Chapter 5

Rules and Policies

5.1.1 Notice of OSC Rule 24-502 – Exemption from Transitional Rule: Extension of Transitional Phase-In Period in NI 24-101

NOTICE OF
ONTARIO SECURITIES COMMISSION RULE 24-502
EXEMPTION FROM TRANSITIONAL RULE:
EXTENSION OF TRANSITIONAL PHASE-IN PERIOD IN
NATIONAL INSTRUMENT 24-101 — *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

A. INTRODUCTION

On March 25, 2008, the Ontario Securities Commission (OSC or Commission) made OSC Rule 24-502 *Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 - Institutional Trade Matching and Settlement* (the Rule) under the *Securities Act* (Ontario) (the Act). The Rule was not published for comment because, in the Commission's view, the Rule effectively grants an exemption or removes a restriction in National Instrument 24-101 - *Institutional Trade Matching and Settlement* (NI 24-101 or the Instrument) and is not likely to have a substantial effect on the interests of persons or companies other than those who benefit under it (see clause 143.2(5)(b) of the Act).

The Commission understands that the securities regulatory authorities in other jurisdictions of the Canadian Securities Administrators (CSA) have granted, or are expected to grant in due course, blanket orders to address the subject matter of the Rule.

B. DELIVERY OF RULE TO MINISTER

Under subsection 143.3 of the Act, the Rule was delivered to the Minister of Finance on April 1, 2008. Unless the Minister rejects the Rule or returns it to the Commission for further consideration, it will come into force on June 30, 2008.

C. BACKGROUND TO AND PURPOSE OF RULE

The background to, and purpose of, the Rule are described in greater detail in CSA Notice 24-307—*Exemption from Transitional Rule: Extension of Transitional Phase-in Period in National Instrument 24-101* (CSA Notice) published concurrently with this OSC notice and rule.[1]

In particular, we believe that the market efficiency gains and cost benefits of moving to matching on T that were originally intended with NI 24-101 will be negatively impacted if the transitional phase-in period is not extended, as many market participants are not ready for such a move. The decision to move to matching by midnight on T should, for the time being, largely remain a business-driven decision. Consequently, we are deferring the current July 1, 2008 effective date in the Instrument for the midnight on T matching requirement to July 1, 2010. We are also extending the transitional phase-in period in the Instrument for the registrant exception reporting requirement (the phase-in reporting period) by an additional period of 24 months.

In making the Rule, the Commission relied in part on a letter from the Canadian Capital Markets Association (CCMA) dated November 8, 2007 and a presentation by the CCMA on December 13, 2007. OSC staff also consulted with the CSA-Industry Working Group on the issues raised by the CCMA, as described in the CSA Notice. In addition, the Rule has been adopted in part because the Commission acknowledges that granting relief from NI 24-101's transitional provisions on a case-by-case basis would be impractical. The Commission also understands that the other CSA jurisdictions have granted, or are expected to grant, relief through blanket orders. Accordingly, the Commission has adopted the Rule as an Ontario-only amendment to NI 24-101.

D. SUMMARY OF RULE

The Rule specifically amends subsections (1), (2) and (3) of section 10.2 of NI 24-101. The amendments defer the midnight on T matching requirement to July 1, 2010, extend the phase-in reporting period to January 1, 2012, and make consequential amendments to the percentages and dates for exception reporting purposes. The Rule also makes minor changes to Form 24-101F1.

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[1] See Chapter 1 of this Bulletin.

As a result of the Rule, the coming-into-force and transitional provisions for the midnight on T matching and exception reporting requirements of the Instrument are as follows:

For DAP/RAP trades executed:	Matching deadline for trades executed anytime on T (Part 3 of Instrument)	Percentage trigger of DAP/RAP trades for registrant exception reporting (Part 4 of Instrument)
after September 30, 2007 but before January 1, 2008	12:00 p.m. (noon) on T+1	Less than 80% matched by deadline
after December 31, 2007 but before July 1, 2010	12:00 p.m. (noon) on T+1	Less than 90% matched by deadline
after June 30, 2010 but before January 1, 2011	11:59 p.m. on T	Less than 70% matched by deadline
after December 31, 2010 but before July 1, 2011	11:59 p.m. on T	Less than 80% matched by deadline
after June 30, 2011 but before January 1, 2012	11:59 p.m. on T	Less than 90% matched by deadline
after December 31, 2011	11:59 p.m. on T	Less than 95% matched by deadline

E. AUTHORITY FOR RULE

The Commission has authority to make the Rule pursuant to paragraphs 2(i), 11 and 12 of subsection 143(1) of the Act.

- Paragraph 11 of subsection 143(1) of the Act allows the Commission to make rules *regulating* the listing *or trading of publicly traded securities*, including requiring reporting of trades and quotations.

- Paragraph 2(i) of subsection 143(1) of the Act allows the Commission to make rules in respect to *standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients*.

- Paragraph 12 of subsection 143(1) of the Act allows the Commission to make rules regulating recognized stock exchanges, recognized self-regulatory organizations, recognized quotation and trade reporting systems, and recognized clearing agencies.

In addition, clause 143.2(5)(b) of the Act permits the Commission to make the Rule without publishing the Rule for comment.

F. QUESTIONS

Please refer any of your questions to:

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G. TEXT OF THE RULE

The text of the Rule follows.

April 4, 2008

ONTARIO SECURITIES COMMISSION RULE 24-502
EXEMPTION FROM TRANSITIONAL RULE:
EXTENSION OF TRANSITIONAL PHASE-IN PERIOD IN
NATIONAL INSTRUMENT 24-101 — *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

Interpretation

1.1 Terms defined in National Instrument 24-101 *Institutional Trade Matching and Settlement* (NI 24-101) and used in this rule have the same meaning as in NI 24-101.

Exemption from existing transition rule, extension of phase-in period

1.2 (1) Subsections 10.2 (1), (2) and (3) of NI 24-101 do not apply in Ontario.

(2) A reference to “the end of T” in subsections 3.1(1) and 3.3(1) of NI 24-101 shall each be read as a reference to “12:00 p.m. (noon) on T+1” for trades executed before July 1, 2010.

(3) A reference to “the end of T+1” in subsections 3.1(2) and 3.3(2) of NI 24-101 shall each be read as a reference to “12:00 p.m. (noon) on T+2” for trades executed before July 1, 2010.

(4) A reference to “95 percent” in sections 4.1(a) and (b) of NI 24-101 shall each be read as a reference to:

(a) “80 percent”, for trades executed after September 30, 2007, but before January 1, 2008;

(b) “90 percent”, for trades executed after December 31, 2007, but before July 1, 2010;

(c) “70 percent”, for trades executed after June 30, 2010, but before January 1, 2011;

(d) “80 percent”, for trades executed after December 31, 2010, but before July 1, 2011; and

(e) “90 percent”, for trades executed after June 30, 2011, but before January 1, 2012.

Form 24-101F1–Revised

1.3 Form 24-101F1 is amended by striking out footnotes “*” and “**” and substituting the following:

> * For DAP/RAP trades executed during a transitional period after the Instrument comes into force and before January 1, 2012, this percentage will vary depending on when the trade was executed.
>
> ** The time set out in Part 3 of the Instrument is 11:59 p.m. on, as the case may be, T or T+1. For DAP/RAP trades executed during a transitional period after the Instrument comes into force and before July 1, 2010, this timeline is being phased in and is 12:00 p.m. (noon) on, as the case may be, T+1 or T+2.

Effective Date

1.4 This rule comes into force on June 30, 2008.

Expiration

1.5 This rule expires on January 1, 2012.