Chapter 6

Request for Comments

6.1.1 CSA Staff Notice and Request for Comment 21-323 – Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities, Expanded Transparency of Trades in Corporate Debt Securities and Proposed Amendments to National Instrument 21-101 Marketplace Operation and Related Companion Policy

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Staff Notice and Request for Comment 21-323
Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities, Expanded Transparency of Trades in Corporate Debt Securities and
Proposed Amendments to National Instrument 21-101 *Marketplace Operation* and Related Companion Policy

May 24, 2018

Introduction

Staff (**we**) of the Canadian Securities Administrators (**CSA**) are publishing for comment amendments to National Instrument 21-101 *Marketplace Operation* (**NI 21-101**) and the related Companion Policy 21-101 (**21-101CP**) (together the **Proposed Amendments**).

The text of the Proposed Amendments is contained in Annexes B and C of this notice and is also available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.fcnb.ca
nssc.novascotia.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.mbsecurities.ca

Substance and purpose

The purpose of this notice is to request comments on the Proposed Amendments. The Proposed Amendments would implement:

- a proposed framework for mandatory post-trade transparency of trades in government debt securities[1] (**Proposed Government Debt Framework**).
- a proposal to expand the framework for mandatory post-trade transparency of trades in corporate debt securities (**Expanded Corporate Debt Proposal**).

We anticipate implementing both the Proposed Government Debt Framework and the Expanded Corporate Debt Proposal in phases, with the first phase commencing on April 1, 2019. Our objective is to achieve uniform post-trade transparency of trades in government and corporate debt securities by December 31, 2019.

To develop the Proposed Government Debt Framework, we formed a working group (**Working Group**) with staff of the Bank of Canada (**BoC**), the Department of Finance Canada (**Finance**) and Investment Industry Regulatory Organization of Canada (**IIROC**). We thank them for their participation and for sharing their knowledge and expertise.

[1] "Government debt security" is defined in section 1.1 of National Instrument 21-101 *Marketplace Operation* and includes debt securities issued or guaranteed by the government of Canada, a province or territory, a Canadian municipality or crown corporation.

Summary of the Proposed Amendments

The Proposed Amendments will introduce mandatory post-trade transparency requirements for government debt securities and expand transparency requirements for corporate debt securities as described below.

(a) Government debt securities

Section 8.1 of NI 21-101 currently requires marketplaces and interdealer bond brokers (**IDBBs**) trading government debt securities to provide order and trade information to an information processor (**IP**), as required by the IP. Section 8.6 of NI 21-101, which provided a time-limited exemption from the government debt transparency requirements, has now expired. Despite the expiry of the exemption, because no requirements have been set by an IP, there is no mandatory government debt transparency in place.[2]

The Proposed Government Debt Framework, if adopted, will be established by the Proposed Amendments and the appointment of an IP for government debt securities, and will be implemented through requirements set by the IP.

The Proposed Amendments change the existing provisions of NI 21-101 to require a person or company that executes trades in government debt securities to provide information regarding trades in these securities to an IP. We also propose to require an IP for government debt securities to disseminate post-trade information about such trades. As a result, mandatory post-trade transparency of trades in government debt securities will apply to entities beyond IDBBs and marketplaces. The IP, with the approval of the CSA, will identify the persons or companies required to report details of trades in government debt securities and the model for reporting and disseminating such information (including the publication delay and volume caps). Initially, we propose that the IP disseminate information regarding trades in government debt securities executed by dealers, marketplaces, IDBBs and banks listed in Schedule I, II or III of the *Bank Act* (Canada) (**Banks**).

The Proposed Government Debt Framework is described in Annex A.

(b) Corporate debt securities

Section 8.2 of NI 21-101 requires marketplaces, IDBBs and dealers to provide information about orders and trades for designated corporate debt securities to an IP, as required by the IP. IIROC has been the IP for corporate debt securities since July 4, 2016 and is currently disseminating post-trade information regarding trades in corporate debt securities.[3]

The Expanded Corporate Debt Proposal, if adopted, will be established by the Proposed Amendments and implemented through requirements set by the IP.

The Proposed Amendments expand the existing corporate debt transparency provisions to require a person or company that executes trades in corporate debt securities to provide information regarding trades in these securities to an IP. As a result, mandatory post-trade transparency of trades in corporate debt securities will apply to entities beyond dealers, marketplaces and IDBBs. As with the Proposed Government Debt Framework, the IP will identify the persons or companies required to report details of trades in corporate debt securities with the approval of the CSA. The IP will disseminate information regarding trades in corporate debt securities executed by dealers, marketplaces, IDBBs and Banks.

(c) Other amendments for both government and corporate debt securities

To further align the transparency regimes, we propose to make a number of other related amendments to NI 21-101 and 21-101CP. These include:

- amending the requirement that the IPs for unlisted debt securities produce a real-time consolidated feed showing order and trade information to a requirement to produce consolidated information about trades, consistent with the current approach for corporate debt securities;
- amending the transparency requirement to report order and trade information in corporate debt securities that are designated by an IP to be a requirement to report details of all trades of corporate debt securities, consistent with the current approach of the IP for corporate debt securities; and
- removing descriptions of volume caps and other operational details from 21-101CP, as these will be set by the IP and approved by the CSA.

[2] CSA Staff Notice 21-320 Update: *National Instrument 21-101 Marketplace Operation and Related Companion Policy – Dealing with Government Debt Transparency*.

[3] Prior to July 4, 2016, CanPX had been the IP for corporate debt securities.

(d) IIROC as the information processor

We propose that IIROC expand its mandate as IP to include government debt securities in addition to corporate debt securities.

As the IP for corporate debt securities, IIROC has been providing transparency to the public regarding all trades in corporate debt securities since July 4, 2016. We set out the benefits of extending IIROC's role as IP for corporate debt securities to government debt securities in Annex A below.

In addition, CSA staff will continue to conduct oversight activities to ensure that IIROC complies with its regulatory requirements as the IP for corporate and government debt securities in Canada.

Annexes

A. Framework for the Regulation and Transparency of the Government Debt Market, Description of the Expanded Corporate Debt Proposal and of the Proposed Amendments;

B. Proposed Amendments to NI 21-101 and 21-101CP;

C. Proposed Amendments to NI 21-101 and 21-101CP, blacklined to the current versions; and

D. Local Matters.

Local matters

Certain jurisdictions are publishing other information required by local securities legislation. In Ontario, this information is contained in Annex D of this notice.

Deadline for comments

Please submit your comments to the Proposed Amendments, in writing, on or before August 29, 2018. If you are not sending your comments by email, please send a CD containing the submissions (in Microsoft Word format).

Where to send your comments

Address your submissions to all of the CSA jurisdictions, as follows:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Affairs Authority (Saskatchewan)
Financial and Consumer Services Commission (New Brunswick)
Manitoba Securities Commission
Ontario Securities Commission
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Deliver your comments **only** to the addresses below. Your comments will be distributed to the other participating CSA jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage,
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
Fax: 514-864-6318
consultation-en-cours@lautorite.qc.ca

Comments received will be publicly available

Please note that we cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. In this context, you should be aware that some information which is personal to you, such as your email and address, may appear on certain CSA web sites. It is important that you state on whose behalf you are making the submissions.

All comments will be posted on the Ontario Securities Commission web site at www.osc.gov.on.ca and on the Autorité des marchés financiers web site at www.lautorite.qc.ca.

Questions

Questions may be referred to:

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ANNEX A

FRAMEWORK FOR THE REGULATION AND TRANSPARENCY OF THE GOVERNMENT DEBT MARKET, DESCRIPTION OF THE EXPANDED CORPORATE DEBT PROPOSAL AND OF THE PROPOSED AMENDMENTS

I. Introduction

Transparency of the debt markets is an important element of fair and efficient capital markets. In addition, transparency also supports investor protection by facilitating investors' ability to make informed trading decisions.

II. Transparency of trades in the government debt market

1. Overview of the secondary trading of government debt securities

Secondary trading in government debt securities is decentralized, with most of the trading activity taking place over-the-counter (**OTC**) with dealers trading as "principal" with their clients and being compensated through the bid-offer spread, or the difference between the purchase and sale price.

In December, 2017, the market for corporate and government debt securities in Canada was approximately $1.8 trillion in size by par value outstanding.[4] While close to $312 billion of debt securities were issued in the primary market and more than $12 trillion traded in the secondary market in 2017, most of this activity was concentrated among a few large issuers and institutions.[5] Government debt securities (federal, provincial and municipal) accounted for approximately 70% of the debt securities issued and outstanding domestically in 2017 and over 90% of the value traded.[6] Direct retail participation in the primary and secondary debt markets is low and retail investors typically gain exposure to the debt markets by purchasing investment funds.[7]

2. Current transparency requirements relating to government debt securities

Section 8.1 of NI 21-101 sets out the transparency requirements for government debt securities. Specifically, marketplaces and IDBBs are required to report order and trade information to an IP (as required by the IP). Currently, there is no IP for government debt securities and, as such, no requirements to report.

While post-trade transparency of trades in government debt securities is not mandated at this time, information about trades in government debt securities is available from a limited number of sources (e.g., Canadian Depository for Securities provides subscribers with its Fixed Income Product Service (**FIPS**) and CanPX provides vendors with data from IDBBs). This information is generally available to large dealers and institutional investors that have the financial means to afford such data.

Recognizing the limited availability of affordable post-trade information about trades in government debt securities that can be accessed by retail and small institutional investors, and considering global developments, we think it is appropriate to propose mandatory post-trade transparency for such trades. We view the transparency of trades in government debt securities as an important element of fair and efficient debt markets. Mandatory transparency also supports investor protection by facilitating investors' ability to make informed trading decisions.

3. Principles underlying the Proposed Government Debt Framework

In developing the Proposed Government Debt Framework, we considered the market structure attributes of liquidity, immediacy, transparency, price discovery, fairness and market integrity.[8] We believe that by introducing mandated post-trade transparency, the Proposed Government Debt Framework supports these attributes and recognizes the need to balance the benefits of greater transparency with the potential detrimental impact on liquidity.

When we refer to post-trade transparency, we refer to the ability of all market participants to access publicly available information about executed transactions. Specifically, post-trade transparency refers to the public dissemination of information about completed transactions, including price and volume.

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4 Government of Canada Statistics, "CANSIM Table 176-0071, Bonds outstanding, shown at par value, by currency of payments and issuers, Bank of Canada".

5 Government of Canada Statistics, "CANSIM Table 176-0034 Gross new issues, retirements and net new issues, par value, Bank of Canada" and IIROC, "Bond Market Secondary trading".

6 *Supra*, notes 5 and 6.

7 Ontario Securities Commission, *The Canadian Fixed Income Market* (2014).

8 These characteristics were outlined in the 1997 TSE *Report of the Special Committee on Market Fragmentation*: *Responding to the Challenge*, and subsequently in a report titled *Ideal Attributes of a Marketplace* authored by Erik Kirzner and published in June 2006.

Some regulators and academic articles[9] support the argument that increased transparency of debt trading fosters the price discovery process and enhances market liquidity and efficiency. Transparency can reduce the opportunities for informed participants to take advantage of less-informed participants. Access to more information about the trading taking place in the debt markets may result in less-informed participants (such as retail and small- and medium-size institutional investors) becoming more confident in their ability to make informed trading decisions. Subsequently, increased transparency may make the debt market more attractive to new investors. Increased market liquidity may add to the dealers' ability to provide liquidity to the markets by reducing their market-making costs.[10],[11]

As we noted above, currently there is limited transparency of trades in government debt securities and the cost to access such transparency may not be affordable for all market participants. This lack of accessibility to information about trades in government debt securities makes it difficult for investors to assess whether they received a fair price in a transaction for a government debt security, which can impact their perception of the market's fairness and integrity.

Despite this, some have argued that too much transparency may harm liquidity. In particular, real-time post-trade transparency may negatively impact the liquidity of a debt instrument if prices move against a dealer when it attempts to offset positions taken in a debt instrument following a trade with a client, which may occur if this debt instrument is not liquid enough (e.g. trades less frequently). Their view is that any post-trade real-time transparency regime may lead the dealer to trade more on an agency basis (i.e. not take bonds into inventory) and reduce the dealer's willingness to make markets.

4. Transparency and reporting requirements in other jurisdictions

We are of the view that the Proposed Government Debt Framework is a step forward for Canadian markets. We note that there are other markets that have introduced, or will shortly introduce, transparency and/or reporting for regulatory purposes.

Transparency for all debt securities is mandated in the European Union, where MiFID II mandates pre- and post-trade transparency for all debt securities admitted to trading on trading venues.[12] Public dissemination was implemented on January 3, 2018.

Reporting of transactions in United States Treasury securities is also mandated in the United States through the Trade Reporting and Compliance Engine (**TRACE**) administered by the Financial Industry Regulatory Authority (**FINRA**), although information about these transactions is not currently publicly disseminated.[13]

5. Proposed Government Debt Framework

The Proposed Government Debt Framework, described below, was developed with the cooperation of staff of the BoC, Finance and IIROC. It is based on an analysis of Market Trade Reporting System 2.0 (**MTRS 2.0**) data,[14] preliminary consultations with industry stakeholders and the existing transparency regime for corporate debt securities.

In developing the Proposed Government Debt Framework, our goal was to balance the desire for greater transparency, particularly for retail and small institutional investors, with the need to manage any potential negative effect of greater transparency on liquidity. We think that the Proposed Government Debt Framework achieves this balance by delaying the dissemination of information about trades and capping the disclosed volume of trades, thus allowing entities trading as principal to manage their inventory risk while providing useful information to investors.

The Proposed Government Debt Framework necessitates:

- amending NI 21-101 to extend the requirements to any persons or companies trading in government debt securities; and

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9 Hendrik Bessembinder at all, *Market Transparency, liquidity externalities, and institutional trading costs in corporate bonds*, Journal of Financial Economics 82(2), 251-288 (2006); Amy K. Edwards at al., *Corporate bond market transparency costs and transparency*, The Journal of Finance 62(3), 1421-1451 (2007); Michael A. Goldstein, Edith S. Hotchkiss, & Erik R. Sirri, *Transparency and Liquidity: A Controlled Experiment on Corporate Bonds*, Review of Financial Studies, 20(2): 235-73 (2007).

10 Tran-Minh Vu: *Transparency in the Canadian Fixed Income Market: Opportunities and Constraints*.

11 Increased customer participation could help dealers to manage part of their inventory risk by increasing the frequency of their trading with their own customers.

12 Depending on the liquidity of the financial instrument subject to transparency requirements, there are pre-trade waivers and post-trade reporting deferrals available.

13 TRACE currently reports transactions in debt securities issued by certain government agencies.

14 MTRS 2.0 data contains information about transactions in all debt securities reported by IIROC Dealer Members.

- approving an IP for government debt securities[15] and:
    - the list of persons or companies to become subject to the transparency requirements for government debt trading, and
    - the model used by the IP for disseminating post-trade information, including the volume caps and dissemination delays.

Under the Proposed Government Debt Framework, the IP will publish details relating to each trade in a government debt security on a delayed basis with caps on reported volume, as described below. Pre-trade information will neither be collected nor disseminated at this time.

(i) Entities subject to reporting and transparency requirements

The Proposed Amendments require any person or company that executes transactions in government debt securities to report the details of orders and trades in these securities to an IP, as required by the IP. Specifically, the Proposed Government Debt Framework extends the transparency requirements, to any person or company that trades such securities. Dealers, IDBBs, marketplaces and Banks will be required to report details of their government debt transactions to the IP.

In proposing the expansion of reporting requirements, ***we seek specific comment on the expansion to Banks, and, in particular, Schedule III banks.***

We note that if Schedule III banks are excluded, trades in government debt securities between a Schedule III bank and a dealer, IDBB, Schedule I or Schedule II bank would be within the scope of the transparency regime and would be reported by the Schedule III bank's counterparty.

Any future expansion of the list of persons or companies subject to the transparency requirements will be proposed by the IP and be subject to CSA approval following public notice and comment.

(ii) Types of government debt securities that will be captured

Government debt securities include federal, provincial and municipal debt securities. Below is a list of government debt securities that would be subject to the Proposed Government Debt Framework:

- All Government of Canada Debt Securities including Government of Canada Bills, Government of Canada Nominal Bonds, Government of Canada Real Return Bonds (**RRBs**) and Government of Canada Strip Coupons and Residuals.
- All Canada Mortgage Bonds (**CMB**).
- All Provincial Debt Securities including RRBs, Strip Coupons and Residuals.
- All Municipal Debt Securities.
- All Federal and Provincial Agency Bonds other than CMB.

(iii) Publication delays and volume caps

The publication delay is the time between when a trade occurs and when information about the trade is published. We note that concerns have been historically raised about the potential impact of transparency on liquidity and the willingness of dealers to provide liquidity if information about their transactions becomes immediately available.

To address this concern, the Proposed Government Debt Framework proposes to publish details of completed trades in government debt securities on T+1 (5:00 pm ET).[16] In addition, the publication of trade details would not display the identity of the counterparties to a trade and would be subject to caps on the displayed volume. These caps would be determined by the liquidity characteristics of the type of bond.

[15] In Ontario, under new powers, the IP is designated by the Ontario Securities Commission, in Saskatchewan, by the Financial and Consumer Affairs Authority of Saskatchewan, and in Québec, it is recognized by the Autorité des marchés financiers.

[16] Today, information on transactions in corporate debt securities is disseminated at midnight on T+2. IIROC, as the IP for corporate debt securities, is considering disseminating the information on T+1 (5:00 pm ET), consistent with the proposed dissemination of information on transactions on government debt securities.

The cap on the displayed volume (otherwise known as volume cap) is a threshold trade volume above which the volume field in the report is masked. Specifically, the volume caps are the maximum volume that would be displayed for a trade. For example, a trade of $15 million CMB would appear as a trade for $10 million+, and a trade of $3 million in a municipal debt security would appear as a trade for $2 million+. The volume cap protects persons or companies that take on positions in government debt securities by masking the true volume that had been traded.

In determining the proposed volume caps, the Working Group examined data on trades in government debt securities reported to IIROC through MTRS 2.0 using the methodology described in Schedule 1 to this Annex.

Generally, shorter-term Government of Canada and Canada Mortgage Bonds are very liquid, while provincial and municipal debt securities are less liquid. The Working Group thinks it would be preferable to have a small number of volume cap groups, as this will be easier for the IP to administer and for investors to understand. We propose the following volume caps, based on the methodology described in Schedule 1:

$10M	**$5M**	**$2M**
Government of Canada Bills (**GoC Bills**)	Government of Canada nominal bonds with over 10 years remaining to maturity[17] (**GoC>10**)	All provincial debt securities including RRBs, Strip Coupons and Residuals
Government of Canada nominal bonds with 10 or less years remaining to maturity (**GoC <=10**)		All municipal debt securities[18]
		All other agency debt securities[19]
All CMB		Government of Canada RRBs
		Government of Canada Strip Coupons and Residuals[20]

In developing the volume caps, in general, the Working Group considered the trading patterns of the least liquid securities in each group of securities. As a result, the caps could be larger for the most liquid debt securities in each group of securities, but the Working Group considered it important to have a limited number of groups so that it will be easier for investors and dealers to understand and to comply with the requirements. In our view, and based on some preliminary discussions with market participants,[21] the proposed volume caps, together with the T+1 (5:00 pm ET) publication delay, should provide dealers with sufficient time to manage their inventory risk before publication.

The Working Group also discussed the application of increased transparency to government debt securities that are the least liquid, especially the RRBs and certain debt issued by smaller provinces and municipalities. The Working Group notes that information about debt transactions may facilitate banks' abilities to satisfy information requirements contained in the revised market risk framework[22] developed by the Basel Committee on Banking Supervision (BCBS). As a result, the Working Group is of the view that exempting certain classes of debt securities from post-trade transparency may reduce publicly available information on real and verifiable prices and unnecessarily increase banks' capital surcharges.

We seek specific comments on whether the volume caps and the publication delays are appropriate, particularly for the most illiquid government debt securities such as those issued by municipalities, or those held by a small number of investors.

[17] GoC bonds with less than 11 years to maturity at the time of issue will be subject to the $10M cap to capture debt securities that become the 10-year benchmark relatively soon after issuance.

[18] In Ontario, government debt securities include a debt security of any school board in Ontario or of a corporation established under section 248(1) of the *Education Act* (Ontario). In Québec, it includes a debt security of the Comité de gestion de la taxe scolaire de l'île de Montréal.

[19] This group includes National Housing Act Mortgage Backed Securities (**NHA MBS**).

[20] Strip coupons and residuals are, respectively, the coupon and principal components of a debt security's cash flows that have been decomposed into distinct securities.

[21] Canadian Fixed Income Forum, Investment Industry Association of Canada's Bond Committee, provincial issuers, Municipal Finance Authority of British Columbia and Canadian Bond Investors Association.

[22] The revised market risk framework designates minimum standards that banks can use to apply customized risk models (**internal models**) to a given instrument to calculate their market risk capital requirements. For example, one standard for use of internal models is that risk factors must be based on real and verifiable prices that are subject to a minimum frequency requirement. Risk factors based on insufficiently frequent pricing information are deemed "non-modellable" and as such are subject to a more punitive capital surcharge.

(iv) Trade details to be disseminated by the IP

The trade details are data fields that will be made publicly available by the IP. Schedule 2 to this Annex lists the details of trades that would be disseminated by the IP. These details are the same as what is currently disseminated for trades in corporate debt securities, with the addition of two data fields, specifically "Type of Bond" and "Original Issue Date".

The "Type of Bond" field is important because, otherwise, the data would be misleading. Investors could easily confuse RRBs and strips and residuals with conventional government debt securities. These instruments are priced differently and have different liquidity and trading characteristics.

The "Original Issue Date" field is important, in that it allows users to distinguish newly issued debt securities from those that have the same maturity date, but were issued in the past. This is an important difference, as newly issued debt securities have significantly different trading characteristics from those that were issued in the past, even if they have the same maturity date. For example, investors are often interested in benchmark debt securities, rather than older bonds with the same maturity date.

The IP will publish the details of trades on its web site and they will be freely accessible. The initial requirements will be those set out in this notice (subject to modifications that may arise from the comment process). Any subsequent changes to the transparency regime will be made by the IP after consultation with the public and with the approval of the Canadian securities regulatory authorities.

III. Expanded Corporate Debt Proposal

The Expanded Corporate Debt Proposal will be introduced through the Proposed Amendments and implemented through the requirements set by the IP.

The Proposed Amendments expand the mandatory post-trade transparency of trades in corporate debt securities to any person or company that trades such securities, as required by the IP. Specifically, the Expanded Corporate Debt Proposal extends the reporting, and therefore the transparency requirements, to Banks. It is anticipated that Schedule I, II and III banks will be required to report details of their government debt transactions to the IP.

In proposing the expansion of reporting requirements, ***we seek specific comment on the expansion to Banks, and, in particular, Schedule III banks.***

We note that if Schedule III banks are excluded, trades in corporate debt securities between a Schedule III bank and a dealer, IDBB, Schedule I or Schedule II bank would be within the scope of the Expanded Corporate Debt Proposal and would be reported by the Schedule III bank's counterparty.

Currently, the IP disseminates information regarding trades in corporate debt securities at midnight on T+2. It is contemplated that IIROC, as the IP for corporate debt securities, would disseminate the information on T+1 (5:00 pm ET), consistent with the proposed dissemination of information regarding trades in government debt securities.

IV. Implementation of the Proposed Government Debt Framework and the Expanded Corporate Debt Proposal

As indicated above, the Proposed Amendments require persons or companies that execute trades in government debt securities and corporate debt securities to provide details of such trades to an IP, as required by the IP for those securities. The reporting of trades in government debt securities will not create any additional burden for dealers because they are currently required to report trades in corporate debt securities to the IP (i.e. IIROC) under section 8.2 of NI 21-101.

However, for other persons or companies, such as Banks, additional time may be necessary to implement the Proposed Government Debt Proposal and the Expanded Corporate Debt Proposal since the requirements are new. We therefore propose a phased implementation of the Proposed Government Debt Framework and the Expanded Corporate Debt Proposal, as follows:

- April 1, 2019 – the IP begins to disseminate post-trade information for trades in government debt securities executed by dealers that are currently subject to IIROC Dealer Member Rule 2800C, marketplaces and IDBBs in addition to disseminating the existing post-trade information for corporate debt securities;

- December 31, 2019 – the IP begins disseminating post-trade information for trades in corporate and government debt securities by Banks.

V. NI 21-101 Amendments

In order to implement the Proposed Government Debt Framework and Expanded Corporate Debt Proposal, amendments to NI 21-101 and 21-101CP are required. Attached at Annex B is the text of the Proposed Amendments.

The Proposed Amendments:

- remove the exemption from the requirement in section 8.1 of NI 21-101 that IDBBs and marketplaces report details of trades in all government debt securities to the IP for those securities, which has expired;
- require persons or companies to provide information with respect to trades in corporate and government debt securities executed outside a marketplace to an IP, as required by the IP;
- amend the requirement that the IP for unlisted debt securities produce a real-time consolidated feed showing order and trade information to a requirement to produce consolidated information about trades, consistent with the current approach for corporate debt securities;
- remove the requirement to report information about orders and trades in corporate debt securities to an information vendor approved by a regulation services provider if there is no IP, as there will be an IP for all debt securities;
- amend the requirement in 14.5(d) that the IP provide the securities regulatory authorities with its independent systems review by the earlier of the 30th day after providing it to its board of directors or the 60th day after calendar year end to the earlier of the 30th day after providing it to its board or the 60th day after the IP's fiscal year end.
- amend section 14.8 of NI 21-101 to clarify the information that must be publicly disclosed by the IP for debt securities;
- remove descriptions of volume caps and other operational details of the Proposed Framework from 21-101CP, as these will be set by the IP and approved by the Canadian securities regulatory authorities; and
- amend the definition of IP to reflect the fact that in Ontario an IP is now designated by the Ontario Securities Commission and in Saskatchewan, by the Financial and Consumer Affairs Authority of Saskatchewan.

VI. Information processor for debt securities

The role of an IP for debt securities is to provide transparency to the public regarding trades in corporate and/or government debt securities. NI 21-101 requires that marketplaces and IDBBs that display orders of corporate and government debt securities provide information regarding orders for these securities to an IP, as required by the IP. Marketplaces, IDBBs and dealers are also required to provide trade information for corporate and government debt securities to an IP, as required by the IP.

NI 21-101 also contains the framework for the regulation of an IP. Specifically, it mandates the IP to:

- provide prompt and accurate order[23] and trade information to the public;
- not unreasonably restrict fair access to such information;
- provide timely, accurate, reliable and fair collection, processing, distribution and publication of information for orders and trades in debt securities;
- maintain reasonable books and records; and
- maintain resilient systems and arrange to conduct an annual independent systems review.

IIROC will apply to become the IP for government debt securities and submit amendments to its Form F5 to act as an IP for government debt securities. We believe there are a number of benefits to have IIROC act as the IP for government debt securities:

[23] At this time there are no requirements to report or display orders for government debt securities or corporate debt securities.

- It has a system in place to collect government debt trade information and the dealers that will be subject to the transparency requirements by the Proposed Amendments are already reporting this information through MTRS 2.0.

- IIROC is the IP for corporate debt securities and is currently disseminating information about trades in those securities.

- IIROC has sufficient financial and human resources to perform this function; we note that IIROC already has staff that monitor the integrity and timeliness of the data reported to it through MTRS 2.0 that includes government debt securities.

- It will make available comprehensive government debt information to all market participants and investors, at no cost.

- It has an appropriate governance structure and conflict of interest policies and procedures in place.

- It is already subject to the applicable regulatory requirements in NI 21-101 and is complying with the terms and conditions imposed by the Autorité des marchés financiers in Québec and with its undertakings as corporate debt IP in all other jurisdictions.

CSA staff will continue to conduct oversight activities to ensure that, as an IP for corporate and government debt securities, IIROC complies with the requirements in NI 21-101 and the terms and conditions[24] set by the regulatory authorities in each jurisdiction. The proposed terms and conditions for IIROC as IP in Ontario are listed in Annex D to this notice.

[24] These terms and conditions will be contained in a Designation Order in Ontario, a Recognition Order in Quebec and in undertakings from the IP in all other jurisdictions.

SCHEDULE 1

METHODOLOGY USED TO DETERMINE THE PROPOSED VOLUME CAPS AND DELAYS FOR TRANSACTIONS IN GOVERNMENT DEBT SECURITIES

Objective

This schedule describes the empirical analysis undertaken by the Working Group to determine appropriate volume caps and delays for government debt securities. The publication delay is the time between when a trade occurs and when information about the trade is published. The volume cap is a threshold trade volume above which the volume field in the report is masked.

Volume caps and publication delays mitigate risks to market participants from publishing trade information, particularly the risk that others may use that information to increase the costs to a dealer offsetting a position taken in a principal trade. Potential risks are more severe when either a trade is large relative to the normal trade size in the security or when trading volume in the security is low. If these risks are not mitigated, we are concerned that dealers will be discouraged from facilitating large trades, which may reduce market liquidity.

In the analysis below, we construct quantitative measures identifying:

- what constitutes a large trade; and
- how large is daily trading volume relative to a large trade to inform appropriate volume caps and publication delays for different types of government debt securities.

Principles

To form a proposal for volume caps and publication delays from the analysis, we have used the following principles as guidance:

- Principle 1: Balance the benefits of greater transparency with the risk to liquidity;
- Principle 2: Volume caps and publication delays should be consistent with those of existing sources of post-trade information; and
- Principle 3: The proposal should be simple to implement and understand while also being tailored to the characteristics of different types of government debt securities.

Principle 1 implies that volume caps and publication delays should be chosen so as not to pose risks to market liquidity. Specifically, volume caps should not be materially higher than a “large” trade and corresponding publication delays should reflect a reasonable period for market participants to manage their inventory.

Principle 2 implies that volume caps and publication delays should be consistent with existing sources. At present, post-trade data for a subset of Canadian debt securities is available end-of-day from FIPS with volume caps of $2M; information is delayed by 14 days when there is only one trade in a day for a specific security. For Canadian corporate debt securities, post-trade information is also available from IIROC with a delay of two days and volume caps of $2M for investment grade corporate debt securities and $0.2M for non-investment grade corporate debt securities. Taken together, information with a volume cap of $2M and a publication delay of around one day is generally already available for most debt securities. Government debt securities are more comparable to investment grade rather than non-investment grade corporate debt securities. Therefore, we will apply volume caps greater than or equal to $2M and a publication delay of T+1(5:00 pm ET).

Principle 3 implies that requirements should strike a balance between defining groups of government debt securities too broadly and focussing too much on a limited subset of similar securities. If categories are defined too broadly, we may miss key differences between securities, and may either pose risks to some infrequently traded debt securities or treat frequently traded debt securities too conservatively. Alternatively, if categories are too narrowly defined or change too frequently, market participants may encounter operational complexity when using the data provided. We believe that the groups used in Table 1 are appropriate given principle 3.

Table 1 – Requirements for consultation. *The table lists groups of debt securities under each of the proposed volume caps. A publication delay of T+1(5:00 pm ET) is proposed for all debt securities. Government of Canada (GoC) nominal bonds are divided by their years-to-maturity (YTM): less than or equal to 10 years to maturity (<=10 YTM) and greater than 10 years to maturity (>10 YTM).*

$10M	$5M	$2M
Government of Canada (**GoC Bills**)	Government of Canada nominal bonds with over 10 years remaining to maturity (**GoC >10**) [25]	All provincial debt securities including Real Return Bonds (**RRBs**), Strip Coupons and Residuals
Government of Canada nominal bonds with 10 or less years remaining to maturity (**GoC <=10**)		All municipal debt securities
All Canada Mortgage Bonds (**CMB**)		Government of Canada RRBs
		Government of Canada Strip Coupons & Residuals
		All Federal and Provincial Agency Bonds Other Than CMB

Data

We use data from the IIROC MTRS 2.0 over the period from January 2016 to mid-June 2017 to conduct our analysis.[26] The data includes all government debt securities trades to which an IIROC Dealer Member (we will refer to them as dealers for brevity) was at least one of the counterparties. The data includes: International Securities Identification Number (ISIN) which we use to identify unique securities; price; quantity; timestamp; identifiers for dealer-to-client or dealer-to-dealer trades; identifiers for buying or selling by the reporting dealer; and an identifier indicating if the dealer was trading with a retail client.

We enrich the dataset to include categories of debt securities (e.g., provincial, municipal) using data from FIPS and Thomson Reuters DataScope.[27] We use FIPS as the default classification and defer to Thompson Reuters in the absence of a classification in the FIPS data. We note that we are not able to classify all types of government debt securities. For example, to the best of our knowledge, no data source labels provincial agencies. In Table 1, the category *All Federal and Provincial Agency Bonds Other Than CMB* includes those government debt securities that we cannot easily classify. Below, we select a subsample of this category, *Federal Crown Corporations (excluding CMBs)* to present a partial analysis.

Identifying large trades

We identify the size of a large trade to form a basis for the volume caps of securities. Dealers have more difficulty managing inventory following large, unexpected trades. We exclude retail and retail-sized trades when calculating large trade sizes, namely those that are marked as retail or that are for under $100K par value, since they do not have a material impact on dealers' trading practices and can skew the results of the analysis. For a given debt security, we define a large trade as the 75th percentile of trade size over all dealer-to-client trades in our sample.[28]

Trading volume

We analyze the relationship between large trades and the potential for a dealer to trade a similar quantity for the purposes of managing inventory to inform the publication delay and volume caps. Inventory may be difficult to manage following a large trade when the trade is a significant fraction of total daily trading volume. For each debt security, we calculate the ratio of a large dealer-to-client trade to average daily trading volume. The statistic is useful to indicate debt securities where trading volume is relatively low in comparison to large trades, where smaller volume caps may be warranted.

[25] GoC nominal bonds with less than 11 years at the time of issue will be subject to the $10M cap to capture debt securities that become the 10-year benchmark relatively soon after issuance.

[26] MTRS 2.0 data is collected by IIROC under IIROC Dealer Member Rule 2800C and contains trades in debt securities as reported by its Dealer Members. Until November 1, 2016, only Government Securities Dealers were reporting their trades.

[27] Both datasets are commercially available.

[28] We also carried out the analysis separately for buy and sell trades. The results were not materially different.

Results

Table 2 shows the results of the measures described above. The first column shows the category; the second column shows size of large trades; the third column shows the average daily volume; the fourth column shows the ratio of large trades to average daily volume; and the last column shows the number of ISINs in a category.

Categories with the highest large trade sizes include *GoC Bills*, *GoC Nominal Bonds (<=10 YTM)*, and *All CMB*. In each case, a large trade is greater than or very close to $10M and the ratio of a large trade to the average daily volume is relatively low. *GoC Bills* have a large trade size of around $9.5M, but they are short-term in nature, trade in high volume relative to other issues and present low duration risk. Together, these results indicate that these debt securities have relatively large trades and are highly liquid so we have proposed a volume cap of $10M. *Federal Crown Corp. (excluding CMBs)* also have relatively large trades, but we note that average daily trading volume is very low. We have therefore proposed that these debt securities be categorized with *All Federal and Provincial Agency Bonds Other Than CMB* (see Table 1) with a $2M cap.

Debt securities with intermediate large trade sizes include *GoC Nominal Bonds (>10 YTM)*. A large trade for these debt securities is around $7.5M, and the ratio of a large trade to the average daily volume is relatively low, indicating a high degree of liquidity. We have therefore proposed a cap of $5M for these debt securities.

Categories with lower large trade sizes are *GoC RRB*, *GoC Strip Coupons & Residuals*, *All Provincial Nominal Bonds*, *Provincial RRB*, *Provincial Strip Coupons & Residuals*, and *All Municipal Bonds*. For these debt securities, we have proposed the lowest cap considered, $2M, since they are most like investment-grade corporate bonds (Principle 2). In addition, trading sizes for these debt securities are generally smaller and therefore less likely to introduce significant risks to dealers' trading practices. We note that trading volume is very low for municipal debt securities. This is likely driven by many small, unrated, municipal debt securities where trading is rare. Larger Canadian municipalities are typically investment-grade rated and trade much more frequently.

Table 2 – Results. *The table shows statistics for each category of bonds. Large Trade is the 75th percentile of dealer-to-client trades in $M of par value; Average Daily Volume is the average volume per bond, in $M of par value per day; Large Trade/Average Daily Volume is the ratio of a Large Trade to the Average Daily Volume; Number of ISINs is the number of securities in the category. YTM is years to maturity.*

	Large Trade	Average Daily Volume	Large Trade/ Average Daily Volume	Number of ISINs
GoC Bills	9.38	242.39	0.04	89
GoC Nominal Bonds (<=10 YTM)	25.00	681.98	0.04	47
GoC Nominal Bonds (>10 YTM)	7.69	267.69	0.03	11
GoC RRB	4.50	14.97	0.30	7
GoC Strip Coupons & Residuals	1.00	0.13	7.69	138
All CMB	15.00	26.56	0.56	94
Federal Crown Corp. (excluding CMBs)[29]	10.25	0.89	11.52	311
All Provincial Nominal Bonds[30]	5.00	8.57	0.58	1706
Provincial RRB[31]	2.65	0.38	6.97	7
Provincial Strip Coupons & Residuals	3.00	0.08	37.50	1738
All Municipal Bonds[32]	1.35	0.02	67.50	5512

[29] Other Federal Crown Corps does not include all crown corporation bonds. Among others, this category includes bonds issued by: Canada Post, Canada Pension Plan Investment Board, Export Development Canada and PSP Capital Inc. In Table 1, Other Federal Crown Corp would fall into *All Federal and Provincial Agency Bonds other than CMB*.

[30] All Provincial Nominal includes nominal bonds issued by Canadian provinces. It does not include provincial agencies.

[31] Provincial RRB includes real-return bonds issued by Canadian provinces.

[32] All Municipal Bonds includes bonds issued by municipalities as well as some municipal agencies, such as transit agencies.

SCHEDULE 2

DATA FIELDS FOR THE GOVERNMENT DEBT INFORMATION PROPOSED TO BE DISSEMINATED BY IIROC AS AN INFORMATION PROCESSOR

The data fields below will be made publicly available by IIROC as an information processor. They apply to all government debt securities subject to transparency requirements.

I. Summary level data for each bond

1. CUSIP and/or ISIN number, where available
2. Issuer name
3. Type of Bond (New)
4. Original Issue Date (New)
5. Maturity date
6. Coupon rate
7. Last traded price
8. Last traded yield
9. Total trade count (total trades done on the last trade date)
10. Last trade date
11. Highest traded price on the last trade date
12. Lowest traded price on the last trade date

II. Transaction level data for each bond

1. CUSIP and or ISIN number, where available
2. Issuer name
3. Maturity date
4. Coupon rate
5. Date of execution
6. Time of execution
7. Settlement date
8. Type (indicates whether the transaction is new, a cancellation or a correction)
9. Volume (subject to volume caps)
10. Price
11. Yield
12. Account type (retail or institutional counterparty)
13. An indication of whether a commission was recorded (“yes” or “no” answer)

ANNEX B

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 21-101 *MARKETPLACE OPERATION*

1. National Instrument 21-101 Marketplace Operation is amended by this Instrument.

2. Section 1.1 is amended by

(a) replacing the definition of "information processor***" with the following:***

"information processor" means any person or company that receives and provides information under this Instrument and has filed Form 21-101F5 and,

(a) in Ontario and Saskatchewan, that is a designated information processor, and

(b) in Québec, that is a recognized information processor;***.***

3. The title to Part 8 is replaced with "Information Transparency Requirements for Persons and Companies Dealing in Unlisted Debt Securities***".***

4. Subsection 8.1(3) is repealed.

5. Subsection 8.1(5) is replaced with the following:

(5) A person or company must provide to an information processor accurate and timely information regarding details of each trade of government debt securities traded by or through the person or company as required by the information processor***.***

6. Subsection 8.2(1) is replaced with the following:

(1) A marketplace that displays orders of corporate debt securities to a person or company must provide to an information processor accurate and timely information regarding orders for corporate debt securities displayed by the marketplace as required by the information processor***.***

7. Subsection 8.2(3) is replaced with the following:

(3) A person or company must provide to an information processor accurate and timely information regarding details of each trade of corporate debt securities executed by or through the person or company as required by the information processor***.***

8. Subsections 8.2(4) and 8.2(5) are repealed.

9. Section 8.3 is amended by replacing "an accurate consolidated feed in real-time***" with "***accurate consolidated information***".***

10. Section 8.4 is amended by replacing "marketplace, inter-dealer bond broker or dealer***" with "***person or company***".***

11. Section 8.6 is repealed.

12. Subsection 14.4(1) is replaced with the following:

(1) An information processor for exchange-traded securities must enter into an agreement with each marketplace that is required to provide information to the information processor that the marketplace will

(a) provide information to the information processor in accordance with Part 7; and

(b) comply with any other reasonable requirements set by the information processor***.***

13. Subsection 14.4 (4) is amended by replacing "marketplace, inter-dealer bond broker or dealer***" with "***person or company***".***

14. Subsection 14.4(8) is repealed.

15. Subsection 14.4(9) is repealed.

16. Subparagraph 14.5(d)(ii) is amended by replacing the word "calendar***" with "***information processor's fiscal***".***

17. Subsection 14.7 is amended by replacing "marketplace, inter-dealer bond broker or dealer***" with "***person or company***".***

18. Paragraph 14.8(b) is replaced with the following:

(b) in the case of an information processor for government debt securities or corporate debt securities,

(i) the marketplaces that are required to report details of orders for government debt securities or corporate debt securities to the information processor, as applicable,

(ii) the inter-dealer bond brokers that are required to report details of orders for government debt securities to the information processor,

(iii) the classes of persons and companies that are required to report details of trades in government debt securities or corporate debt securities to the information processor, as applicable,

(iv) when details of trades in each government debt security or corporate debt security, as applicable, must be reported to the information processor by a person or company,

(v) when the information provided to the information processor will be publicly disseminated by the information processor, and

(vi) the cap on the displayed volume of trades for each government debt security or corporate debt security, as applicable,.

Coming into force

19. This Instrument comes into force on •.

SCHEDULE 1

PROPOSED CHANGES TO COMPANION POLICY 21-101CP *MARKETPLACE OPERATION*

1. The changes to Companion Policy 21-101CP are set out in this Schedule.

2. Subsection 10.1(1) is replaced with:

(1) The requirements for pre-trade and post-trade transparency for unlisted debt securities are set out in sections 8.1 and 8.2 of the Instrument. The detailed reporting requirements, such as who must report information, deadlines for reporting, delays in publication of information and caps on displayed volume are determined by the information processor, subject to approval by the Canadian securities regulatory authorities as described below, and may be different for different government debt securities and corporate debt securities. The information processor is also required to make the reporting requirements, deadlines, dissemination delays and volume caps publicly available.**.**

3. Subsections 10.1(2), 10.1(3), 10.1(4), 10.1(5), 10.1(6), 10.1(7) and 10.1(8) are deleted.

4. Subsection 10.1(9) is replaced with:

(9) The information processor may propose changes to its transparency requirements by filing an amendment to Form 21-101F5 with the Canadian securities regulatory authorities pursuant to subsection 14.2(1) of the Instrument. The Canadian securities regulatory authorities will review the amendment to Form 21-101F5 to determine whether the proposed changes are contrary to the public interest, to ensure fairness and to ensure that there is an appropriate balance between the standards of transparency and market quality (defined in terms of market liquidity and efficiency) in each area of the market. Both the initial transparency requirements and any proposed changes will be subject to consultation with market participants through a notice and comment process, prior to approval by the Canadian securities regulatory authorities.**.**

5. Sections 10.2 and 10.3 are deleted.

6. Subsection 16.1(2) is changed by replacing "marketplaces, inter-dealer bond brokers and dealers***" with "***persons and companies***" and "***marketplace, inter-dealer bond broker or dealer***" with "***person or company***".***

7. Subsection 16.2 (1) is changed by adding "and in Ontario and Saskatchewan, only if it is designated by the securities regulatory authority***" after "***In Québec, a person or company may carry on the activity of an information processor only if it is recognized by the securities regulatory authority***".***

8. Paragraph 16.3(c) is changed by replacing "marketplaces, inter-dealer bond brokers and dealers***" with "***persons and companies***".***

9. Paragraph 16.3(k) is replaced with:

(k) in the case of an information processor for government debt securities or corporate debt securities, changes to the information transparency requirements referred to in paragraph 14.8(b) of the Instrument.**.**

10. These changes become effective on •.

ANNEX C

PROPOSED AMENDMENTS TO
NATIONAL INSTRUMENT 21-101 *MARKETPLACE OPERATION* (BLACKLINED)

PART 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions – In this Instrument

“accounting principles” means accounting principles as defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

"alternative trading system",

(a) in every jurisdiction other than Ontario, means a marketplace that

(i) is not a recognized quotation and trade reporting system or a recognized exchange, and

(ii) does not

(A) require an issuer to enter into an agreement to have its securities traded on the marketplace,

(B) provide, directly, or through one or more subscribers, a guarantee of a two-sided market for a security on a continuous or reasonably continuous basis,

(C) set requirements governing the conduct of subscribers, other than conduct in respect of the trading by those subscribers on the marketplace, and

(D) discipline subscribers other than by exclusion from participation in the marketplace, and

(b) in Ontario has the meaning set out in subsection 1(1) of the *Securities Act* (Ontario);

"ATS" means an alternative trading system;

"corporate debt security" means a debt security issued in Canada by a company or corporation that is not listed on a recognized exchange or quoted on a recognized quotation and trade reporting system or listed on an exchange or quoted on a quotation and trade reporting system that has been recognized for the purposes of this Instrument and NI 23-101, and does not include a government debt security;

"exchange-traded security" means a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of this Instrument and NI 23-101;

"foreign exchange-traded security" means a security that is listed on an exchange, or quoted on a quotation and trade reporting system, outside of Canada that is regulated by an ordinary member of the International Organization of Securities Commissions and is not listed on an exchange or quoted on a quotation and trade reporting system in Canada;

"government debt security" means

(a) a debt security issued or guaranteed by the government of Canada, or any province or territory of Canada,

(b) a debt security issued or guaranteed by any municipal corporation or municipal body in Canada, or secured by or payable out of rates or taxes levied under the law of a jurisdiction of Canada on property in the jurisdiction and to be collected by or through the municipality in which the property is situated,

(c) a debt security issued or guaranteed by a crown corporation or public body in Canada,

(d) in Ontario, a debt security of any school board in Ontario or of a corporation established under section 248(1) of the *Education Act* (Ontario), or

(e) in Québec, a debt security of the Comité de gestion de la taxe scolaire de l'île de Montréal

that is not listed on a recognized exchange or quoted on a recognized quotation and trade reporting system or listed on an exchange or quoted on a quotation and trade reporting system that has been recognized for the purposes of this Instrument and NI 23-101;

“IIROC” means the Investment Industry Regulatory Organization of Canada;

"information processor" means any person or company that receives and provides information under this Instrument and has filed Form 21-101F5 and,

(a) in Ontario and Saskatchewan, that is a designated information processor, and ~~Québec, that is a recognized information processor~~

(b) in Québec, that is a recognized information processor;

"inter-dealer bond broker" means a person or company that is approved by IIROC under IIROC Rule 36 Inter-Dealer Bond Brokerage Systems, as amended, and is subject to IIROC Rule 36 and IIROC Rule 2100 Inter-Dealer Bond Brokerage Systems, as amended;

"market integrator" [repealed]

"marketplace",

(a) in every jurisdiction other than Ontario, means

(i) an exchange,

(ii) a quotation and trade reporting system,

(iii) a person or company not included in clause (i) or (ii) that

(A) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities,

(B) brings together the orders for securities of multiple buyers and sellers, and

(C) uses established, non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade, or

(iv) a dealer that executes a trade of an exchange-traded security outside of a marketplace, but does not include an inter-dealer bond broker, and

(b) in Ontario has the meaning set out in subsection 1(1) of the Securities Act (Ontario);

"marketplace participant" means a member of an exchange, a user of a quotation and trade reporting system, or a subscriber of an ATS;

“member” means, for a recognized exchange, a person or company

(a) holding at least one seat on the exchange, or

(b) that has been granted direct trading access rights by the exchange and is subject to regulatory oversight by the exchange,

and the person or company’s representatives;

"NI 23-101" means National Instrument 23-101 *Trading Rules*;

"order" means a firm indication by a person or company, acting as either principal or agent, of a willingness to buy or sell a security;

“participant dealer” means a participant dealer as defined in Part 1 of National Instrument 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces*;

“private enterprise” means a private enterprise as defined in Part 3 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

“publicly accountable enterprise” means a publicly accountable enterprise as defined in Part 3 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*;

"recognized exchange" means

(a) in Ontario, a recognized exchange as defined in subsection 1(1) of the *Securities Act* (Ontario),

(b) in Québec, an exchange recognized by the securities regulatory authority under securities or derivatives legislation as an exchange or self-regulatory organization, and

(c) in every other jurisdiction, an exchange recognized by the securities regulatory authority as an exchange, self-regulatory organization or self-regulatory body;

"recognized quotation and trade reporting system" means

(a) in every jurisdiction other than British Columbia, Ontario and Québec, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation to carry on business as a quotation and trade reporting system,

(b) in British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation as a quotation and trade reporting system or as an exchange,

(b.1) in Ontario, a recognized quotation and trade reporting system as defined in subsection 1(1) of the *Securities Act* (Ontario), and

(c) in Québec, a quotation and trade reporting system recognized by the securities regulatory authority under securities or derivatives legislation as an exchange or a self-regulatory organization;

"regulation services provider" means a person or company that provides regulation services and is

(a) a recognized exchange,

(b) a recognized quotation and trade reporting system, or

(c) a recognized self-regulatory entity;

"self-regulatory entity" means a self-regulatory body or self-regulatory organization that

(a) is not an exchange, and

(b) is recognized as a self-regulatory body or self-regulatory organization by the securities regulatory authority;

"subscriber" means, for an ATS, a person or company that has entered into a contractual agreement with the ATS to access the ATS for the purpose of effecting trades or submitting, disseminating or displaying orders on the ATS, and the person or company’s representatives;

"trading fee" means the fee that a marketplace charges for execution of a trade on that marketplace;

"trading volume" means the number of securities traded;

"unlisted debt security" means a government debt security or corporate debt security; and

"user" means, for a recognized quotation and trade reporting system, a person or company that quotes orders or reports trades on the recognized quotation and trade reporting system, and the person or company’s representatives.

1.2 Interpretation – Marketplace – For the purpose of the definition of "marketplace" in section 1.1, a person or company is not considered to constitute, maintain or provide a market or facilities for bringing together buyers and sellers of securities, solely because the person or company routes orders to a marketplace or a dealer for execution.

1.3 Interpretation – Affiliated Entity, Controlled Entity and Subsidiary Entity

(1) In this Instrument, a person or company is considered to be an affiliated entity of another person or company if one is a subsidiary entity of the other or if both are subsidiary entities of the same person or company, or if each of them is a controlled entity of the same person or company.

(2) In this Instrument, a person or company is considered to be controlled by a person or company if

(a) in the case of a person or company,

(i) voting securities of the first-mentioned person or company carrying more than 50 percent of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or company, and

(ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person or company;

(b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person or company holds more than 50 percent of the interests in the partnership; or

(c) in the case of a limited partnership, the general partner is the second-mentioned person or company.

(3) In this Instrument, a person or company is considered to be a subsidiary entity of another person or company if

(a) it is a controlled entity of,

(i) that other,

(ii) that other and one or more persons or companies each of which is a controlled entity of that other, or

(iii) two or more persons or companies, each of which is a controlled entity of that other; or

(b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

1.4 Interpretation – Security

(1) In British Columbia, the term "security", when used in this Instrument, includes an option that is an exchange contract but does not include a futures contract.

(2) In Ontario, the term "security", when used in this Instrument, does not include a commodity futures contract or a commodity futures option that is not traded on a commodity futures exchange registered with or recognized by the Commission under the *Commodity Futures Act* or the form of which is not accepted by the Director under the *Commodity Futures Act*.

(3) In Québec, the term “security”, when used in this Instrument, includes a standardized derivative as this notion is defined in the *Derivatives Act*.

1.5 Interpretation – NI 23-101

Terms defined or interpreted in NI 23-101 and used in this Instrument have the respective meanings ascribed to them in NI 23-101.

PART 2 APPLICATION

2.1 Application – This Instrument does not apply to a marketplace that is a member of a recognized exchange or a member of an exchange that has been recognized for the purposes of this Instrument and NI 23-101.

PART 3 MARKETPLACE INFORMATION

3.1 Initial Filing of Information

(1) A person or company must file as part of its application for recognition as an exchange or a quotation and trade reporting system Form 21-101F1.

(2) A person or company must not carry on business as an ATS unless it has filed Form 21-101F2 at least 45 days before the ATS begins to carry on business as an ATS.

3.2 Change in Information

(1) Subject to subsection (2), a marketplace must not implement a significant change to a matter set out in Form 21-101F1 or in Form 21-101F2 unless the marketplace has filed an amendment to the information provided in Form 21-101F1 or in Form 21-101F2 in the manner set out in the applicable form at least 45 days before implementing the change.

(1.1) A marketplace that has entered into an agreement with a regulation services provider under NI 23-101 must not implement a significant change to a matter set out in Exhibit E – Operation of the Marketplace of Form 21-101F1 or Exhibit E – Operation of the Marketplace of Form 21-101F2 as applicable, or Exhibit I – Securities of Form 21-101F1 or Exhibit I – Securities of Form 21-101F2 as applicable, unless the marketplace has provided the applicable exhibit to its regulation services provider at least 45 days before implementing the change.

(2) A marketplace must file an amendment to the information provided in Exhibit L – Fees of Form 21-101F1 or Exhibit L – Fees of Form 21-101F2, as applicable, at least seven business days before implementing a change to the information provided in Exhibit L – Fees.

(3) For any change involving a matter set out in Form 21-101F1 or Form 21-101F2 other than a change referred to in subsection (1) or (2), a marketplace must file an amendment to the information provided in the applicable form by the earlier of

(a) the close of business on the 10th day after the end of the month in which the change was made, and

(b) if applicable, the time the marketplace discloses the change publicly.

(4) The chief executive officer of a marketplace, or an individual performing a similar function, must certify in writing, within 30 days after the end of each calendar year, that the information contained in the marketplace's current Form 21-101F1 or Form 21-101F2, as applicable, including the description of its operations, is true, correct, and complete and that the marketplace is operating as described in the applicable form.

(5) A marketplace must file an updated and consolidated Form 21-101F1 or Form 21-101F2, as applicable, within 30 days after the end of each calendar year.

3.3 Reporting Requirements

A marketplace must file Form 21-101F3 within 30 days after the end of each calendar quarter during any part of which the marketplace has carried on business.

3.4 Ceasing to Carry on Business as an ATS

(1) An ATS that intends to cease carrying on business as an ATS must file a report on Form 21-101F4 at least 30 days before ceasing to carry on that business.

(2) An ATS that involuntarily ceases to carry on business as an ATS must file a report on Form 21-101F4 as soon as practicable after it ceases to carry on that business.

3.5 Forms Filed in Electronic Form

A person or company that is required to file a form or exhibit under this Instrument must file that form or exhibit in electronic form.

PART 4 MARKETPLACE FILING OF AUDITED FINANCIAL STATEMENTS

4.1 Filing of Initial Audited Financial Statements

(1) A person or company must file as part of its application for recognition as an exchange or a quotation and trade reporting system, together with Form 21-101F1, audited financial statements for its latest financial year that

(a) are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises or IFRS,

(b) include notes to the financial statements that identify the accounting principles used to prepare the financial statements, and

(c) are audited in accordance with Canadian GAAS or International Standards on Auditing and are accompanied by an unmodified auditor's report.

(2) A person or company must not carry on business as an ATS unless it has filed, together with Form 21-101F2, audited financial statements for its latest financial year.

4.2 Filing of Annual Audited Financial Statements

(1) A recognized exchange and a recognized quotation and trade reporting system must file annual audited financial statements within 90 days after the end of its financial year in accordance with the requirements outlined in subsection 4.1(1).

(2) An ATS must file annual audited financial statements.

PART 5 MARKETPLACE REQUIREMENTS

5.1 Access Requirements

(1) A marketplace must not unreasonably prohibit, condition or limit access by a person or company to services offered by it.

(2) A marketplace must

(a) establish written standards for granting access to each of its services, and

(b) keep records of

(i) each grant of access including the reasons for granting access to an applicant, and

(ii) each denial or limitation of access, including the reasons for denying or limiting access to an applicant.

(3) A marketplace must not

(a) permit unreasonable discrimination among clients, issuers and marketplace participants, or

(b) impose any burden on competition that is not reasonably necessary and appropriate.

5.2 No Restrictions on Trading on Another Marketplace – A marketplace must not prohibit, condition, or otherwise limit, directly or indirectly, a marketplace participant from effecting a transaction on any marketplace.

5.3 Public Interest Rules

(1) Rules, policies and other similar instruments adopted by a recognized exchange or a recognized quotation and trade reporting system

(a) must not be contrary to the public interest; and

(b) must be designed to

(i) ensure compliance with securities legislation,

(ii) prevent fraudulent and manipulative acts and practices,

(iii) promote just and equitable principles of trade, and

(iv) foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating, transactions in securities.

(2) **[repealed]**

5.4 Compliance Rules – A recognized exchange or a recognized quotation and trade reporting system must have rules or other similar instruments that

(a) require compliance with securities legislation; and

(b) provide appropriate sanctions for violations of the rules or other similar instruments of the exchange or quotation and trade reporting system.

5.5 Filing of Rules – A recognized exchange or a recognized quotation and trade reporting system must file all rules, policies and other similar instruments, and all amendments thereto.

5.6 [repealed]

5.7 Fair and Orderly Markets – A marketplace must take all reasonable steps to ensure that its operations do not interfere with fair and orderly markets.

5.8 Discriminatory Terms – A marketplace must not impose terms that have the effect of discriminating between orders that are routed to the marketplace and orders that are entered on that marketplace for execution.

5.9 Risk Disclosure for Trades in Foreign Exchange-Traded Securities

(1) A marketplace that is trading foreign exchange-traded securities must provide each marketplace participant with disclosure in substantially the following words:

> "The securities traded by or through the marketplace are not listed on an exchange in Canada and may not be securities of a reporting issuer in Canada. As a result, there is no assurance that information concerning the issuer is available or, if the information is available, that it meets Canadian disclosure requirements."

(2) Before the first order for a foreign exchange-traded security is entered onto the marketplace by a marketplace participant, the marketplace must obtain an acknowledgement from the marketplace participant that the marketplace participant has received the disclosure required in subsection (1).

5.10 Confidential Treatment of Trading Information

(1) A marketplace must not release a marketplace participant's order or trade information to a person or company, other than the marketplace participant, a securities regulatory authority or a regulation services provider unless

(a) the marketplace participant has consented in writing to the release of the information,

(b) the release of the information is required by this Instrument or under applicable law, or

(c) the information has been publicly disclosed by another person or company, and the disclosure was lawful.

(1.1) Despite subsection (1), a marketplace may release a marketplace participant's order or trade information to a person or company if the marketplace

(a) reasonably believes that the information will be used solely for the purpose of capital markets research,

(b) reasonably believes that if information identifying, directly or indirectly, a marketplace participant or a client of the marketplace participant is released,

(i) it is required for the purpose of the capital markets research, and

(ii) that the research is not intended for the purpose of

(A) identifying a particular marketplace participant or a client of the marketplace participant, or

(B) identifying a trading strategy, transactions, or market positions of a particular marketplace participant or a client of the marketplace participant,

(c) has entered into a written agreement with each person or company that will receive the order and trade information from the marketplace that provides that

(i) the person or company must

(A) not disclose to or share any information with any person or company if that information could, directly or indirectly, identify a marketplace participant or a client of the marketplace participant without the marketplace's consent, other than as provided under subparagraph (ii) below,

(B) not publish or otherwise disseminate data or information that discloses, directly or indirectly, a trading strategy, transactions, or market positions of a marketplace participant or a client of the marketplace participant,

(C) not use the order and trade information, or provide it to any other person or company, for any purpose other than capital markets research,

(D) keep the order and trade information securely stored at all times,

(E) keep the order and trade information for no longer than a reasonable period of time after the completion of the research and publication process, and

(F) immediately inform the marketplace of any breach or possible breach of the confidentiality of the information provided,

(ii) the person or company may disclose order or trade information used in connection with research submitted to a publication if

(A) the information to be disclosed will be used solely for the purposes of verification of the research carried out by the person or company,

(B) the person or company must notify the marketplace prior to disclosing the information for verification purposes, and

(C) the person or company must obtain written agreement from the publisher and any other person or company involved in the verification of the research that the publisher or the other person or company will

(I) maintain the confidentiality of the information,

(II) use the information only for the purposes of verifying the research,

(III) keep the information securely stored at all times,

(IV) keep the information for no longer than a reasonable period of time after the completion of the verification, and

(V) immediately inform the marketplace of any breach or possible breach of the agreement or of the confidentiality of the information provided, and

(iii) the marketplace has the right to take all reasonable steps necessary to prevent or address a breach or possible breach of the confidentiality of the information provided or of the agreement.

(1.2) A marketplace that releases a marketplace participant's order or trade information under subsection (1.1) must

(a) promptly inform the regulator or, in Québec, the securities regulatory authority, in the event the marketplace becomes aware of any breach or possible breach of the confidentiality of the information provided or of the agreement, and

(b) take all reasonable steps necessary to prevent or address a breach or possible breach of the confidentiality of the information provided or of the agreement.

(2) A marketplace must not carry on business unless it has implemented reasonable safeguards and procedures to protect a marketplace participant's order or trade information, including

(a) limiting access to order or trade information of marketplace participants to

(i) employees of the marketplace, or

(ii) persons or companies retained by the marketplace to operate the system or to be responsible for compliance by the marketplace with securities legislation; and

(b) implementing standards controlling trading by employees of the marketplace for their own accounts.

(3) A marketplace must not carry on business as a marketplace unless it has implemented adequate oversight procedures to ensure that the safeguards and procedures established under subsection (2) are followed.

5.11 Management of Conflicts of Interest

A marketplace must establish, maintain and ensure compliance with policies and procedures that identify and manage any conflicts of interest arising from the operation of the marketplace or the services it provides.

5.12 Outsourcing

If a marketplace outsources any of its key services or systems to a service provider, which includes affiliates or associates of the marketplace, the marketplace must

(a) establish and maintain policies and procedures for the selection of service providers to which key services and systems may be outsourced and for the evaluation and approval of such outsourcing arrangements,

(b) identify any conflicts of interest between the marketplace and the service provider to which key services or systems are outsourced, and establish and maintain policies and procedures to mitigate and manage such conflicts of interest,

(c) enter into a contract with the service provider to which key services or systems are outsourced that is appropriate for the materiality and nature of the outsourced activities and that provides for adequate termination procedures,

(d) maintain access to the books and records of the service providers relating to the outsourced activities,

(e) ensure that the securities regulatory authorities have access to all data, information and systems maintained by the service provider on behalf of the marketplace for the purposes of determining the marketplace's compliance with securities legislation,

(f) take appropriate measures to determine that service providers to which key services or systems are outsourced establish, maintain and periodically test an appropriate business continuity plan, including a disaster recovery plan,

(g) take appropriate measures to ensure that the service providers protect the marketplace participants' proprietary, order, trade or any other confidential information, and

(h) establish processes and procedures to regularly review the performance of the service provider under any such outsourcing arrangement.

5.13 Access Arrangements with a Service Provider

If a third party service provider provides a means of access to a marketplace, the marketplace must ensure the third party service provider complies with the written standards for access that the marketplace has established pursuant to paragraph 5.1(2)(a) when providing the access services.

PART 6 REQUIREMENTS APPLICABLE ONLY TO ATSs

6.1 Registration – An ATS must not carry on business as an ATS unless

(a) it is registered as a dealer;

(b) it is a member of a self-regulatory entity; and

(c) it complies with the provisions of this Instrument and NI 23-101.

6.2 Registration Exemption Not Available – Except as provided in this Instrument, the registration exemptions applicable to dealers under securities legislation are not available to an ATS.

6.3 Securities Permitted to be Traded on an ATS – An ATS must not execute trades in securities other than

(a) exchange-traded securities;

(b) corporate debt securities;

(c) government debt securities; or

(d) foreign exchange-traded securities.

6.4 [repealed]

6.5 [repealed]

6.6 [repealed]

6.7 Notification of Threshold

(1) An ATS must notify the securities regulatory authority in writing if,

(a) during at least two of the preceding three months of operation, the total dollar value of the trading volume on the ATS for a month in any type of security is equal to or greater than 10 percent of the total dollar value of the trading volume for the month in that type of security on all marketplaces in Canada,

(b) during at least two of the preceding three months of operation, the total trading volume on the ATS for a month in any type of security is equal to or greater than 10 percent of the total trading volume for the month in that type of security on all marketplaces in Canada, or

(c) during at least two of the preceding three months of operation, the number of trades on the ATS for a month in any type of security is equal to or greater than 10 percent of the number of trades for the month in that type of security on all marketplaces in Canada.

(2) An ATS must provide the notice referred to in subsection (1) within 30 days after the threshold referred to in subsection (1) is met or exceeded.

6.8 [repealed]

6.9 Name – An ATS must not use in its name the word "exchange", the words "stock market", the word "bourse" or any derivations of those terms.

6.10 [repealed]

6.11 Risk Disclosure to Non-Registered Subscribers

(1) When opening an account for a subscriber that is not registered as a dealer under securities legislation, an ATS must provide that subscriber with disclosure in substantially the following words:

> Although the ATS is registered as a dealer under securities legislation, it is a marketplace and therefore does not ensure best execution for its subscribers.

(2) Before the first order submitted by a subscriber that is not registered as a dealer under securities legislation is entered onto the ATS by the subscriber, the ATS must obtain an acknowledgement from that subscriber that the subscriber has received the disclosure required in subsection (1).

6.12 [repealed]

6.13 [repealed]

PART 7 INFORMATION TRANSPARENCY REQUIREMENTS FOR MARKETPLACES DEALING IN EXCHANGE-TRADED SECURITIES AND FOREIGN EXCHANGE-TRADED SECURITIES

7.1 Pre-Trade Information Transparency – Exchange-Traded Securities

(1) A marketplace that displays orders of exchange-traded securities to a person or company must provide accurate and timely information regarding orders for the exchange-traded securities displayed by the marketplace to an information processor as required by the information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider.

(2) Subsection (1) does not apply if the marketplace only displays orders to its employees or to persons or companies retained by the marketplace to assist in the operation of the marketplace and if the orders posted on the marketplace meet the size threshold set by a regulation services provider.

(3) A marketplace that is subject to subsection (1) must not make the information referred to in that subsection available to any person or company before it makes that information available to an information processor or, if there is no information processor, to an information vendor.

7.2 Post-Trade Information Transparency – Exchange-Traded Securities

(1) A marketplace must provide accurate and timely information regarding trades for exchange-traded securities executed on the marketplace to an information processor as required by the information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider.

(2) A marketplace that is subject to subsection (1) must not make the information referred to in that subsection available to any person or company before it makes that information available to an information processor or, if there is no information processor, to an information vendor.

7.3 Pre-Trade Information Transparency – Foreign Exchange-Traded Securities

(1) A marketplace that displays orders of foreign exchange-traded securities to a person or company must provide accurate and timely information regarding orders for the foreign exchange-traded securities displayed by the marketplace to an information vendor.

(2) Subsection (1) does not apply if the marketplace only displays orders to its employees or to persons or companies retained by the marketplace to assist in the operation of the marketplace and if the orders posted on the marketplace meet the size threshold set by a regulation services provider.

7.4 Post-Trade Information Transparency – Foreign Exchange-Traded Securities – A marketplace must provide accurate and timely information regarding trades for foreign exchange-traded securities executed on the marketplace to an information vendor.

7.5 Consolidated Feed – Exchange-Traded Securities – An information processor must produce an accurate consolidated feed in real-time showing the information provided to the information processor under sections 7.1 and 7.2.

7.6 Compliance with Requirements of an Information Processor – A marketplace that is subject to this Part must comply with the reasonable requirements of the information processor to which it is required to provide information under this Part.

PART 8 INFORMATION TRANSPARENCY REQUIREMENTS FOR ~~MARKETPLACES~~PERSONS AND COMPANIES DEALING IN UNLISTED DEBT SECURITIES~~, INTER-DEALER BOND BROKERS AND DEALERS~~

8.1 Pre-Trade and Post-Trade Information Transparency Requirements – Government Debt Securities

(1) A marketplace that displays orders of government debt securities to a person or company must provide to an information processor accurate and timely information regarding orders for government debt securities displayed by the marketplace as required by the information processor.

(2) Subsection (1) does not apply if the marketplace only displays orders to its employees or to persons or companies retained by the marketplace to assist in the operation of the marketplace.

(3) ~~A marketplace must provide to an information processor accurate and timely information regarding details of trades of government debt securities executed on the marketplace as required by the information processor.~~**[repealed]**

(4) An inter-dealer bond broker must provide to an information processor accurate and timely information regarding orders for government debt securities executed through the inter-dealer bond broker as required by the information processor.

(5) A~~n inter-dealer bond broker~~person or company must provide to an information processor accurate and timely information regarding details of each trade~~s~~ of government debt securities executed by or through the ~~inter-dealer bond broker~~person or company as required by the information processor.

8.2 Pre-Trade and Post-Trade Information Transparency Requirements – Corporate Debt Securities

(1) A marketplace that displays orders of corporate debt securities to a person or company must provide to an information processor accurate and timely information regarding orders for ~~designated~~corporate debt securities displayed by the marketplace ~~to an information processor,~~ as required by the information processor~~, or if there is no information processor, to an information vendor that meets the standards set by a regulation services provider, as required by the regulation services provider~~.

(2) Subsection (1) does not apply if the marketplace only displays orders to its employees or to persons or companies retained by the marketplace to assist in the operation of the marketplace.

(3) A ~~marketplace~~person or company must provide to an information processor accurate and timely information regarding details of each trade~~s~~ of ~~designated~~ corporate debt securities executed ~~on the marketplace~~by or through the person or company ~~to an information processor,~~ as required by the information processor~~, or if there is no information processor, to an information vendor that meets the standards set by a regulation services provider, as required by the regulation services provider~~.

(4) ~~An inter-dealer bond broker must provide accurate and timely information regarding details of trades of designated corporate debt securities executed through the inter-dealer bond broker to an information processor, as required by the information processor, or if there is no information processor, to an information verndor that meets the standards set by a regulation services provider, as required by the regulation services provider.~~**[repealed]**

(5) ~~A dealer executing trades of corporate debt securities outside of a marketplace must provide accurate and timely information regarding details of trades of designated corporate securities traded by or through the dealer to an information processor, or if there is no information processor, to an information vendor that meets the standards set by a regularion services provider, as required by the regulation services provider.~~**[repealed]**

8.3 Consolidated Feed – Unlisted Debt Securities – An information processor must produce ~~an~~ accurate consolidated ~~feed~~information ~~in real time~~ showing the information provided to the information processor under sections 8.1 and 8.2.

8.4 Compliance with Requirements of an Information Processor – A ~~marketplace, inter-dealer bond broker or dealer~~person or company that is subject to this Part must comply with the reasonable requirements of the information processor to which it is required to provide information under this Part.

8.5 [repealed]

8.6 Exemption for Government Debt Securities ~~– Section 8.1 does not apply until January 1, 2018.~~**[repealed]**

PART 9 [repealed]

PART 10 TRANSPARENCY OF MARKETPLACE OPERATIONS

10.1 Disclosure by Marketplaces – A marketplace must publicly disclose, on its website, information reasonably necessary to enable a person or company to understand the marketplace's operations or services it provides, including, but not limited to, information related to

(a) all fees, including any listing, trading, data, co-location and routing fees charged by the marketplace, an affiliate or by a party to which services have directly or indirectly been outsourced or which directly or indirectly provides those services,

(b) how orders are entered, interact and execute,

(c) all order types,

(d) access requirements,

(e) the policies and procedures that identify and manage any conflicts of interest arising from the operation of the marketplace or the services it provides,

(f) any referral arrangements between the marketplace and service providers,

(g) where routing is offered, how routing decisions are made,

(h) when indications of interest are disseminated, the information disseminated and the types of recipients of such indications of interest,

(i) any access arrangements with a third party service provider, including the name of the third party service provider and the standards for access to be complied with by the third party service provider, and

(j) the hours of operation of any testing environments provided by the marketplace, a description of any differences between the testing environment and production environment of the marketplace and the potential impact of these differences on the effectiveness of testing, and any policies and procedures relating to a marketplace's use of uniform test symbols for purposes of testing in its production environment.

10.2 [repealed]

10.3 [repealed]

PART 11 RECORDKEEPING REQUIREMENTS FOR MARKETPLACES

11.1 Business Records – A marketplace must keep such books, records and other documents as are reasonably necessary for the proper recording of its business in electronic form.

11.2 Other Records

(1) As part of the records required to be maintained under section 11.1, a marketplace must include the following information in electronic form:

(a) a record of all marketplace participants who have been granted access to trading in the marketplace;

(b) daily trading summaries for the marketplace including

(i) a list of securities traded,

(ii) transaction volumes

(A) for securities other than debt securities, expressed as the number of issues traded, number of trades, total unit volume and total dollar value of trades and, if the price of the securities traded is quoted in a currency other than Canadian dollars, the total value in that other currency, and

(B) for debt securities, expressed as the number of trades and total dollar value traded and, if the price of the securities traded is quoted in a currency other than Canadian dollars, the total value in that other currency,

(c) a record of each order which must include

(i) the order identifier assigned to the order by the marketplace,

(ii) the marketplace participant identifier assigned to the marketplace participant transmitting the order,

(iii) the identifier assigned to the marketplace where the order is received or originated,

(iv) each unique client identifier assigned to a client accessing the marketplace using direct electronic access,

(v) the type, issuer, class, series and symbol of the security,

(vi) the number of securities to which the order applies,

(vii) the strike date and strike price, if applicable,

(viii) whether the order is a buy or sell order,

(ix) whether the order is a short sale order, if applicable,

(x) whether the order is a market order, limit order or other type of order, and if the order is not a market order, the price at which the order is to trade,

(xi) the date and time the order is first originated or received by the marketplace,

(xii) whether the account is a retail, wholesale, employee, proprietary or any other type of account,

(xiii) the date and time the order expires,

(xiv) whether the order is an intentional cross,

(xv) whether the order is a jitney and if so, the identifier of the underlying broker,

(xvi) the currency of the order,

(xvii) whether the order is routed to another marketplace for execution, and the date, time and name of the marketplace to which the order was routed, and

(xviii) whether the order is a directed-action order, and whether the marketplace marked the order as a directed-action order or received the order marked as a directed-action order, and

(d) in addition to the record maintained in accordance with paragraph (c), all execution report details of orders, including

(i) the identifier assigned to the marketplace where the order was executed,

(ii) whether the order was fully or partially executed,

(iii) the number of securities bought or sold,

(iv) the date and time of the execution of the order,

(v) the price at which the order was executed,

(vi) the identifier assigned to the marketplace participant on each side of the trade,

(vii) whether the transaction was a cross,

(viii) time-sequenced records of all messages sent to or received from an information processor, an information vendor or a marketplace,

(ix) the marketplace trading fee for each trade, and

(x) each unique client identifier assigned to a client accessing the marketplace using direct electronic access.

11.2.1 Transmission in Electronic Form – A marketplace must transmit

(a) to a regulation services provider, if it has entered into an agreement with a regulation services provider in accordance with NI 23-101, the information required by the regulation services provider within ten business days, in electronic form and in the manner requested by the regulation services provider, and

(b) to the securities regulatory authority the information required by the securities regulatory authority under securities legislation within ten business days, in electronic form and in the manner requested by the securities regulatory authority.

11.3 Record Preservation Requirements

(1) For a period of not less than seven years from the creation of a record referred to in this section, and for the first two years in a readily accessible location, a marketplace must keep

(a) all records required to be made under sections 11.1 and 11.2;

(b) at least one copy of its standards for granting access to trading, if any, all records relevant to its decision to grant, deny or limit access to a person or company and, if applicable, all other records made or received by the marketplace in the course of complying with section 5.1;

(c) at least one copy of all records made or received by the marketplace in the course of complying with section 12.1 and 12.4, including all correspondence, memoranda, papers, books, notices, accounts, reports, test scripts, test results, and other similar records;

(d) all written notices provided by the marketplace to marketplace participants generally, including notices addressing hours of system operations, system malfunctions, changes to system procedures, maintenance of hardware and software, instructions pertaining to access to the marketplace and denials of, or limitation to, access to the marketplace;

(e) the acknowledgement obtained under subsection 5.9(2) or 6.11(2);

(f) a copy of any agreement referred to in section 8.4 of NI 23-101;

(g) a copy of any agreement referred to in subsections 13.1(2) and 13.1(3);

(h) a copy of any agreement referred to in section 5.10; and

(i) a copy of any agreement referred to in paragraph 5.12(c).

(2) During the period in which a marketplace is in existence, the marketplace must keep

(a) all organizational documents, minute books and stock certificate books;

(b) copies of all forms filed under Part 3; and

(c) in the case of an ATS, copies of all notices given under section 6.7.

11.4 [repealed]

11.5 Synchronization of Clocks

(1) A marketplace trading exchange-traded securities or foreign exchange-traded securities, an information processor receiving information about those securities, and a dealer trading those securities must synchronize the clocks used for recording or monitoring the time and date of any event that must be recorded under this Part and under NI 23-101 with the clock used by a regulation services provider monitoring the activities of marketplaces and marketplace participants trading those securities.

(2) A marketplace trading corporate debt securities or government debt securities, an information processor receiving information about those securities, a dealer trading those securities, and an inter-dealer bond broker trading those securities must synchronize the clocks used for recording or monitoring the time and date of any event that must be recorded under this Part and under NI 23-101.

PART 12 MARKETPLACE SYSTEMS AND BUSINESS CONTINUITY PLANNING

12.1 System Requirements – For each system, operated by or on behalf of the marketplace, that supports order entry, order routing, execution, trade reporting, trade comparison, data feeds, market surveillance and trade clearing, a marketplace must

(a) develop and maintain

(i) an adequate system of internal control over those systems, and

(ii) adequate information technology general controls, including without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support,

(b) in accordance with prudent business practice, on a reasonably frequent basis and, in any event, at least annually,

(i) make reasonable current and future capacity estimates,

(ii) conduct capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner, and

(c) promptly notify the regulator or, in Québec, the securities regulatory authority and, if applicable, its regulation services provider, of any material systems failure, malfunction, delay or security breach and provide timely updates on the status of the failure, malfunction, delay or security breach, the resumption of service and the results of the marketplace's internal review of the failure, malfunction, delay or security breach.

12.1.1 Auxiliary Systems – For each system that shares network resources with one or more of the systems, operated by or on behalf of the marketplace, that supports order entry, order routing, execution, trade reporting, trade comparison, data feeds, market surveillance and trade clearing, that, if breached, would pose a security threat to one or more of the previously mentioned systems, a marketplace must

(a) develop and maintain an adequate system of information security controls that relate to the security threats posed to any system that supports order entry, order routing, execution, trade reporting, trade comparison, data feeds, market surveillance and trade clearing, and

(b) promptly notify the regulator, or in Québec, the securities regulatory authority and, if applicable, its regulation services provider, of any material security breach and provide timely updates on the status of the breach, the resumption of service, where applicable, and the results of the marketplace's internal review of the security breach.

12.2 System Reviews

(1) A marketplace must annually engage a qualified party to conduct an independent systems review and prepare a report in accordance with established audit standards to ensure that the marketplace is in compliance with

(a) paragraph 12.1(a),

(b) section 12.1.1, and

(c) section 12.4.

(2) A marketplace must provide the report resulting from the review conducted under subsection (1) to

(a) its board of directors, or audit committee, promptly upon the report's completion, and

(b) the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the calendar year end.

12.3 Marketplace Technology Requirements and Testing Facilities

(1) A marketplace must make publicly available all technology requirements regarding interfacing with or accessing the marketplace in their final form,

(a) if operations have not begun, for at least three months immediately before operations begin; and

(b) if operations have begun, for at least three months before implementing a material change to its technology requirements.

(2) After complying with subsection (1), a marketplace must make available testing facilities for interfacing with or accessing the marketplace,

(a) if operations have not begun, for at least two months immediately before operations begin; and

(b) if operations have begun, for at least two months before implementing a material change to its technology requirements.

(3) A marketplace must not begin operations before

(a) it has complied with paragraphs (1)(a) and (2)(a),

(b) its regulation services provider, if applicable, has confirmed to the marketplace that trading may commence on the marketplace, and

(c) the chief information officer of the marketplace, or an individual performing a similar function, has certified in writing to the regulator, or in Québec, the securities regulatory authority, that all information technology systems used by the marketplace have been tested according to prudent business practices and are operating as designed.

(3.1) A marketplace must not implement a material change to the systems referred to in section 12.1 before

(a) it has complied with paragraphs (1)(b) and (2)(a), and

(b) the chief information officer of the marketplace, or an individual performing a similar function, has certified in writing to the regulator, or in Québec, the securities regulatory authority, that the change has been tested according to prudent business practices and is operating as designed.

(4) Subsection (3.1) does not apply to a marketplace if the change must be made immediately to address a failure, malfunction or material delay of its systems or equipment if

(a) the marketplace immediately notifies the regulator, or in Québec, the securities regulatory authority, and, if applicable, its regulation services provider of its intention to make the change; and

(b) the marketplace publishes the changed technology requirements as soon as practicable.

12.3.1 Uniform Test Symbols

A marketplace must use uniform test symbols, as set by a regulator, or in Québec, the securities regulatory authority, for the purpose of performing testing in its production environment.

12.4 Business Continuity Planning

(1) A marketplace must

(a) develop and maintain reasonable business continuity plans, including disaster recovery plans, and

(b) test its business continuity plans, including disaster recovery plans, according to prudent business practices on a reasonably frequent basis and, in any event, at least annually.

(2) A marketplace with a total trading volume in any type of security equal to or greater than 10% of the total dollar value of the trading volume in that type of security on all marketplaces in Canada during at least two of the preceding three months of operation must establish, implement, and maintain policies and procedures reasonably designed to ensure that each system, operated by or on behalf of the marketplace, that supports order entry, order routing, execution, trade reporting, trade comparison, data feeds, and trade clearing, can resume operations within two hours following the declaration of a disaster by the marketplace.

(3) A recognized exchange or quotation and trade reporting system, that directly monitors the conduct of its members or users and enforces requirements set under section 7.1(1) or 7.3(1) of NI 23-101, must establish, implement, and maintain policies and procedures reasonably designed to ensure that each system, operated by or on behalf of the marketplace, that is critical and supports real-time market surveillance, can resume operations within two hours following the declaration of a disaster at the primary site by the exchange or quotation and trade reporting system.

(4) A regulation services provider, that has entered into a written agreement with a marketplace to conduct market surveillance for the marketplace, must establish, implement, and maintain policies and procedures reasonably designed to ensure that each system, operated by or on behalf of the regulation services provider, that is critical and supports real-time market surveillance can resume operations within two hours following the declaration of a disaster at the primary site by the regulation services provider.

12.4.1 Industry-Wide Business Continuity Tests

A marketplace, recognized clearing agency, information processor, and participant dealer must participate in all industry-wide business continuity tests, as determined by a regulation services provider, regulator, or in Québec, the securities regulatory authority.

PART 13 CLEARING AND SETTLEMENT

13.1 Clearing and Settlement

(1) All trades executed on a marketplace must be reported to and settled through a clearing agency.

(2) For a trade executed through an ATS by a subscriber that is registered as a dealer under securities legislation, the ATS and its subscriber must enter into an agreement that specifies whether the trade must be reported to a clearing agency by

(a) the ATS;

(b) the subscriber; or

(c) an agent for the subscriber that is a clearing member of a clearing agency.

(3) For a trade executed through an ATS by a subscriber that is not registered as a dealer under securities legislation, an ATS and its subscriber must enter into an agreement that specifies whether the trade must be reported to a clearing agency by

(a) the ATS; or

(b) an agent for the subscriber that is a clearing member of a clearing agency.

13.2 Access to Clearing Agency of Choice

(1) A marketplace must report a trade in a security to a clearing agency designated by a marketplace participant.

(2) Subsection (1) does not apply to a trade in a security that is a standardized derivative or an exchange-traded security that is an option.

PART 14 REQUIREMENTS FOR AN INFORMATION PROCESSOR

14.1 Filing Requirements for an Information Processor

(1) A person or company that intends to carry on business as an information processor must file Form 21-101F5 at least 90 days before the information processor begins to carry on business as an information processor.

(2) **[repealed]**

14.2 Change in Information

(1) At least 45 days before implementing a significant change involving a matter set out in Form 21-101F5, an information processor must file an amendment to the information provided in Form 21-101F5 in the manner set out in Form 21-101F5.

(2) If an information processor implements a change involving a matter set out in Form 21-101F5, other than a change referred to in subsection (1), the information processor must, within 30 days after the end of the calendar quarter in which the change takes place, file an amendment to the information provided in Form 21-101F5 in the manner set out in Form 21-101F5.

14.3 Ceasing to Carry on Business as an Information Processor

(1) If an information processor intends to cease carrying on business as an information processor, the information processor must file a report on Form 21-101F6 at least 30 days before ceasing to carry on that business.

(2) If an information processor involuntarily ceases to carry on business as an information processor, the information processor must file a report on Form 21-101F6 as soon as practicable after it ceases to carry on that business.

14.4 Requirements Applicable to an Information Processor

(1) An information processor for exchange-traded securities must enter into an agreement with each marketplace~~, inter-dealer bond broker and dealer~~ that is required to provide information to the information processor that the marketplace~~, inter-dealer bond broker and dealer~~ will

(a) provide information to the information processor in accordance with Part 7~~ or 8, as applicable~~; and

(b) comply with any other reasonable requirements set by the information processor.

(2) An information processor must provide timely, accurate, reliable and fair collection, processing, distribution and publication of information for orders for, and trades in, securities.

(3) An information processor must keep such books, records and other documents as are reasonably necessary for the proper recording of its business.

(4) An information processor must establish in a timely manner an electronic connection or changes to an electronic connection to a ~~marketplace, inter-dealer bond broker or dealer~~person or company that is required to provide information to the information processor.

(5) An information processor must provide prompt and accurate order and trade information and must not unreasonably restrict fair access to such information.

(6) An information processor must file annual audited financial statements within 90 days after the end of its financial year that

(a) are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, Canadian GAAP applicable to private enterprises or IFRS,

(b) include notes to the financial statements that identify the accounting principles used to prepare the financial statements, and

(c) are audited in accordance with Canadian GAAS or International Standards on Auditing and are accompanied by an auditor's report.

(6.1) If an information processor is operated as a division or unit of a person or company, the person or company must file the income statement and the statement of cash flow of the information processor and any other information necessary to demonstrate the financial condition of the information processor within 90 days after the end of the financial year of the person or company.

(7) An information processor must file its financial budget within 30 days after the start of a financial year.

(7.1) If an information processor is operated as a division or unit of a person or company, the person or company must file the financial budget relating to the information processor within 30 days of the start of the financial year of the person or company.

(8) ~~An information processor must file, within 30 days after the end of each calendar quarter, the process and criteria for the selection of government debt securities, as applicable, and designated corporate debt securities and the list of government debt securities, as applicable, and designated corporate debt securities.~~**[repealed]**

(9) ~~An information processor must file, within 30 days after the end of each calendar year, the process to communicate the designated securities to the marketplaces, inter-dealer bond brokers and dealers providing the information required by the Instrument, including where the list of designated securities can be found.~~**[repealed]**

14.5 System Requirements – An information processor must,

(a) develop and maintain

(i) an adequate system of internal controls over its critical systems, and

(ii) adequate information technology general controls, including, without limitation, controls relating to information systems operations, information security, change management, problem management, network support, and system software support,

(b) in accordance with prudent business practice, on a reasonably frequent basis and in any event, at least annually,

(i) make reasonable current and future capacity estimates for each of its systems, and

(ii) conduct capacity stress tests of its critical systems to determine the ability of those systems to process information in an accurate, timely and efficient manner,

(c) annually engage a qualified party to conduct an independent systems review and prepare a report in accordance with established audit standards to ensure that it is in compliance with paragraph (a) and section 14.6,

(d) provide the report resulting from the review conducted under paragraph (c) to

(i) its board of directors or the audit committee promptly upon the report's completion, and

(ii) the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the ~~calendar~~information processor's fiscal year end, and

(e) promptly notify the following of any failure, malfunction or material delay of its systems or equipment

(i) the regulator or, in Québec, the securities regulatory authority, and

(ii) any regulation services provider, recognized exchange or recognized quotation and trade reporting system monitoring trading of the securities about which information is provided to the information processor.

14.6 Business Continuity Planning

An information processor must

(a) develop and maintain reasonable business continuity plans, including disaster recovery plans,

(b) test its business continuity plans, including disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually, and

(c) establish, implement, and maintain policies and procedures reasonably designed to ensure that its critical systems can resume operations within one hour following the declaration of a disaster by the information processor.

14.7 Confidential Treatment of Trading Information

An information processor must not release order and trade information to a person or company other than the ~~marketplace, inter-dealer bond broker or dealer~~person or company that provided this information in accordance with this Instrument or a securities regulatory authority, unless

(a) the release of that information is required by this Instrument or under applicable law, or

(b) the information processor received prior approval from the securities regulatory authority.

14.8 Transparency of Operations of an Information Processor

An information processor must publicly disclose on its website information reasonably necessary to enable a person or company to understand the information processor's operations or services it provides including, but not limited to

(a) all fees charged by the information processor for the consolidated data,

(b) ~~a description of the process and criteria for the selection of government debt securities, as applicable, and designated corporate debt securities and the list of government debt securities, as applicable, and designated corporate debt securities,~~ in the case of an information processor for government debt securities or corporate debt securities,

(i) the marketplaces that are required to report details of orders for government debt securities or corporate debt securities to the information processor, as applicable;

(ii) the inter-dealer bond brokers that are required to report details of orders for government debt securities to the information processor;

(iii) the classes of persons and companies that are required to report details of trades of government debt securities or corporate debt securities to the information processor, as applicable,

(iv) when details of trades in each government debt security or corporate debt security, as applicable, must be reported to the information processor by a person or company,

(v) when the information provided to the information processor will be publicly disseminated by the information processor, and

(vi) the cap on the displayed volume of trades for each government debt security or corporate debt security, as applicable,

(c) access requirements, and

(d) the policies and procedures to manage conflicts of interest that may arise in the operation of the information processor.

PART 15 EXEMPTION

15.1 Exemption

(1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

PROPOSED CHANGES TO COMPANION POLICY 21-101 CP *MARKETPLACE OPERATION*

PART 1 INTRODUCTION

1.1 Introduction – Exchanges, quotation and trade reporting systems and ATSs are marketplaces that provide a market facility or venue on which securities can be traded. The areas of interest from a regulatory perspective are in many ways similar for each of these marketplaces since they may have similar trading activities. The regulatory regime for exchanges and quotation and trade reporting systems arises from the securities legislation of the various jurisdictions. Exchanges and quotation and trade reporting systems are recognized under orders from the Canadian securities regulatory authorities, with various terms and conditions of recognition. ATSs, which are not recognized as exchanges or quotation and trade reporting systems, are regulated under National Instrument 21-101 *Marketplace Operation* (the Instrument) and National Instrument 23-101 *Trading Rules* (NI 23-101). The Instrument and NI 23-101, which were adopted at a time when new types of markets were emerging, provide the regulatory framework that allows and regulates the operation of multiple marketplaces.

The purpose of this Companion Policy is to state the views of the Canadian securities regulatory authorities on various matters related to the Instrument, including:

(a) a discussion of the general approach taken by the Canadian securities regulatory authorities in, and the general regulatory purpose for, the Instrument; and

(b) the interpretation of various terms and provisions in the Instrument.

1.2 Definition of Exchange-Traded Security – Section 1.1 of the Instrument defines an "exchange-traded security" as a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of the Instrument and NI 23-101.

If a security trades on a recognized exchange or recognized quotation and trade reporting system on a “when issued” basis, as defined in IIROC’s Universal Market Integrity Rules, the security would be considered to be listed on that recognized exchange or quoted on that recognized quotation and trade reporting system and would therefore be an exchange-traded security.

If no “when issued” market has been posted by a recognized exchange or recognized quotation and trade reporting system for a security, an ATS may not allow this security to be traded on a “when issued” basis on its marketplace.

A security that is inter-listed would be considered to be an exchange-traded security. A security that is listed on a foreign exchange or quoted on a foreign quotation and trade reporting system, but is not listed or quoted on a domestic exchange or quotation and trade reporting system, falls within the definition of “foreign exchange-traded security”.

1.3 Definition of Foreign Exchange-Traded Security – The definition of foreign exchange-traded security includes a reference to ordinary members of the International Organization of Securities Commissions (IOSCO). To determine the current list of ordinary members, reference should be made to the IOSCO website at www.iosco.org.

1.4 Definition of Regulation Services Provider – The definition of regulation services provider is meant to capture a third party provider that provides regulation services to marketplaces. A recognized exchange or recognized quotation and trade reporting system would not be a regulation services provider if it only conducts these regulatory services for its own marketplace or an affiliated marketplace.

PART 2 MARKETPLACE

2.1 Marketplace

(1) The Instrument uses the term "marketplace" to encompass the different types of trading systems that match trades. A marketplace is an exchange, a quotation and trade reporting system or an ATS. Subparagraphs (a)(iii) and (a)(iv) of the definition of "marketplace" describe marketplaces that the Canadian securities regulatory authorities consider to be ATSs. A dealer that internalizes its orders for exchange-traded securities and does not execute and print the trades on an exchange or quotation and trade reporting system in accordance with the rules of the exchange or the quotation and trade reporting system (including an exemption from those rules) is considered to be a marketplace pursuant to paragraph (d) of the definition of "marketplace" and an ATS.

(2) Two of the characteristics of a "marketplace" are

(a) that it brings together orders for securities of multiple buyers and sellers; and

(b) that it uses established, non-discretionary methods under which the orders interact with each other.

(3) The Canadian securities regulatory authorities consider that a person or company brings together orders for securities if it

(a) displays, or otherwise represents to marketplace participants, trading interests entered on the system; or

(b) receives orders centrally for processing and execution (regardless of the level of automation used).

(4) The Canadian securities regulatory authorities are of the view that "established, nondiscretionary methods" include any methods that dictate the terms of trading among the multiple buyers and sellers entering orders on the system. Such methods include providing a trading facility or setting rules governing trading among marketplace participants. Common examples include a traditional exchange and a computer system, whether comprised of software, hardware, protocols, or any combination thereof, through which orders interact, or any other trading mechanism that provides a means or location for the bringing together and execution of orders. Rules imposing execution priorities, such as time and price priority rules, would be "established, non-discretionary methods."

(5) The Canadian securities regulatory authorities do not consider the following systems to be marketplaces for purposes of the Instrument:

(a) A system operated by a person or company that only permits one seller to sell its securities, such as a system that permits issuers to sell their own securities to investors.

(b) A system that merely routes orders for execution to a facility where the orders are executed.

(c) A system that posts information about trading interests, without facilities for execution.

In the first two cases, the criteria of multiple buyers and sellers would not be met. In the last two cases, routing systems and bulletin boards do not establish non-discretionary methods under which parties entering orders interact with each other.

(6) A person or company operating any of the systems described in subsection (5) should consider whether the person or company is required to be registered as a dealer under securities legislation.

(7) Inter-dealer bond brokers that conduct traditional inter-dealer bond broker activity have a choice as to how to be regulated under the Instrument and NI 23-101. Each inter-dealer bond broker can choose to be subject to IIROC Rule 36 and IIROC Rule 2100, fall within the definition of inter-dealer bond broker in the Instrument and be subject to the transparency requirements of Part 8 of the Instrument. Alternatively, the inter-dealer bond broker can choose to be an ATS and comply with the provisions of the Instrument and NI 23-101 applicable to a marketplace and an ATS. An inter-dealer bond broker that chooses to be an ATS will not be subject to Rule 36 or IIROC Rule 2100, but will be subject to all other IIROC requirements applicable to a dealer.

(8) Section 1.2 of the Instrument contains an interpretation of the definition of “marketplace”. The Canadian securities regulatory authorities do not consider a system that only routes unmatched orders to a marketplace for execution to be a marketplace. If a dealer uses a system to match buy and sell orders or pair orders with contra-side orders outside of a marketplace and route the matched or paired orders to a marketplace as a cross, the Canadian securities regulatory authorities may consider the dealer to be operating a marketplace under subparagraph (a)(iii) of the definition of “marketplace”. The Canadian securities regulatory authorities encourage dealers that operate or plan to operate such a system to meet with the applicable securities regulatory authority to discuss the operation of the system and whether the dealer’s system falls within the definition of “marketplace”.

PART 3 CHARACTERISTICS OF EXCHANGES, QUOTATION AND TRADE REPORTING SYSTEMS AND ATSs

3.1 Exchange

(1) Securities legislation of most jurisdictions does not define the term "exchange".

(2) The Canadian securities regulatory authorities generally consider a marketplace, other than a quotation and trade reporting system, to be an exchange for purposes of securities legislation, if the marketplace

(a) requires an issuer to enter into an agreement in order for the issuer's securities to trade on the marketplace, i.e., the marketplace provides a listing function;

(b) provides, directly, or through one or more marketplace participants, a guarantee of a two-sided market for a security on a continuous or reasonably continuous basis, i.e., the marketplace has one or more marketplace participants that guarantee that a bid and an ask will be posted for a security on a continuous or reasonably continuous basis. For example, this type of liquidity guarantee can be carried out on exchanges through traders acting as principal such as registered traders, specialists or market makers;

(c) sets requirements governing the conduct of marketplace participants, in addition to those requirements set by the marketplace in respect of the method of trading or algorithm used by those marketplace participants to execute trades on the system (see subsection (3)); or

(d) disciplines marketplace participants, in addition to discipline by exclusion from trading, i.e., the marketplace can levy fines or take enforcement action.

(3) An ATS that requires a subscriber to agree to comply with the requirements of a regulation services provider as part of its contract with that subscriber is not setting "requirements governing the conduct of subscribers". In addition, marketplaces are not precluded from imposing credit conditions on subscribers or requiring subscribers to submit financial information to the marketplace.

(4) The criteria in subsection 3.1(2) are not exclusive and there may be other instances in which the Canadian securities regulatory authorities will consider a marketplace to be an exchange.

3.2 Quotation and Trade Reporting System

(1) Securities legislation in certain jurisdictions contains the concept of a quotation and trade reporting system. A quotation and trade reporting system is defined under securities legislation in those jurisdictions as a person or company, other than an exchange or registered dealer, that operates facilities that permit the dissemination of price quotations for the purchase and sale of securities and reports of completed transactions in securities for the exclusive use of registered dealers. A person or company that carries on business as a vendor of market data or a bulletin board with no execution facilities would not normally be considered to be a quotation and trade reporting system.

(2) A quotation and trade reporting system is considered to have "quoted" a security if

(a) the security has been subject to a listing or quoting process, and

(b) the issuer issuing the security or the dealer trading the security has entered into an agreement with the quotation and trade reporting system to list or quote the security.

3.3 Definition of an ATS

(1) In order to be an ATS for the purposes of the Instrument, a marketplace cannot engage in certain activities or meet certain criteria such as

(a) requiring listing agreements,

(b) having one or more marketplace participants that guarantee that a two-sided market will be posted for a security on a continuous or reasonably continuous basis,

(c) setting requirements governing the conduct of subscribers, in addition to those requirements set by the marketplace in respect of the method of trading or algorithm used by those subscribers to execute trades on the system, and

(d) disciplining subscribers.

A marketplace, other than a quotation and trade reporting system, that engages in any of these activities or meets these criteria would, in the view of the Canadian securities regulatory authorities, be an exchange and would have to be recognized as such in order to carry on business, unless exempted from this requirement by the Canadian securities regulatory authorities.

(2) An ATS can establish trading algorithms that provide that a trade takes place if certain events occur. These algorithms are not considered to be "requirements governing the conduct of subscribers".

(3) A marketplace that would otherwise meet the definition of an ATS in the Instrument may apply to the Canadian securities regulatory authorities for recognition as an exchange.

3.4 Requirements Applicable to ATSs

(1) Part 6 of the Instrument applies only to an ATS that is not a recognized exchange or a member of a recognized exchange or an exchange recognized for the purposes of the Instrument and NI 23-101. If an ATS is recognized as an exchange, the provisions of the Instrument relating to marketplaces and recognized exchanges apply.

(2) If the ATS is a member of an exchange, the rules, policies and other similar instruments of the exchange apply to the ATS.

(3) Under paragraph 6.1(a) of the Instrument, an ATS that is not a member of a recognized exchange or an exchange recognized for the purposes of the Instrument and NI 23-101 must register as a dealer if it wishes to carry on business. Unless otherwise specified, an ATS registered as a dealer is subject to all of the requirements applicable to dealers under securities legislation, including the requirements imposed by the Instrument and NI 23-101. An ATS will be carrying on business in a local jurisdiction if it provides direct access to subscribers located in that jurisdiction.

(4) If an ATS registered as a dealer in one jurisdiction in Canada provides access in another jurisdiction in Canada to subscribers who are not registered dealers under securities legislation, the ATS must be registered in that other jurisdiction. However, if all of the ATS's subscribers in the other jurisdiction are registered as dealers in that other jurisdiction, the securities regulatory authority in the other jurisdiction may consider granting the ATS an exemption from the requirement to register as a dealer under paragraph 6.1(a) and all other requirements in the Instrument and in NI 23-101 and from the registration requirements of securities legislation. In determining if the exemption is in the public interest, a securities regulatory authority will consider a number of factors, including whether the ATS is registered in another jurisdiction and whether the ATS deals only with registered dealers in that jurisdiction.

(5) Paragraph 6.1(b) of the Instrument prohibits an ATS to which the provisions of the Instrument apply from carrying on business unless it is a member of a self-regulatory entity. Membership in a self-regulatory entity is required for purposes of membership in the Canadian Investor Protection Fund, capital requirements and clearing and settlement procedures. At this time, the IIROC is the only entity that would come within the definition.

(6) Any registration exemptions that may otherwise be applicable to a dealer under securities legislation are not available to an ATS, even though it is registered as a dealer (except as provided in the Instrument), because of the fact that it is also a marketplace and different considerations apply.

(7) Subsection 6.7(1) of the Instrument requires an ATS to notify the securities regulatory authority if one of three thresholds is met or exceeded. Upon being informed that one of the thresholds is met or exceeded, the securities regulatory authority intends to review the ATS and its structure and operations in order to consider whether the person or company operating the ATS should be considered to be an exchange for purposes of securities legislation or if additional terms and conditions should be placed on the registration of the ATS. The securities regulatory authority intends to conduct this review because each of these thresholds may be indicative of an ATS having significant market presence in a type of security, such that it would be more appropriate that the ATS be regulated as an exchange. If more than one Canadian securities regulatory authority is conducting this review, the reviewing jurisdictions intend to coordinate their review. The volume thresholds referred to in subsection 6.7(1) of the Instrument are based on the type of security. The Canadian securities regulatory authorities consider a type of security to refer to a distinctive category of security such as equity securities, debt securities or options.

(8) Any marketplace that is required to provide notice under section 6.7 of the Instrument will determine the calculation based on publicly available information.

PART 4 RECOGNITION AS AN EXCHANGE OR QUOTATION AND TRADE REPORTING SYSTEM

4.1 Recognition as an Exchange or Quotation and Trade Reporting System

(1) In determining whether to recognize an exchange or quotation and trade reporting system, the Canadian securities regulatory authorities must determine whether it is in the public interest to do so.

(2) In determining whether it is in the public interest to recognize an exchange or quotation and trade reporting system, the Canadian securities regulatory authorities will look at a number of factors, including

(a) the manner in which the exchange or quotation and trade reporting system proposes to comply with the Instrument;

(b) whether the exchange or quotation and trade reporting system has fair and meaningful representation on its governing body, in the context of the nature and structure of the exchange or quotation and trade reporting system;

(c) whether the exchange or quotation and trade reporting system has sufficient financial resources for the proper performance of its functions;

(d) whether the rules, policies and other similar instruments of the exchange or quotation and trade reporting system ensure that its business is conducted in an orderly manner so as to afford protection to investors;

(e) whether the exchange or quotation and trade reporting system has policies and procedures to effectively identify and manage conflicts of interest arising from its operation or the services it provides;

(f) whether the requirements of the exchange or quotation and trade reporting system relating to access to its services are fair and reasonable; and

(g) whether the exchange or quotation and trade reporting system's process for setting fees is fair, transparent and appropriate, and whether the fees are equitably allocated among the participants, issuers and other users of services, do not have the effect of creating barriers to access and at the same time ensure that the exchange or quotation and trade reporting system has sufficient financial resources for the proper performance of its functions.

4.2 Process

Although the basic requirements or criteria for recognition of an exchange or quotation and trade reporting system may be similar in various jurisdictions, the precise requirements and the process for seeking a recognition or an exemption from recognition in each jurisdiction is determined by that jurisdiction.

PART 5 ORDERS

5.1 Orders

(1) The term "order" is defined in section 1.1 of the Instrument as a firm indication by a person or company, acting as either principal or agent, of a willingness to buy or sell a security. By virtue of this definition, a marketplace that displays good faith, non-firm indications of interest, including, but not limited to, indications of interest to buy or sell a particular security without either prices or quantities associated with those indications, is not displaying "orders". However, if those prices or quantities are implied and determinable, for example, by knowing the features of the marketplace, the indications of interest may be considered an order.

(2) The terminology used is not determinative of whether an indication of interest constitutes an order. Instead, whether or not an indication is "firm" will depend on what actually takes place between the buyer and seller. At a minimum, the Canadian securities regulatory authorities will consider an indication to be firm if it can be executed without further discussion between the person or company entering the indication and the counterparty (i.e. the indication is "actionable"). The Canadian securities regulatory authorities would consider an indication of interest to be actionable if it includes sufficient information to enable it to be executed without communicating with the marketplace participant that entered the order. Such information may include the symbol of the security, side (buy or sell), size, and price. The information may be explicitly stated, or it may be implicit and determinable based on the features of the marketplace. Even if the person or company must give its subsequent agreement to an execution, the Canadian securities regulatory authorities will still consider the indication to be firm if this subsequent agreement is always, or almost always, granted so that the agreement is largely a formality. For instance, an indication where there is a clear or prevailing presumption that a trade will take place at the indicated or an implied price, based on understandings or past dealings, will be viewed as an order.

(3) A firm indication of a willingness to buy or sell a security includes bid or offer quotations, market orders, limit orders and any other priced orders. For the purpose of sections 7.1, 7.3, 8.1 and 8.2 of the Instrument, the Canadian securities regulatory authorities do not consider special terms orders that are not immediately executable or that trade in special terms books, such as all-or-none, minimum fill or cash or delayed delivery, to be orders that must be provided to an information processor or, if there is no information processor, to an information vendor for consolidation.

(4) The securities regulatory authority may consider granting an exemption from the pre-trade transparency requirements in sections 7.1, 7.3, 8.1 and/or 8.2 of the Instrument to a marketplace for orders that result from a request for quotes or facility that allows negotiation between two parties provided that

(a) order details are shown only to the negotiating parties,

(b) other than as provided by paragraph (a), no actionable indication of interest or order is displayed by either party or the marketplace, and

(c) each order entered on the marketplace meets the size threshold set by a regulation services provider as provided in subsection 7.1(2) of the Instrument.

(5) The determination of whether an order has been placed does not turn on the level of automation used. Orders can be given over the telephone, as well as electronically.

PART 6 MARKETPLACE INFORMATION AND FINANCIAL STATEMENTS

6.1 Forms Filed by Marketplaces

(1) The definition of marketplace includes exchanges, quotation and trade reporting systems and ATSs. The legal entity that is recognized as an exchange or quotation and trade reporting system, or registered as a dealer in the case of an ATS, owns and operates the market or trading facility. In some cases, the entity may own and operate more than one trading facility. In such cases the marketplace may file separate forms in respect of each trading facility, or it may choose to file one form covering all of the different trading facilities. If the latter alternative is chosen, the marketplace must clearly identify the facility to which the information or changes apply.

(2) The forms filed by a marketplace under the Instrument will be kept confidential. The Canadian securities regulatory authorities are of the view that the forms contain proprietary financial, commercial and technical information and that the interests of the filers in non-disclosure outweigh the desirability of adhering to the principle that the forms be available for public inspection.

(3) While initial Forms 21-101F1 and 21-101F2 and amendments thereto are kept confidential, certain Canadian securities regulatory authorities may publish a summary of the information included in the forms filed by a marketplace, or information related to significant changes to the forms of a marketplace, where the Canadian securities regulatory authorities are of the view that a certain degree of transparency for certain aspects of a marketplace would allow investors and industry participants to be better informed as to how securities trade on the marketplace.

(4) Under subsection 3.2(1) of the Instrument, a marketplace is required to file an amendment to the information provided in Form 21-101F1 or Form 21-101F2, as applicable, at least 45 days prior to implementing a significant change. The Canadian securities regulatory authorities consider a significant change to be a change that could significantly impact a marketplace, its systems, its market structure, its marketplace participants or their systems, investors, issuers or the Canadian capital markets.

A change would be considered to significantly impact the marketplace if it is likely to give rise to potential conflicts of interest, to limit access to the services of a marketplace, introduce changes to the structure of the marketplace or result in costs, such as implementation costs, to marketplace participants, investors or, if applicable, the regulation services provider.

The following types of changes are considered to be significant changes as they would always have a significant impact:

(a) changes in the structure of the marketplace, including procedures governing how orders are entered, displayed (if applicable), executed, how they interact, are cleared and settled;

(b) new or changes to order types, and

(c) changes in the fees and the fee model of the marketplace.

The following may be considered by the Canadian securities regulatory authorities as significant changes, depending on whether they have a significant impact:

(d) new or changes to the services provided by the marketplace, including the hours of operation;

(e) new or changes to the means of access to the market or facility and its services;

(f) new or changes to types of securities traded on the marketplace;

(g) new or changes to types of securities listed on exchanges or quoted on quotation and trade reporting systems;

(h) new or changes to types of marketplace participants;

(i) changes to the systems and technology used by the marketplace that support order entry, order routing, execution, trade reporting, trade comparison, data feeds, co-location and, if applicable, market surveillance and trade clearing, including those affecting capacity;

(j) changes to the corporate governance of the marketplace, including changes to the composition requirements for the board of directors or any board committees and changes to the mandates of the board of directors or any board committees;

(k) changes in control over marketplaces;

(l) changes in affiliates that provide services to or on behalf of the marketplace;

(m) new or changes in outsourcing arrangements for key marketplace services or systems; and

(n) new or changes in custody arrangements.

(5) Changes to information in Form 21-101F1 or Form 21-101F2 that

(a) do not have a significant impact on the marketplace, its market structure, marketplace participants, investors, issuers or the Canadian capital markets, or

(b) are housekeeping or administrative changes such as

(i) changes in the routine processes, policies, practices, or administration of the marketplace,

(ii) changes due to standardization of terminology,

(iii) corrections of spelling or typographical errors,

(iv) necessary changes to conform to applicable regulatory or other legal requirements,

(v) minor system or technology changes that would not significantly impact the system or its capacity, and

(vi) changes to the list of marketplace participants and the list of all persons or entities denied or limited access to the marketplace,

would be filed in accordance with the requirements outlined in subsection 3.2(3) of the Instrument.

(6) As indicated in subsection (4) above, the Canadian securities regulatory authorities consider a change in a marketplace's fees or fee model to be a significant change. However, the Canadian securities regulatory authorities recognize that in the current, competitive multiple marketplace environment, which may at times require that frequent changes be made to the fees or fee model of marketplaces, marketplaces may need to implement fee changes within tight timeframes. To facilitate this process, subsection 3.2(2) of the Instrument provides that marketplaces may provide information describing the change in fees or fee structure in a shorter timeframe, at least seven business days before the expected implementation date of the change in fees or fee structure.

(7) For the changes referred to in subsection 3.2(3) of the Instrument, the Canadian securities regulatory authorities may review these filings to ascertain the appropriateness of the categorization of such filings. The marketplace will be notified in writing if there is disagreement with respect to the categorization of the filing.

(8) The Canadian securities regulatory authorities will make best efforts to review amendments to Forms 21-101F1 and 21-101F2 within the timelines specified in subsections 3.2(1) and (2) of the Instrument. However, where the changes are complex, raise regulatory concerns, or when additional information is required, the period for review may exceed these timeframes. The Canadian securities regulatory authorities will review changes to the information in Forms 21-101F1 and 21-101F2 in accordance with staff practices in each jurisdiction.

(8.1) In order to ensure records regarding the information in a marketplace's Form 21-101F1 or Form 21-101F2 are kept up to date, subsection 3.2(4) of the Instrument requires the chief executive officer of a marketplace to certify, within 30 days after the end of each calendar year, that the information contained in the marketplace's Form 21-101F1 or Form 21-101F2 as applicable, is true, correct and complete and the marketplace is operating as described in the applicable form. This certification is required at the same time as the updated and consolidated Form 21-101F1 or Form 21-101F2, as applicable, is required to be filed pursuant to subsection 3.2(5) of the Instrument. The certification under subsection 3.2(4) is also separate and apart from the form of certification in Form 21-101F1 and Form 21-101F2.

(8.2) The Canadian securities regulatory authorities expect that the certifications provided pursuant to subsection 3.2(4) of the Instrument will be preserved by the marketplace as part of its books and records obligation under Part 11 of the Instrument.

(9) Section 3.3 of the Instrument requires a marketplace to file Form 21-101F3 by the following dates: April 30 (for the calendar quarter ending March 31), July 30 (for the calendar quarter ending June 30), October 30 (for the calendar quarter ending September 30) and January 30 (for the calendar quarter ending December 31).

6.2 Filing of Financial Statements

Part 4 of the Instrument sets out the financial reporting requirements applicable to marketplaces. Subsections 4.1(2) and 4.2(2) respectively require an ATS to file audited financial statements initially, together with Form 21-101F2, and on an annual basis thereafter. These financial statements may be in the same form as those filed with IIROC. The annual audited financial statements may be filed with the Canadian securities regulatory authorities at the same time as they are filed with IIROC.

PART 7 MARKETPLACE REQUIREMENTS

7.1 Access Requirements

(1) Section 5.1 of the Instrument sets out access requirements that apply to a marketplace. The Canadian securities regulatory authorities note that the requirements regarding access for marketplace participants do not restrict the marketplace from maintaining reasonable standards for access. The purpose of these access requirements is to ensure that rules, policies, procedures, and fees, as applicable, of the marketplace do not unreasonably create barriers to access to the services provided by the marketplace.

(2) For the purposes of complying with the order protection requirements in Part 6 of NI 23-101, a marketplace should permit fair and efficient access to

(a) a marketplace participant that directly accesses the marketplace,

(b) a person or company that is indirectly accessing the marketplace through a marketplace participant, or

(c) another marketplace routing an order to the marketplace.

The reference to "a person or company" in paragraph (b) includes a system or facility that is operated by a person or company.

(3) The reference to "services" in section 5.1 of the Instrument means all services that may be offered to a person or company and includes all services relating to order entry, trading, execution, routing, data and includes co-location.

(4) Marketplaces that send indications of interest to a selected smart order router or other system should send the information to other smart order routers or systems to meet the fair access requirements of the Instrument.

(5) Marketplaces are responsible for ensuring that the fees they set are in compliance with section 5.1 of the Instrument. In assessing whether its fees unreasonably condition or limit access to its services, a marketplace should consider a number of factors, including

(a) the value of the security traded,

(b) the amount of the fee relative to the value of the security traded,

(c) the amount of fees charged by other marketplaces to execute trades in the market,

(d) with respect to market data fees, the amount of market data fees charged relative to the market share of the marketplace, and,

(e) with respect to order-execution terms, including fees, whether the outcome of their application is consistent with the policy goals of order protection.

The Canadian securities regulatory authorities will consider these factors, among others, in determining whether the fees charged by a marketplace unreasonably condition or limit access to its services. With respect to trading fees, it is the view of the Canadian securities regulatory authorities that a trading fee equal to or greater than the minimum trading increment as defined in IIROC's Universal Market Integrity Rules, as amended, would unreasonably condition or limit access to a marketplace's services as it would be inconsistent with the policy goals of order protection. Trading fees below the minimum trading increment may also unreasonably condition or limit access to a marketplace's services when taking into account factors including those listed above.

7.2 **Public Interest Rules** – Section 5.3 of the Instrument sets out the requirements applicable to the rules, policies and similar instruments adopted by recognized exchanges and recognized quotation and trade reporting systems. These requirements acknowledge that recognized exchanges and quotation and trade reporting systems perform regulatory functions. The Instrument does not require the application of these requirements to an ATS's trading requirements. This is because, unlike exchanges, ATSs are not permitted to perform regulatory functions, other than setting requirements regarding conduct in respect of the trading by subscribers on the marketplace, i.e. requirements related to the method of trading or algorithms used by their subscribers to execute trades in the system. However, it is the expectation of the Canadian securities regulatory authority that the requirement in section 5.7 of the Instrument that marketplaces take reasonable steps to ensure they operate in a manner that does not interfere with the maintenance of fair and orderly markets, applies to an ATS's requirements. Such requirements may include those that deal with subscriber qualification, access to the marketplace, how orders are entered, interact, execute, clear and settle.

7.3 **Compliance Rules** – Section 5.4 of the Instrument requires a recognized exchange and recognized quotation and trade reporting system to have appropriate procedures to deal with violations of rules, policies or other similar instruments of the exchange or quotation and trade reporting system. This section does not preclude enforcement action by any other person or company, including the Canadian securities regulatory authorities or the regulation services provider.

7.4 **Filing of Rules** – Section 5.5 of the Instrument requires a recognized exchange and recognized quotation and trade reporting system to file all rules, policies and other similar instruments and amendments as required by the securities regulatory authority. Initially, all rules, policies and other similar instruments will be reviewed before implementation by the exchange or quotation and trade reporting system. Subsequent to recognition, the securities regulatory authority may develop and implement a protocol that will set out the procedures to be followed with respect to the review and approval of rules, policies and other similar instruments and amendments.

7.5 **Review of Rules** – The Canadian securities regulatory authorities review the rules, policies and similar instruments of a recognized exchange or recognized quotation and trade reporting system in accordance with the recognition order and rule protocol issued by the jurisdiction in which the exchange or quotation and trade reporting system is recognized. The rules of recognized exchanges and quotation and trade reporting systems are included in their rulebooks, and the principles and requirements applicable to these rules are set out in section 5.3 of the Instrument. For an ATS, whose trading requirements, including any trading rules, policies or practices, are incorporated in Form 21-101F2, any changes would be filed in accordance with the filing requirements applicable to changes to information in Form 21-101F2 set out in subsections 3.2(1) and 3.2(3) of the Instrument and reviewed by the Canadian securities regulatory authorities in accordance with staff practices in each jurisdiction.

7.6 **Fair and Orderly Markets**

(1) Section 5.7 of the Instrument establishes the requirement that a marketplace take reasonable steps to ensure it operates in a way that does not interfere with the maintenance of fair and orderly markets. This applies both to the operation of the marketplace itself and to the impact of the marketplace's operations on the Canadian market as a whole.

(2) This section does not impose a responsibility on the marketplace to oversee the conduct of its marketplace participants, unless the marketplace is an exchange or quotation and trade reporting system that has assumed responsibility for monitoring the conduct of its marketplace participants directly rather than through a regulation services provider. However, marketplaces are expected in the normal course to monitor order entry and trading activity for compliance with the marketplace's own operational policies and procedures. They should also alert the regulation services provider if they become aware that disorderly or disruptive order entry or trading may be occurring, or of possible violations of applicable regulatory requirements.

(3) Part of taking reasonable steps to ensure that a marketplace's operations do not interfere with fair and orderly markets necessitates ensuring that its operations support compliance with regulatory requirements including applicable rules of

a regulation services provider. This does not mean that a marketplace must system-enforce all regulatory requirements. However, it should not operate in a manner that to the best of its knowledge would cause marketplace participants to breach regulatory requirements when trading on the marketplace.

7.7 Confidential Treatment of Trading Information

(0.1) The Canadian securities regulatory authorities are of the view that it is in the public interest for capital markets research to be conducted. Since marketplace participants' order and trade information may be needed to conduct this research, subsection 5.10(1.1) of the Instrument allows a marketplace to release a marketplace participant's order or trade information without obtaining its written consent, provided this information is used solely for capital markets research and only if certain terms and conditions are met. Subsection 5.10(1.1) is not intended to impose any obligation on a marketplace to disclose information if requested by a researcher and the marketplace may choose to maintain its marketplace participants' order and trade information in confidence. However, if the marketplace decides to disclose this information, it must ensure that certain terms and conditions are met to ensure that the marketplace participant's information is not misused.

(0.2) In order for a marketplace to disclose a marketplace participant's order or trade information, subparagraphs 5.10(1.1)(a)-(b) of the Instrument require a marketplace to reasonably believe that the information will be used by the recipient solely for the purposes of capital markets research and to reasonably believe that if information identifying, directly or indirectly, a marketplace participant, or a client of the marketplace participant is released, the information is necessary for the research and that the purpose of the research is not intended to identify the marketplace participant or client or to identify a trading strategy, transactions, or market positions of the marketplace participant or client. The Canadian securities regulatory authorities expect that a marketplace will make sufficient inquiries of the recipient of the information in order for the marketplace to sustain a reasonable belief that the information will be used by the recipient only for capital markets research. Where the information to be released to the recipient could identify a marketplace participant or a client of a marketplace participant, the Canadian securities regulatory authorities also expect the marketplace to make sufficient inquiries of the recipient in order for the marketplace to sustain a reasonable belief that the information identifying, directly or indirectly, a marketplace participant or its client is required for purposes of the research and that the purpose of the research is not to identify a particular marketplace participant or a client of the marketplace participant or to identify a trading strategy, transactions, or market positions of a particular marketplace participant or a client of the marketplace participant.

(0.3) In considering releasing order or trade information, the Canadian securities regulatory authorities expect a marketplace to exercise caution regarding information that could disclose the identity of a marketplace participant or client of the marketplace participant. In particular, a marketplace may only release information in any order entry field that would identify the marketplace participant or client, using a broker number, trader ID, or DEA client identifier, if it reasonably believes that this information is required for the research.

(0.4) Subparagraph 5.10(1.1)(c) of the Instrument requires a marketplace that intends to provide its marketplace participants' order and trade information to a researcher to enter into a written agreement with each person or company that will receive such information. Subparagraph 5.10(1.1)(c)(i) of the Instrument requires the agreement to provide that the person or company agrees to use the order and trade information only for capital markets research purposes. In the view of the Canadian securities regulatory authorities, commercialization of the information by the recipient, for example by using the information for the purposes of trading, advising others to trade or for reverse engineering a trading strategy, would not constitute use of the information for capital markets research purposes.

(0.5) Subparagraph 5.10(1.1)(c)(i) of the Instrument provides that the agreement must also prohibit the recipient from sharing the marketplace participants' order and trade data with any other person or company, such as a research assistant, without the marketplace's consent. The marketplace will be responsible for determining what steps are necessary to ensure the other person or company receiving the marketplace participants' data is not misusing this data. For example, the marketplace may enter into a similar agreement with each individual or company that has access to the data.

(0.6) To protect the identity of particular marketplace participants or their customers, subparagraph 5.10(1.1)(c)(i) of the Instrument requires the agreement to provide that recipients will not publish or disseminate data or information that discloses, directly or indirectly, a trading strategy, transactions, or market positions of a marketplace participant or its clients. Also, to protect the confidentiality of the data, the agreement must require that the order and trade information is securely stored at all times and that the data is kept for no longer than a reasonable period of time following the completion of the research and publication process.

(0.7) The agreement must also require that the marketplace be notified of any breach or possible breach of the confidentiality of the information. Marketplaces are required to notify the appropriate securities regulatory authorities of the breach or possible breach and have the right to take all reasonable steps necessary to prevent or address a breach

or possible breach of the agreement or of the confidentiality of the information provided. In the view of the Canadian securities regulatory authorities, reasonable steps in the event of an actual or apparent breach of the agreement or of the confidentiality of the information may include the marketplace seeking an injunction preventing any unauthorized use or disclosure of the information by a recipient.

(0.8) Subparagraph 5.10(1.1)(c)(ii) of the Instrument provides for a limited carve-out from the restraints on the use and disclosure of the information by a recipient for purposes of allowing those conducting peer reviews of the research to have access to the data to verify the research prior to the publication of the results of the research. In particular, clause 5.10(1.1)(c)(ii)(C) requires a marketplace to enter into a written agreement with a person or company receiving order or trade information from the marketplace that provides that the person or company may disclose information used in connection with research submitted to a publication so long as the person or company obtains a written agreement from the publisher and anyone involved in the verification of the research that provides for certain restrictions on the use and disclosure of the information by the publisher or the other person or company. A marketplace may consider requiring a person or company that proposes to disclose order or trade information pursuant to subparagraph 5.10(1.1)(c)(ii) to acknowledge that it has obtained the agreement required by clause 5.10(1.1)(c)(ii)(C) at the time that it notifies the marketplace prior to disclosing the information for verification purposes, as required by clause 5.10(1.1)(c)(ii)(B).

(1) Subsection 5.10 (2) of the Instrument provides that a marketplace must not carry on business as a marketplace unless it has implemented reasonable safeguards and procedures to protect a marketplace participant's trading information. These include

(a) limiting access to the trading information of marketplace participants, such as the identity of marketplace participants and their orders, to those employees of, or persons or companies retained by, the marketplace to operate the system or to be responsible for its compliance with securities legislation; and

(b) having in place procedures to ensure that employees of the marketplace cannot use such information for trading in their own accounts.

(2) The procedures referred to in subsection (1) should be clear and unambiguous and presented to all employees and agents of the marketplace, whether or not they have direct responsibility for the operation of the marketplace.

(3) Nothing in section 5.10 of the Instrument prohibits a marketplace from complying with National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer*. This statement is necessary because an investment dealer that operates a marketplace may be an intermediary for the purposes of National Instrument 54-101, and may be required to disclose information under that Instrument.

7.8 Management of Conflicts of Interest

(1) Marketplaces are required under section 5.11 of the Instrument to maintain and ensure compliance with policies and procedures that identify and manage conflicts of interest arising from the operation of the marketplace or the services it provides. These may include conflicts, actual or perceived, related to the commercial interest of the marketplace, the interests of its owners or its operators, referral arrangements and the responsibilities and sound functioning of the marketplace. For an exchange and quotation and trade reporting system, they may also include potential conflicts between the operation of the marketplace and its regulatory responsibilities.

(2) The marketplace's policies should also take into account conflicts for owners that are marketplace participants. These may include inducements to send order flow to the marketplace to obtain a larger ownership position or to use the marketplace to trade against their clients' order flow. These policies should be disclosed as provided in paragraph 10.1(e) of the Instrument.

7.9 Outsourcing – Section 5.12 of the Instrument sets out the requirements that marketplaces that outsource any of their key services or systems to a service provider, which may include affiliates or associates of the marketplace, must meet. Generally, marketplaces are required to establish policies and procedures to evaluate and approve these outsourcing agreements. Such policies and procedures would include assessing the suitability of potential service providers and the ability of the marketplace to continue to comply with securities legislation in the event of the service provider's bankruptcy, insolvency or termination of business. Marketplaces are also required to monitor the ongoing performance of the service provider to which they outsourced key services, systems or facilities. The requirements under section 5.12 of the Instrument apply regardless of whether the outsourcing arrangements are with third- party service providers, or with affiliates of the marketplaces.

7.10 Access Arrangements with a Service Provider – If a third party service provider provides a means of access to a marketplace, section 5.13 of the Instrument requires the marketplace to ensure the third party service provider

complies with the written standards for access the marketplace has established pursuant to paragraph 5.1(2)(a) of the Instrument when providing access services. A marketplace must establish written standards for granting access to each of its services under paragraph 5.1(2)(a) and the Canadian securities regulatory authorities are of the view that it is the responsibility of the marketplace to ensure that these written standards are complied with when access to its platform is provided by a third party.

PART 8 RISK DISCLOSURE TO MARKETPLACE PARTICIPANTS

8.1 Risk disclosure to marketplace participants – Subsections 5.9(2) and 6.11(2) of the Instrument require a marketplace to obtain an acknowledgement from its marketplace participants. The acknowledgement may be obtained in a number of ways, including requesting the signature of the marketplace participant or requesting that the marketplace participant initial an initial box or check a check-off box. This may be done electronically. The acknowledgement must be specific to the information required to be disclosed under the relevant subsection and must confirm that the marketplace participant has received the required disclosure. The Canadian securities regulatory authorities are of the view that it is the responsibility of the marketplace to ensure that an acknowledgement is obtained from the marketplace participant in a timely manner.

8.2 [repealed]

PART 9 INFORMATION TRANSPARENCY REQUIREMENTS FOR EXCHANGE-TRADED SECURITIES

9.1 Information Transparency Requirements for Exchange-Traded Securities

(1) Subsection 7.1(1) of the Instrument requires a marketplace that displays orders of exchange-traded securities to any person or company to provide accurate and timely information regarding those orders to an information processor as required by the information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider. The Canadian securities regulatory authorities consider that a marketplace that sends information about orders of exchange-traded securities, including indications of interest that meet the definition of an order, to a smart order router is “displaying” that information. The marketplace would be subject to the transparency requirements of subsection 7.1(1) of the Instrument. The transparency requirements of subsection 7.1(1) of the Instrument do not apply to a marketplace that displays orders of exchange-traded securities to its employees or to persons or companies retained by the marketplace to assist in the operation of the marketplace, as long as these orders meet a minimum size threshold set by the regulation services provider. In other words, the only orders that are exempt from the transparency requirements are those meeting the minimum size threshold. Section 7.2 requires a marketplace to provide accurate and timely information regarding trades of exchange-traded securities that it executes to an information processor as required by the information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider. Some marketplaces, such as exchanges, may be regulation services providers and will establish standards for the information vendors they use to display order and trade information to ensure that the information displayed by the information vendors is timely, accurate and promotes market integrity. If the marketplace has entered into a contract with a regulation services provider under NI 23-101, the marketplace must provide information to the regulation services provider and an information vendor that meets the standards set by that regulation services provider.

(2) In complying with sections 7.1 and 7.2 of the Instrument, any information provided by a marketplace to an information processor or information vendor must include identification of the marketplace and should contain all relevant information including details as to volume, symbol, price and time of the order or trade.

(2.1) Subsections 7.1(3) and 7.2(2) prohibit a marketplace from making available order and trade information to any person or company before it makes the information available to the information processor or, if there is no information processor, to an information vendor. The Canadian securities regulatory authorities acknowledge that there may be differences between the time at which a marketplace participant that takes in market data directly from a marketplace receives the order and trade information and the time at which a marketplace participant that takes in market data from the information processor receives the information. However, in complying with subsections 7.1(3) and 7.2(2) of the Instrument, the Canadian securities regulatory authorities expect that marketplaces will release order and trade information simultaneously to both the information processor and to persons or companies that may receive order and trade information directly from the marketplace.

(3) **[repealed]**

(4) **[repealed]**

(5) It is expected that if there are multiple regulation service providers, the standards of the various regulation service providers must be consistent. In order to maintain market integrity for securities trading in different marketplaces, the

Canadian securities regulatory authorities will, through their oversight of the regulation service providers, review and monitor the standards established by all regulation service providers so that business content, service level standards, and other relevant standards are substantially similar for all regulation service providers.

9.2 [repealed]

PART 10 INFORMATION TRANSPARENCY REQUIREMENTS FOR UNLISTED DEBT SECURITIES

10.1 Information Transparency Requirements for Unlisted Debt Securities

(1) ~~The requirement to provide transparency of information regarding orders and trades of government debt securities in section 8.1 of the Instrument does not apply until January 1, 2018. The Canadian securities regulatory authorities will continue to review the transparency requirements, in order to determine if the transparency requirements summarized in subsections (2) and (3) below should be amended.~~ The requirements for pre-trade and post-trade transparency for unlisted debt securities are set out in sections 8.1 and 8.2 of the Instrument. The detailed reporting requirements, such as who must report information, deadlines for reporting, delays in publication of information and caps on displayed volume are determined by the information processor, subject to approval by the Canadian securities regulatory authorities as described below, and may be different for different government debt securities and corporate debt securities. The information processor is also required to make the reporting requirements, deadlines, dissemination delays and volume caps publicly available.

(2) ~~The requirements of the information processor for government debt securities are as follows:~~

~~(a) Marketplaces trading government debt securities and inter dealer bond brokers are required to provide in real time quotation information displayed on the marketplace for all bids and offers with respect to government debt securities designated by the information processor, including details as to type, issuer, coupon and maturity of security, best bid price, best ask price and total disclosed volume at such prices; and~~

~~(b) Marketplaces trading government debt securities and inter dealer bond brokers are required to provide in real time details of trades of all government debt securities designated by the information processor, including details as to the type, issuer, series, coupon and maturity, price and time of the trade and the volume traded.~~**[repealed]**

(3) ~~The requirements of the information processor for corporate debt securities are as follows:~~

~~(a) Marketplaces trading corporate debt securities, inter dealer bond brokers and dealers trading corporate debt securities outside of a marketplace are required to provide details of trades of all corporate debt securities designated by the information processor, including details as to the type of counterparty, issuer, type of security, class, series, coupon and maturity, price and time of the trade and, subject to the caps set out below, the volume traded, no later than one hour from the time of the trade or such shorter period of time determined by the information processor. If the total par value of a trade of an investment grade corporate debt security is greater than $2 million, the trade details provided to the information processor are to be reported as "$2 million+". If the total par value of a trade of a non investment grade corporate debt security is greater than $200,000, the trade details provided to the information processor are to be reported as "$200,000+".~~

~~(b) Although subsection 8.2(1) of the Instrument requires marketplaces to provide information regarding orders of corporate debt securities, the information processor has not required this information to be provided.~~

~~(c) A marketplace, an inter-dealer bond broker or a dealer will satisfy the requirements in subsections 8.2(1), 8.2(3), 8.2(4) and 8.2(5) of the Instrument by providing accurate and timely information to an information vendor that meets the standards set by the regulation services provider for the fixed income markets.~~[repealed]

(4) ~~The marketplace upon which the trade is executed will not be shown, unless the marketplace determines that it wants its name to be shown.~~**[repealed]**

(5) ~~The information processor is required to use transparent criteria and a transparent process to select government debt securities and designated corporate debt securities. The information processor is also required to make the criteria and the process publicly available.~~**[repealed]**

(6) ~~An "investment grade corporate debt security" is a corporate debt security that has a credit rating from a designated rating organization listed below, from a DRO affiliate of an organization listed below, from a designated rating organization that is a successor credit rating organization of an organization listed below or from a DRO affiliate of such~~

~~successor credit rating organization, that is at or above one of the following corresponding rating categories or that is at or above a category that replaces one of the following corresponding rating categories:~~

~~Designated Rating Organization~~	~~Long Term Debt~~	~~Short Term Debt~~
~~DBRS Limited~~	~~BBB~~	~~R-2~~
~~Fitch Ratings, Inc.~~	~~BBB~~	~~F3~~
~~Moody's Canada Inc.~~	~~Baa~~	~~Prime-3~~
~~S&P Global Ratings Canada~~	~~BBB~~	~~A-3~~

~~In this subsection,~~

~~"designated rating organization" has the same meaning as in National Instrument 44-101 *Short Form Prospectus Distributions*;~~

~~"DRO affiliate" has the same meaning as in National Instrument 25-101 *Designated Rating Organizations*; and~~

~~"successor credit rating organization" has the same meaning as in National Instrument 44-104 *Short Form Prospectus Distributions*.~~**[repealed]**

(7) ~~A "non-investment grade corporate debt security" is a corporate debt security that is not an investment grade corporate debt security.~~**[repealed]**

(8) ~~The information processor will publish the list of designated government debt securities and designated corporate debt securities. The information processor will give reasonable notice of any change to the list.~~**[repealed]**

(9) The information processor may ~~request~~propose changes to ~~the~~its transparency requirements by filing an amendment to Form 21-101F5 with the Canadian securities regulatory authorities pursuant to subsection 14.2(1) of the Instrument. The Canadian securities regulatory authorities will review the amendment to Form 21-101F5 to determine whether the proposed changes are contrary to the public interest, to ensure fairness and to ensure that there is an appropriate balance between the standards of transparency and market quality (defined in terms of market liquidity and efficiency) in each area of the market. ~~The~~Both the initial transparency requirements and any proposed changes ~~to the transparency requirements~~ will ~~also~~ be subject to consultation with market participants through a notice and comment process, prior to approval by the Canadian securities regulatory authorities.

10.2 ~~**Availability of Information** – In complying with the requirements in sections 8.1 and 8.2 of the Instrument to provide accurate and timely order and trade information to an information processor or an information vendor that meets the standards set by a regulation services provider, a marketplace, an inter-dealer bond broker or dealer should not make the required order and trade information available to any other person or company on a more timely basis than it makes that information available to the information processor or information vendor.~~**[repealed]**

10.3 ~~**Consolidated Feed** – Section 8.3 of the Instrument requires the information processor to produce a consolidated feed in real-time showing the information provided to the information processor.~~[**[repealed]**

PART 11 MARKET INTEGRATION

11.1 [repealed]

11.2 [repealed]

11.3 [repealed]

11.4 [repealed]

11.5 Market Integration – Although the Canadian securities regulatory authorities have removed the concept of a market integrator, we continue to be of the view that market integration is important to our marketplaces. We expect to achieve market integration by focusing on compliance with fair access and best execution requirements. We will continue to monitor developments to ensure that the lack of a market integrator does not unduly affect the market.

PART 12 TRANSPARENCY OF MARKETPLACE OPERATIONS

12.1 Transparency of Marketplace Operations

(1) Section 10.1 of the Instrument requires that marketplaces make publicly available certain information pertaining to their operations and services. While section 10.1 sets out the minimum disclosure requirements, marketplaces may wish to make publicly available other information, as appropriate. Where this information is included in a marketplace's rules, regulations, policies and procedures or practices that are publicly available, the marketplace need not duplicate this disclosure.

(2) Paragraph 10.1(a) requires marketplaces to disclose publicly all fees, including listing, trading, co-location, data and routing fees charged by the marketplace, an affiliate or by a third party to which services have been directly or indirectly outsourced or which directly or indirectly provides those services. This means that a marketplace is expected to publish and make readily available the schedule(s) of fees charged to any and all users of these services, including the basis for charging each fee (e.g., a per share basis for trading fees, a per subscriber basis for data fees, etc.) and would also include any fee rebate or discount and the basis for earning the rebate or discount. With respect to trading fees, it is not the intention of the Canadian securities regulatory authorities that a commission fee charged by a dealer for dealer services be disclosed in this context.

(3) Paragraph 10.1(b) requires marketplaces to disclose information on how orders are entered, interact and execute. This would include a description of the priority of execution for all order types and the types of crosses that may be executed on the marketplace. A marketplace should also disclose whether it sends information regarding indications of interest or order information to a smart order router.

(4) Paragraph 10.1(e) requires a marketplace to disclose its conflict of interest policies and procedures. For conflicts arising from the ownership of a marketplace by marketplace participants, the marketplace should include in its marketplace participant agreements a requirement that marketplace participants disclose that ownership to their clients at least quarterly. This is consistent with the marketplace participant's existing obligations to disclose conflicts of interest under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Requirements*. A marketplace should disclose if a marketplace or affiliated entity of a marketplace intends to trade for its own account on the marketplace against or in competition with client orders.

(5) Paragraph 10.1(f) requires marketplaces to disclose a description of any arrangements where the marketplace refers its participants to the services of a third-party provider where the marketplace receives some benefit (fee rebate, payment, etc.) if the marketplace participant uses the services of the third- party service provider, and has a potential conflict of interest.

(6) Paragraph 10.1(g) requires marketplaces that offer routing services to disclose a description of how routing decisions are made. The subsection applies whether routing is done by a marketplace-owned smart order router, by an affiliate of a marketplace, or by a third- party to which routing was outsourced.

(7) Paragraph 10.1(h) applies to marketplaces that disseminate indications of interest or any information in order to attract order flow. The Instrument requires that these marketplaces make publicly available information regarding their practices regarding the dissemination of information. This would include a description of the type of information included in the indication of interest displayed, and the types of recipients of such information. For example, a marketplace would describe whether the recipients of an indication of interest are the general public, all of its subscribers, particular categories of subscribers or smart order routers operated by their subscribers or by third party vendors.

PART 13 RECORDKEEPING REQUIREMENTS FOR MARKETPLACES

13.1 Recordkeeping Requirements for Marketplaces – Part 11 of the Instrument requires a marketplace to maintain certain records. Generally, under provisions of securities legislation, the securities regulatory authorities can require a marketplace to deliver to them any of the records required to be kept by them under securities legislation, including the records required to be maintained under Part 11.

13.2 Synchronization of Clocks – Subsections 11.5(1) and (2) of the Instrument require the synchronization of clocks with a regulation services provider that monitors the trading of the relevant securities on marketplaces, and by, as appropriate, inter-dealer bond brokers or dealers. The Canadian securities regulatory authorities are of the view that synchronization requires continual synchronization using an appropriate national time standard as chosen by a regulation services provider. Even if a marketplace has not retained a regulation services provider, its clocks should be synchronized with any regulation services provider monitoring trading in the particular securities traded on that marketplace. Each regulation services provider will monitor the information that it receives from all marketplaces,

dealers and, if appropriate, inter-dealer bond brokers, to ensure that the clocks are appropriately synchronized. If there is more than one regulation services provider, in meeting their obligation to coordinate monitoring and enforcement under section 7.5 of NI 23-101, regulation services providers are required to agree on one standard against which synchronization will occur. In the event there is no regulation services provider, a recognized exchange or recognized quotation and trade reporting system are also required to coordinate with other recognized exchanges or recognized quotation and trade reporting systems regarding the synchronization of clocks.

PART 14 MARKETPLACE SYSTEMS AND BUSINESS CONTINUITY PLANNING

14.1 Systems Requirements – This section applies to all the systems of a particular marketplace that are identified in the introduction to section 12.1 of the Instrument whether operating in-house or outsourced.

(1) Paragraph 12.1(a) of the Instrument requires the marketplace to develop and maintain an adequate system of internal control over the systems specified. As well, the marketplace is required to develop and maintain adequate general computer controls. These are the controls which are implemented to support information technology planning, acquisition, development and maintenance, computer operations , information systems support, and security. Recognized guides as to what constitutes adequate information technology controls include '*Information Technology Control Guidelines*' from the Canadian Institute of Chartered Accountants (CICA) and 'COBIT' ® 5 Management Guidelines, from the IT Governance Institute, © 2012 ISACA, *IT Infrastructure Library (ITIL) – Service Delivery best practices, ISO/IEC27002:2005 – Information technology – Code of practice for information security management*.

(2) Paragraph 12.1(b) of the Instrument requires a marketplace to meet certain systems capacity, performance and disaster recovery standards. These standards are consistent with prudent business practice. The activities and tests required in this paragraph are to be carried out at least once a year. In practice, continuing changes in technology, risk management requirements and competitive pressures will often result in these activities being carried out or tested more frequently.

(2.1) Paragraph 12.1(c) of the Instrument refers to a material security breach. A material security breach or systems intrusion is any unauthorized entry into any of the systems that support the functions listed in section 12.1 of the Instrument or any system that shares network resources with one or more of these systems. Virtually any security breach would be considered material and thus reportable to the regulator. The onus would be on the marketplace to document the reasons for any security breach it did not consider material. Marketplaces should also have documented criteria to guide the decision on when to publicly disclose a security breach. The criteria for public disclosure of a security breach should include, but not be limited to, any instance in which client data could be compromised. Public disclosure should include information on the types and number of participants affected.

(3) Subsection 12.2(1) of the Instrument requires a marketplace to engage a qualified party to conduct an annual independent assessment to ensure that the marketplace is in compliance with paragraph 12.1(a), section 12.1.1 and section 12.4 of the Instrument. The focus of the assessment of any systems that share network resources with trading-related systems required under subsection 12.2(1)(b) would be to address potential threats from a security breach that could negatively impact a trading-related system. A qualified party is a person or company or a group of persons or companies with relevant experience in both information technology and in the evaluation of related internal controls in a complex information technology environment, such as external auditors or third party information system consultants. Before engaging a qualified party, a marketplace should discuss its choice with the regulator or, in Québec, the securities regulatory authority.

(3.1) The Canadian securities regulatory authorities also note the critical importance of an appropriate system of cyber-security controls over the systems described in section 12.1 of the Instrument. We further note that, as a matter of best practices, marketplaces may also conduct a vulnerability assessment of these controls in addition to the independent systems review required by subsection 12.2(1) of the Instrument. To the extent that a marketplace carries out, or engages an independent party to carry out on its behalf, a vulnerability assessment and prepares a report of that assessment as part of the development and maintenance of the controls required by section 12.1 of the Instrument, we expect a marketplace to provide that report to the regulator or, in Québec, the securities regulatory authority in addition to the report required to be provided by subsection 12.2(2) of the Instrument.

(4) Paragraph 12.1(c) of the Instrument requires the marketplace to notify the regulator or, in Québec, the securities regulatory authority of any material systems failure. The Canadian securities regulatory authorities consider a failure, malfunction or delay to be "material" if the marketplace would in the normal course of operations escalate the matter to or inform its senior management ultimately accountable for technology. The Canadian securities regulatory authorities also expect that, as part of this notification, the marketplace will provide updates on the status of the failure, the resumption of service and the results of its internal review of the failure.

(5) Under section 15.1 of the Instrument, a regulator or the securities regulatory authority may consider granting a marketplace an exemption from the requirements to engage a qualified party to conduct an annual independent systems review and prepare a report under subsection 12.2(1) of the Instrument provided that the marketplace prepare a control self-assessment and file this self-assessment with the regulator or in Québec, the securities regulatory authority. The scope of the self-assessment would be similar to the scope that would have applied if the marketplace underwent an independent systems review. Reporting of the self-assessment results and the timeframe for reporting would be consistent with that established for an independent systems review.

In determining if the exemption is in the public interest and the length of the exemption, the regulator or securities regulatory authority may consider a number of factors including: the market share of the marketplace, the timing of the last independent systems review, changes to systems or staff of the marketplace and whether the marketplace has experienced material systems failures, malfunction or delays.

14.2 Marketplace Technology Specifications and Testing Facilities

(1) Subsection 12.3(1) of the Instrument requires marketplaces to make their technology requirements regarding interfacing with or accessing the marketplace publicly available in their final form for at least three months. If there are material changes to these requirements after they are made publicly available and before operations begin, the revised requirements should be made publicly available for a new three month period prior to operations. The subsection also requires that an operating marketplace make its technology specifications publicly available for at least three months before implementing a material change to its technology requirements.

The Canadian securities regulatory authorities consider a material change to a marketplace's technology requirements to include a change that would require a person or company interfacing with or accessing the marketplace to incur a significant amount of systems-related development work or costs in order to accommodate the change or to fully interact with the marketplace as a result of the change. Such material changes could include changes to technology requirements that would significantly impact a marketplace participant's trading activities, such as the introduction of an order type, or significant changes to a regulatory feed that a regulation services provider takes in from the marketplace.

(2) Subsection 12.3(2) of the Instrument requires marketplaces to provide testing facilities for interfacing with or accessing the marketplace for at least two months immediately prior to operations once the technology requirements have been made publicly available. Should the marketplace make its specifications publicly available for longer than three months, it may make the testing available during that period or thereafter as long as it is at least two months prior to operations. If the marketplace, once it has begun operations, proposes material changes to its technology systems, it is required to make testing facilities publicly available for at least two months before implementing the material systems change.

(2.1) Paragraph 12.3(3)(c) of the Instrument prohibits a marketplace from beginning operations before the chief information officer of the marketplace, or an individual performing a similar function, has certified in writing that all information technology systems used by the marketplace have been tested according to prudent business practices and are operating as designed. This certification may be based on information provided to the chief information officer from marketplace staff knowledgeable about the information technology systems of the marketplace and the testing that was conducted.

(2.2) In order to help ensure that appropriate testing procedures for material changes to technology requirements are being followed by the marketplace, subsection 12.3(3.1) of the Instrument requires the chief information officer of the marketplace, or an individual performing a similar function, to certify to the regulator or securities regulatory authority, as applicable, that a material change has been tested according to prudent business practices and is operating as designed. This certification may be based on information provided to the chief information officer from marketplace staff knowledgeable about the information technology systems of the marketplace and the testing that was conducted.

(3) Subsection 12.3(4) of the Instrument provides that if a marketplace must make a change to its technology requirements regarding interfacing with or accessing the marketplace to immediately address a failure, malfunction or material delay of its systems or equipment, it must immediately notify the regulator or, in Québec, the securities regulatory authority, and, if applicable, its regulation services provider. We expect the amended technology requirements to be made publicly available as soon as practicable, either while the changes are being made or immediately after.

14.2.1 Uniform Test Symbols

(1) Section 12.3.1 of the Instrument requires a marketplace to use uniform test symbols for the purpose of performing testing in its production environment. In the view of the Canadian securities regulatory authorities, the use of uniform test symbols is in furtherance to a marketplace's obligations at section 5.7 of the Instrument to take all reasonable steps to ensure that its operations do not interfere with fair and orderly markets.

(2) The use of uniform test symbols is intended to facilitate the testing of functionality in a marketplace's production environment; it is not intended to enable stress testing by marketplace participants. The Canadian securities regulatory authorities are of the view that a marketplace may suspend access to a test symbol where its use in a particular circumstance reasonably represents undue risk to the operation or performance of the marketplace's production environment. The Canadian securities regulatory authorities also note that misuse of the test symbols by marketplace participants could amount to a breach of the fair and orderly markets provisions of National Instrument 23-103 Electronic Trading and Direct Electronic Access to Marketplaces.

14.3 Business Continuity Planning

(1) Section 12.4 of the Instrument requires that marketplaces develop and maintain reasonable business continuity plans, including disaster recovery plans. Business continuity planning should encompass all policies and procedures to ensure uninterrupted provision of key services regardless of the cause of potential disruption. In fulfilling the requirement to develop and maintain reasonable business continuity plans, the Canadian securities regulatory authorities expect that marketplaces are to remain current with best practices for business continuity planning and to adopt them to the extent that they address their critical business needs.

(2) Paragraph 12.4(1)(b) of the Instrument also requires a marketplace to test its business continuity plans, including disaster recovery plans, according to prudent business practices on a reasonably frequent basis and, in any event, at least annually.

(3) Section 12.4 of the Instrument also establishes requirements for marketplaces meeting a minimum threshold of total dollar value of trading volume, recognized exchanges or quotation and trade reporting systems that directly monitor the conduct of their members, and regulation services providers that have entered into a written agreement with a marketplace to conduct market surveillance to establish, implement, and maintain policies and procedures reasonably designed to ensure that critical systems can resume operation within certain time limits following the declaration of a disaster. In fulfilling the requirement to establish, implement and maintain the policies and procedures prescribed by section 12.4, the Canadian securities regulatory authorities expect that these policies and procedures will form part of the entity's business continuity and disaster recovery plans and that the entities subject to the requirements at subsections 12.4(2) to (4) of the Instrument will be guided by their own business continuity plans in terms of what constitutes a disaster for purposes of the requirements.

14.4 Industry-Wide Business Continuity Tests – Section 12.4.1 of the Instrument requires a marketplace, recognized clearing agency, information processor, and participant dealer to participate in all industry-wide business continuity tests, as determined by a regulation services provider, regulator, or in Québec, the securities regulatory authority. The Canadian securities regulatory authorities expect that marketplaces will make their production environments available for purposes of all industry-wide business continuity tests.

PART 15 CLEARING AND SETTLEMENT

15.1 Clearing and Settlement – Subsection 13.1(1) of the Instrument requires all trades executed through a marketplace to be reported and settled through a clearing agency. Subsections 13.1(2) and (3) of the Instrument require that an ATS and its subscriber enter into an agreement that specifies which entity will report and settle the trades of securities. If the subscriber is registered as a dealer under securities legislation, the ATS, the subscriber or an agent for the subscriber that is a member of a clearing agency may report and settle trades. If the subscriber is not registered as a dealer under securities legislation, either the ATS or an agent for the subscriber that is a clearing member of a clearing agency may report and settle trades. The ATS is responsible for ensuring that an agreement with the subscriber is in place before any trade is executed for the subscriber. If the agreement is not in place at the time of the execution of the trade, the ATS is responsible for clearing and settling that trade if a default occurs.

15.2 Access to Clearing Agency of Choice – As a general proposition, marketplace participants should have a choice as to the clearing agency that they would like to use for the clearing and settlement of their trades, provided that such clearing agency is appropriately regulated in Canada. Subsection 13.2(1) of the Instrument thus requires a marketplace to report a trade in a security to a clearing agency designated by a marketplace participant.

The Canadian securities regulatory authorities are of the view that where a clearing agency performs only clearing services (and not settlement or depository services) for equity or other cash-product marketplaces in Canada, it would need to have access to the existing securities settlement and depository infrastructure on non-discriminatory and reasonable commercial terms.

Subsection 13.2(2) of the Instrument provides that subsection 13.2(1) does not apply to trades in standardized derivatives or exchange-traded securities that are options.

PART 16 INFORMATION PROCESSOR

16.1 Information Processor

(1) The Canadian securities regulatory authorities believe that it is important for those who trade to have access to accurate information on the prices at which trades in particular securities are taking place (i.e., last sale reports) and the prices at which others have expressed their willingness to buy or sell (i.e., orders).

(2) An information processor is required under subsection 14.4(2) of the Instrument to provide timely, accurate, reliable and fair collection, processing, distribution and publication of information for orders for, and trades in, securities. The Canadian securities regulatory authorities expect that in meeting this requirement, an information processor will ensure that all ~~marketplaces, inter-dealer bond brokers and dealers~~persons and companies that are required to provide information are given access to the information processor on fair and reasonable terms. In addition, it is expected that an information processor will not give preference to the information of any ~~marketplace, inter-dealer bond broker and dealer~~person or company when collecting, processing, distributing or publishing that information.

(3) An information processor is required under subsection 14.4(5) of the Instrument to provide prompt and accurate order and trade information, and to not unreasonably restrict fair access to the information. As part of the obligation relating to fair access, an information processor is expected to make the disseminated and published information available on terms that are reasonable and not discriminatory. For example, an information processor will not provide order and trade information to any single person or company or group of persons or companies on a more timely basis than is afforded to others, and will not show preference to any single person or company or group of persons or companies in relation to pricing.

16.2 Selection of an Information Processor

(1) The Canadian securities regulatory authorities will review Form 21-101F5 to determine whether it is contrary to the public interest for the person or company who filed the form to act as an information processor. In Québec, a person or company may carry on the activity of an information processor only if it is recognized by the securities regulatory authority and in Ontario and Saskatchewan, only if it is designated by the securities regulatory authority. The Canadian securities regulatory authorities will look at a number of factors when reviewing the form filed, including,

(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;

(c) personnel qualifications;

(d) whether the information processor has sufficient financial resources for the proper performance of its functions;

(e) the existence of another entity performing the proposed function for the same type of security;

(f) the systems report referred to in paragraph 14.5(c) of the Instrument.

(2) The Canadian securities regulatory authorities request that the forms and exhibits be filed in electronic format, where possible.

(3) The forms filed by an information processor under the Instrument will be kept confidential. The Canadian securities regulatory authorities are of the view that they contain intimate financial, commercial and technical information and that the interests of the filers in non-disclosure outweigh the desirability of adhering to the principle that all forms be available for public inspection.

16.3 Change in Information – Under subsection 14.2(1) of the Instrument, an information processor is required to file an amendment to the information provided in Form 21-101F5 at least 45 days before implementing a significant change involving a matter set out in Form 21-101F5, in the manner set out in Form 21-101F5. The Canadian securities regulatory authorities would consider significant changes to include:

(a) changes to the governance of the information processor, including the structure of its board of directors and changes in the board committees and their mandates;

(b) changes in control over the information processor;

(c) changes affecting the independence of the information processor, including independence from the ~~marketplaces, inter-dealer bond brokers and dealers~~persons and companies that provide their data to meet the requirements of the Instrument;

(d) changes to the services or functions performed by the information processor;

(e) changes to the data products offered by the information processor;

(f) changes to the fees and fee structure related to the services provided by the information processor;

(g) changes to the revenue sharing model for revenues from fees related to services provided by the information processor;

(h) changes to the systems and technology used by the information processor, including those affecting its capacity;

(i) new arrangements or changes to arrangements to outsource the operation of any aspect of the services of the information processor;

(j) changes to the means of access to the services of the information processor; and

(k) ~~where the information processor is responsible for making a determination of the data which must be reported, including the securities for which information must be reported in accordance with the Instrument,~~ in the case of an information processor for government debt securities or corporate debt securities, changes ~~in~~ to ~~the criteria and process~~the information transparency requirements referred to in paragraph 14.8(b) of the Instrument ~~for selection and communication of these securities~~.

These would not include housekeeping or administrative changes to the information included in Form 21-101F5, such as changes in the routine processes, practice or administration of the information processor, changes due to standardization of terminology, or minor system or technology changes that do not significantly impact the system of the information processor or its capacity. Such changes would be filed in accordance with the requirements outlined in subsection 14.2(2) of the Instrument.

16.3.1 **Filing of Financial Statements** – Subsection 14.4(6) of the Instrument requires an information processor to file annual audited financial statements within 90 days after the end of its financial year. However, where an information processor is operated as a division or unit of a person or company, which may be a marketplace, clearing agency, issuer or any other person or company, the person or company must file an income statement, a statement of cash flow and any other information necessary to demonstrate the financial condition of the information processor. In this case, the income statement, statement of cash flow and other necessary financial information pertaining to the operation of the information processor may be unaudited.

16.4 **System Requirements** – The guidance in section 14.1 of this Companion Policy applies to the systems requirements for an information processor.

ANNEX D

LOCAL MATTERS

In Ontario, under new powers granted by the *Securities Act* (Ontario), specifically new section 21.2.3, the OSC will issue an order designating IIROC as the IP for both corporate and government debt securities (**Designation Order**). The undertakings given by IIROC IP in connection with its operations as IP for corporate debt securities will be converted to terms and conditions of the Designation Order. Schedule 1 to this Annex contains the proposed Designation Order and the terms and conditions applicable to IIROC IP.

Section 143.2(2)7 of the *Securities Act* requires the OSC to provide a cost benefit analysis. The analysis is provided in Schedule 2 to this Annex.

SCHEDULE 1

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, CHAPTER S.5, AS AMENDED
(THE ACT)

AND

IN THE MATTER OF
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

ORDER
(Section 21.2.3 of the Act)

WHEREAS Part 8 of National Instrument 21-101 *Marketplace Operation* (**NI 21-101**) requires marketplaces, inter-dealer bond brokers and dealers to report certain information concerning transactions in unlisted debt securities as defined in section 1.1 of National Instrument 21-101 *Marketplace Operation* (**Unlisted Debt Securities**);

AND WHEREAS The Investment Industry Organization of Canada (**IIROC**) (**Applicant**) has filed an application dated [Insert Date] (**Application**) with the Ontario Securities Commission (**Commission**) requesting an order pursuant to section 21.2.3(1) of the Act designating the Applicant as an information processor (**IP**) for Unlisted Debt Securities.

AND WHEREAS the Applicant is the IP for corporate debt securities as defined in section 1.1 NI 21-101 (Corporate Debt Securities) as permitted by a letter dated July 4, 2016 and has complied with the undertakings (**Undertakings**) contained in that letter;

AND WHEREAS the Applicant wishes to be designated by the Commission as an IP for Corporate Debt Securities and for government debt securities as defined in section 1.1 of NI 21-101;

AND WHEREAS the Applicant has represented to the Commission that:

1. The Applicant has the necessary systems in place to collect information concerning transactions in Unlisted Debt Securities and dealers and interdealer bond brokers that are subject to the transparency requirements contained in Part 8 of NI 21-101 currently report this information to it;

2. The Applicant is the IP for Corporate Debt Securities and as such, is subject to the applicable regulatory requirements of NI 21-101 and is in compliance with the Undertakings;

3. The Applicant currently disseminates information about trades in Corporate Debt Securities in a manner approved by the CSA;

4. The Applicant has sufficient financial and human resources to comply with the requirements applicable to an IP for Unlisted Debt Securities, including those set out in Schedule A to this Order;

5. The Applicant will make available comprehensive information about transactions in Unlisted Debt Securities to all market participants, including investors, at no cost; and

6. The Applicant has an appropriate governance structure and conflicts of interest policies and procedures in place;

AND WHEREAS this Order replaces the letter dated July 4, 2016;

IT IS ORDERED by the Commission that, pursuant to section 21.2.3(1) of the Act, the Applicant is designated as an information processor for Unlisted Debt Securities,

PROVIDED THAT the Applicant complies with the terms and conditions contained in Appendix “A”.

DATED [Insert Date]

[Insert Signature]

Appendix A

TERMS AND CONDITIONS[1] APPLICABLE TO THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA AS AN INFORMATION PROCESSOR FOR UNLISTED DEBT SECURITIES

1. DEFINITIONS AND INTERPRETATION

"alternative trading system" has the meaning ascribed to it in section 1.1 of NI 21-101;

"corporate debt security" has the meaning ascribed to it in section 1.1 of NI 21-101;

"dealer" means "investment dealer" as that term is defined in section 1.1 of National Instrument 31-103 *Registration Requirements*;

"Data Contributor" means an IIROC Dealer Member that reports its transactions in debt securities to IIROC under IIROC Dealer Member Rule 2800C;

"Form NI 21-101F5 (Form F5)" means the initial submission required to be filed by a person or company that intends to carry on business as an information processor;

"government debt security" has the meaning ascribed to it in section 1.1 of NI 21-101;

"IIROC" means The Investment Industry Organization of Canada;

"IIROC IP" means IIROC acting as an information processor;

"interdealer bond-broker" has the meaning ascribed to it in section 1.1 of NI 21-101;

'information processor (IP)" has the meaning ascribed to it in section 1.1 of NI 21-101;

"marketplace" has the meaning ascribed to it in subsection 1(1) of the Act;

"NI 21-101" means National Instrument 21-101 *Marketplace Operation*;

"unlisted debt security" has the meaning ascribed to it in section 1.1 of NI 21-101;

2. PUBLIC INTEREST RESPONSIBILITIES

(a) IIROC IP shall conduct the business and operations of the designated IP for unlisted debt securities in a manner that is consistent with the public interest.

(b) IIROC IP shall provide a written report to the Commission, as required by the Commission, describing how the designated IP for unlisted debt securities it is meeting its regulatory and public interest functions.

3. CHANGES TO FORM F5

(a) As required by section 14.2 of NI 21-101, IIROC IP will file with the Commission amendments to the information provided in Form F5. IIROC IP must not implement a significant change to the information in the Form F5 without the prior approval of the Commission.

(b) IIROC IP will file with Commission staff all material contracts related to the IP services.

4. RESOURCES

(a) IIROC IP will maintain sufficient financial resources to ensure its ability to conduct its operations; and

(b) IIROC IP will ensure that sufficient human resources are available and appropriately trained to properly perform its functions, including monitoring the timeliness of data concerning unlisted debt securities reported to IIROC and displayed by IIROC IP.

[1] In Ontario, these will be terms and conditions to the designation order and in Quebec, terms and conditions to the Recognition Order.

5. AGREEMENTS WITH DATA CONTRIBUTORS

(a) IIROC IP will ensure that Data Contributors are given access to IIROC IP on fair and reasonable terms.

(b) Any new agreements or contracts to be entered into between IIROC IP and Data Contributors will be provided to the Commission for review and approval prior to their execution.

(c) Proposed material changes to agreements or contracts between IIROC IP and Data Contributors will be provided to the Commission for review and approval.

6. FEES, FEE STRUCTURE AND REVENUE SHARING

(a) IIROC IP will make available, on its website, the fee schedule for IIROC IP Data Products.

(b) IIROC IP will make available, on its website, any payment arrangements with the Data Contributors.

7. DATA REPORTED TO AND DISSEMINATED BY IIROC IP

(a) IIROC IP staff will monitor the timeliness and accuracy of information received by and disseminated by the IP on an ongoing basis and take adequate measures to resolve any data integrity issues on a timely basis.

(b) Within 45 days from the end of each quarter, IIROC will provide the Commission staff quarterly reports on the timeliness and integrity of the information reported to and disseminated by IIROC IP, highlighting significant issues and proposed steps for resolution. These reports will include significant data integrity issues identified in the field examinations of Data Contributors conducted by IIROC.

8. REVIEW OF THE DISSEMINATION MODEL

(a) On a reasonably frequent basis and at least annually, IIROC IP will

(i) review the continuing adequacy of the publication delay for the unlisted debt securities trade data made available by IIROC IP (T+1 5:00 pm ET), and

(ii) review the continuing adequacy of the volume caps applied to trade data in Unlisted Debt Securities by IIROC IP.

(b) No later than 30 days following completion of the review, IIROC IP will file with the Commission the results of the review and any recommendations for changes to the publication delay or the volume caps.

9. SELF-ASSESSMENT

(a) IIROC IP will conduct an annual self-assessment of its compliance with subsections 14.4(2), (4) and (5) of NI 21-101 and with its performance with respect to the terms and conditions of this Designation Order. The report will be provided to the Commission staff within 90 days from the end of IIROC's fiscal year.

SCHEDULE 2

DISCUSSION OF ANTICIPATED COSTS AND BENEFITS FOR THE PROPOSED GOVERNMENT DEBT FRAMEWORK

The OSC conducted a cost benefit analysis to determine whether the Proposed Government Debt Framework will create additional cost burdens for the affected stakeholders.

Background

In 2015, OSC staff published a report[2] on the Canadian debt market and identified a number of key themes that highlighted the need for further regulatory action. The relevant key themes identified were as follows:

- Data available on the debt market is limited and fragmented across a number of sources, which increases search costs especially for smaller market participants; the lack of pricing transparency may also contribute to limited retail investor participation in the Canadian debt market.

- Trading in debt is a highly decentralized, over-the-counter market where large investors and dealers have significantly more information available to them than small investors and dealers; the Canadian debt market is especially opaque for retail investors who, given the limited access to pricing and trade volume information, have little ability to determine the components of the price they pay or receive.

The primary concern with respect to the Canadian debt market has been information asymmetry especially in the secondary trading market that may disadvantage smaller market participants and prevent them from making informed trading decisions or trading all-together. The ability to make informed investment decisions and to be able to evaluate the price paid or received for an investment is an important component of investor confidence in securities markets.

Since July 2016, post-trade transparency is available for all corporate debt securities trading in Canada and now, OSC staff along with the CSA and other members of the Working Group is focused on mandating post-trade transparency requirements for government debt securities.

Potential benefits

The implementation of the Proposed Government Debt Framework may benefit institutional and retail investors alike by reducing information asymmetry in the secondary market for government bonds. There is a limited amount of data on government debt transactions in the public domain. The available data is also fragmented across a number of sources, difficult and costly to obtain, especially for smaller institutional and retail investors. The dissemination of post-trade information about government debt transactions is intended to reduce informational asymmetries.

Under the Proposed Government Debt Framework, IIROC will publicly provide accurate and timely (T+1 5:00 pm ET) post-trade information at no cost to the public. The increased transparency provided from a centralized source may ultimately reduce search cost for market participants and improve the price discovery process for government debt securities.

Issuers of government debt securities (including federal, provincial and municipal issuers) may benefit from the implementation of the Proposed Government Debt Framework as increased price transparency may attract new investors to trade these debt securities in the secondary market and also facilitate additional capital raising in the primary market. If improved post-trade transparency increases market activity this may also benefit other market participants that facilitate these transactions (such as dealers and IDBBs).

Potential costs

The OSC anticipates that none of the stakeholders impacted by the Proposed Government Debt Framework in the first phase will incur significant costs. The majority of government debt transactions are concentrated among IIROC Dealer Members that are already reporting, for surveillance purposes, all their debt securities transactions (including government debt) to IIROC pursuant to IIROC Dealer Member Rule 2800C.

Other stakeholders, such as Banks that do not currently report any debt transactions to IIROC may incur initial set-up costs and incremental ongoing costs to comply with the proposed reporting obligations under the second phase of the Proposed Government Debt Framework. These costs are expected to vary depending on the entity, their level of trading activity and the method they chose to report their transactions to IIROC. Depending on the stakeholder's transaction volume and existing infrastructure, they can choose from one of three reporting options that IIROC supports. Stakeholders with reporting obligations can choose to either manually input transactions on IIROC's web portal, upload an excel template on the same web portal or

[2] Ontario Securities Commission, "The Canadian Fixed Income Market -2014".

setup up a secure file transfer protocol (FTP) connection to automatically submit transaction information.[3] These options provide flexibility for stakeholders of varying size and information systems to meet their reporting obligations.

Increased post-trade transparency in a traditionally opaque and highly decentralized secondary market may impact execution costs and market liquidity in the short-run. Dealers may initially be less willing to take on large positions in order to limit their inventory risk. As a result, we may see some dealers reduce the extent of trading on a principal basis and move to more of an agency model. Participants may continue to trade large positions but only if they are certain they can close those positions relatively quickly. Therefore, dealers may limit their market-making activity to more liquid benchmark government debt securities which could negatively impact transactions costs of less liquid government debt securities. To mitigate the impact of these risks, the Proposed Government Debt Framework includes volume caps and delays tailored to different security types that seek to address the exposure risks, especially with respect to less liquid debt securities. These measures are designed to allow dealers to limit the amount of information available to other participants about their exposure on large transactions and should provide some protection from opportunistic market participants.

The OSC does not anticipate that IIROC will incur significant additional costs to disseminate post-trade information for government debt securities. IIROC is already acting as the IP for corporate debt securities and has already built the necessary web platform to publicly disseminate post-trade information on corporate debt transactions. However, IIROC may incur marginal on-boarding costs for Banks that do not currently report debt transactions to IIROC.

Lastly, there will be minimal regulatory effort to designate IIROC as the information processor for government debt securities and to manage the implementation of the Proposed Government Debt Framework. IIROC is already subject to the applicable regulatory requirements in NI 21-101 and it is complying with its undertakings as corporate debt IP and the terms and conditions of the AMF Recognition Order.

The OSC has determined that the potential benefits of increased transparency under the Proposed Government Debt Framework are proportionate to the anticipate costs for stakeholders. Increased transparency is an important factor in achieving the OSC's mandate to promote fair and efficient capital markets and confidence in those markets. In addition, increased transparency also supports the OSC's investor protection mandate by facilitating the investor's ability to make informed trading decisions and to assess the quality of trade execution.

[3] For more information see IIROC, "Debt Securities Transaction Reporting MTRS 2.0 User Guide," Version 1.9, May 11, 2016.