Form 21-101F5, and we encourage any parties interested in being an information processor to review the proposed changes to Form 21-101F5 and include the additional information set out as part of the proposed amendments in the application. The proposed amendments to Form 21-101F5 would require any interested parties to include additional information:

- a. further explanation about corporate governance processes and procedures that would promote independence from the marketplaces, inter-dealer bond brokers and dealers that provide data;
- b. more information about the procedures used to collect, process, distribute, validate and publish information with respect to orders and trades in securities;
- c. a description of the process to verify the timeliness and accuracy of the information received and disseminated by the information processor, including the processes to resolve data integrity issues identified;
- d. a description of the process and criteria used to select securities for which information must be reported to the information processor; and
- e. how revenues will be shared among marketplaces, inter-dealer bond brokers and dealers that provide information to the information processor.

A Notice identifying who has applied and a summary of the application will be published by the CSA for comment in September, 2006.

The CSA will make a decision by December 31, 2006 regarding whether any entity has been accepted as an information processor.

July 14, 2006