

# IIROC NOTICE

## **Rules Notice Notice of Approval/Implementation**

Dealer Member Rules

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**13-0231**  
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## **Trade Confirmation and Matching Requirements**

### **I. Introduction**

This Rules Notice provides notice of approval by the applicable securities regulatory authorities of amendments to Dealer Member Rules 200.1(h) and 800.49 concerning trade related correspondence to clients and trade matching practices (collectively, the “amendments”). The amendments reflect revisions made to the previously published proposed amendments and were made to address CSA and public comments received. The revisions made were non-substantive in nature and therefore, the amendments were not republished for further public comments. The amendments are effective on October 1, 2013.

### **II. Objectives of the amendments**

The amendments are intended to achieve the following objectives:

1. to promote compliant trade matching practices, and



2. to eliminate the sending of duplicative trade related correspondence to clients.

More specifically, the amendments to Dealer Member Rule 800.49 (“Rule 800.49”) seek to provide Dealer Members with greater clarity with respect to their broker-to-broker trade reporting and matching requirements. The amendments to Dealer Member Rule 200.1(h) (“Rule 200.1(h)”) provide Dealer Members with an exemption from the trade confirmation requirements in Rule 200.1(h), provided that certain conditions are met.

### **III. Summary of the nature and purpose of the amendments**

#### ***Broker-to-Broker Trade Matching – Rule 800.49***

Current Rule 800.49 requires that for each non-exchange trade involving CDS eligible securities, executed by a Dealer Member with another Dealer Member, each Dealer Member must enter, accept or affirm each trade with another Dealer Member into an Acceptable Trade Matching Utility within one hour of trade execution. The amendments to Rule 800.49 will:

- extend the trade reporting requirement from “within one hour after trade execution” to “at or before 6:00 p.m. on the day of the trade”, in order to be flexible for Dealer Members that report trades using batch reporting systems;
- define a “non-exchange trade”, in order to assist Dealer Members more easily identify trades that are subject to Rule 800.49; and
- establish an acceptable quarterly compliant trade percentage threshold of 90%, in order to provide Dealer Members and IIROC staff with a clear understanding of what threshold must be achieved in order to be considered to be in compliance with Rule 800.49.

#### ***Trade Confirmation Requirements – Rule 200.1(h)***

Current Rule 200.1(h) requires that every Dealer Member who acts as principal or agent in connection with any trade in a security must promptly send a trade confirmation of the transaction to the client on a trade by trade basis. However, an extensive legislative and regulatory framework that ensures trade data elements have been reported and affirmed by the client is already provided for, in the form of:

- the trade reporting and matching requirements set out in Rule 800.49 and NI 24-101<sup>1</sup>;
- IIROC rules requiring Dealer Members to retain sufficient records for audit and review purposes; and
- IIROC rules requiring Dealers Members to provide monthly statements and promote industry best practices and standards.

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<sup>1</sup> National Instrument 24-101 (NI 24-101), Institutional Trade Matching and Settlements



In light of these requirements, the amendments to Rule 200.1(h) provide exemptive relief to Dealer Members who meet their trade matching and reporting requirements pursuant to Rule 800.49 or NI 24-101, as applicable, and satisfy the criteria set out in the exemption to Rule 200.1(h).

As part of the amendments being made to Rule 200.1(h), updates to the marketplace disclosure requirement on trade confirmations are also being made. Previously, trade confirmations were required to disclose “the stock exchange or commodity futures exchange” upon which a trade took place. This requirement did not capture trades executed outside of recognized exchange facilities, such as quotation and trade reporting systems and alternative trading systems, as well as circumstances in which trades are executed on more than one marketplace. The amendments now capture trades executed on all marketplaces, including those outside of recognized exchange facilities, as well as circumstances in which a trade is executed on more than one marketplace.

#### **IV. Summary of revisions made to the previously published proposed amendments**

The final amendments reflect revisions made to the previously published proposed amendments to address CSA staff and public comments received. None of the revisions made are substantive in nature; therefore, the revisions have not been republished for a further comment period. In addition to minor clarification wording changes, the following revisions have been made:

1. The exemption to Rule 200.1(h) has been amended to clarify that although all clients with DAP/RAP accounts are subject to the requirements of NI 24-101, the trade confirmation exemption is limited to DAP/RAP account transactions of Institutional Customers (as defined in IIROC Dealer Member Rule 1.1).
2. The exemption to Rule 200.1(h) has been revised to require that clients be given real-time access to trade matching information as a further exemption condition.
3. The exemption to Rule 200.1(h) has been revised to clarify the exemption condition relating to compliance with IIROC’s broker-to-broker trade matching requirements or the CSA’s institutional trade matching requirements, as applicable.
4. Since CDS’s CDSX service also includes other functions and services that are outside the scope of the definition of non-exchange trade, the term “CDSX” has been deleted from Rule 800.49(2).
5. Rule 800.49(6) has been revised to remove the staged implementation of the compliant trade percentage threshold and to require quarterly compliance monitoring instead of monthly. This was done in order to reduce the potential confusion among Dealer Members that also execute institutional trades that are subject to quarterly compliance monitoring and a 90% compliant trade percentage threshold under NI 24-101.

The revisions made to the proposed amendments published for public comment on April 9, 2010 are black-lined and enclosed as Attachments C and D.



## **V. Publication for comments and summary of written comments**

These amendments were published for comment with the issuance of IIROC Rules Notice 10-0097 on April 9, 2010. IIROC staff has considered all of the comments received and thank all of the commenters. A summary of the public comments received and IIROC staff's response is enclosed as Attachment E.

## **VI. Guidance on the implementation of the amendments**

### ***Broker-to-Broker Trade Matching – Rule 800.49***

The following guidance, relating to the amendments, is intended to assist Dealer Members in complying with Rule 800.49 and understanding IIROC staff's interpretation of the Rule:

1. *How will a Dealer Member know its quarterly compliant trade percentage for its broker-to-broker trades?*

CDS will make available an individual quarterly compliant trade percentage report to each Dealer Member that is a Direct Participant in CDS's Direct Participant Trade Matching service. That report will include the Dealer Member's quarterly compliant trade percentage for its broker-to-broker trades.

2. *How must a Dealer Member report to IIROC when its quarterly compliant trade percentage is less than 90% for its broker-to-broker trades?*

If a Dealer Member's quarterly compliant trade percentage is less than 90%, it must submit a report via e-mail to IIROC at [B2BTradeMatching@iiroc.ca](mailto:B2BTradeMatching@iiroc.ca) within two business days of its individual quarterly compliant trade percentage report being available to it from CDS. The report that is to be submitted to IIROC must be in a form similar to the template report provided in Attachment F and it must include the reason or reasons for the non-compliance during the quarter, its action plan to improve its compliant trade percentage and the expected time it will take resolve the problem. If you have any questions, please contact your IIROC Financial & Operations Compliance manager or Answerd Ramcharan at [aramcharan@iiroc.ca](mailto:aramcharan@iiroc.ca). For submission-related technical questions, please contact Nellie Gomes at [ngomes@iiroc.ca](mailto:ngomes@iiroc.ca).

3. *What is meant by the word "promptly" in reporting to IIROC if a Dealer Member's quarterly compliant trade percentage is less than 90% for its broker-to-broker trades?*

"Promptly" means no more than two business days after the Dealer Member's individual compliant trade percentage report for its broker-to-broker trades is available to the Dealer Member.



## **Trade Confirmation Requirements – Rule 200.1(h) and Relationship with Broker-to-Broker Trades**

The following guidance on the amendments is to assist Dealer Members in complying with Rule 200.1(h) in relation to broker-to-broker trades and understanding IIROC staff's interpretation of the Rule:

1. *With the implementation of the trade confirmation and matching amendments, how can a Dealer Member use the trade confirmation exemption under Rule 200.1(h) for broker-to-broker trades that are subject to Rule 800.49, before there are three consecutive quarters under the new trade matching requirements?*

For broker-to-broker trades, a Dealer Member will be able to satisfy part (vi) of the trade confirmation exemption if the Dealer Member meets the following equivalent requirements, using its individual quarterly non-compliant trade percentage reports for the last three consecutive quarters:

- each of its quarterly non-compliant trade percentage is 10% or less; and
- the quarterly non-compliant trade percentage is determined by the formula: (Total number of non-compliant transactions reported second – Non-compliant DK transactions reported second + Total DK transactions) / Total number of transactions. For example, if in a quarter a Dealer Member's Total number of non-compliant transactions reported second is 40, Non-compliant DK transactions reported second is 10, Total DK transactions is 60, and Total number of transactions is 1,500, then its quarterly non-compliant trade percentage is 6%  $[(40 - 10 + 60) / 1,500]$ .

IIROC staff will prepare each Dealer Member's quarterly non-compliant trade percentage report for the quarters ending March, June and September 2013, and thereafter CDS will prepare the quarterly compliant trade percentage reports.

2. *Is a Dealer Member expected to notify IIROC that it will be using the trade confirmation exemption for broker-to-broker trades, before it may use that exemption?*

Yes, before a Dealer Member may use the trade confirmation exemption for broker-to-broker trades for the very first time IIROC staff expects the Dealer Member to first notify its IIROC Financial and Operations Compliance manager by e-mail of its intention to use the trade confirmation exemption. The purpose of the notification is to strengthen IIROC's oversight of these activities and to minimize any possible confusion to other Dealer Members. That notification is only expected for the Dealer Member's very first use of the trade confirmation exemption for broker-to-broker trades and is not expected for subsequent trade confirmation exemptions for broker-to-broker trades.



In the Dealer Member's notification to IIROC, the Dealer Member must clearly state that it has the necessary procedures and systems in place to reliably meet the trade confirmation exemption requirements for broker-to-broker trades and that it does not anticipate any repeated switching on and off of the sending of trade confirmations to Dealer Members as a result of it not consistently meeting those exemption requirements.

3. *What is meant by the words "relevant to the trade" in part (vi) of the exemption under Rule 200.1(h)?*

The phrase "relevant to the trade" means:

- where a Dealer Member does not want to send a trade confirmation for a broker-to-broker trade, then the rule or legislation that is relevant to the trade is Rule 800.49.

4. *Will a Dealer Member have to resume sending trade confirmations for its broker-to-broker trades if its quarterly compliant trade percentage for broker-to-broker trades is slightly below the 90% quarterly compliant trade percentage threshold for the quarter?*

Yes, a Dealer Member will be required to immediately resume distribution of trade confirmations for its broker-to-broker trades if it fails to satisfy the requirements set out in part (vi) of the trade confirmation exemption for broker-to-broker trades even if its quarterly compliant trade percentage for its broker-to-broker trades is slightly below the 90% quarterly compliant trade percentage threshold for the most recent quarter.

To manage this risk, a Dealer Member should monitor its compliant trade percentage for broker-to-broker trades within the quarter so that it can detect and correct any problems before they negatively impact its overall results for the quarter. Should the Dealer Member choose to take advantage of the trade confirmation exemption for broker-to-broker trades at a later date, it would be required to re-satisfy the requirements to use the exemption, including demonstrating compliant thresholds for three consecutive quarters. In re-satisfying the trade confirmation exemption requirements, a Dealer Member does not need to obtain an updated written consent from each affected Dealer Member to waive the receipt of trade confirmations, if in the original written consent agreement the affected Dealer Member expressly gives further consent to allow the Dealer Member to resume suppression of trade confirmations for broker-to-broker trades when there is an interruption in the Dealer Member's ability to suppress the sending of trade confirmations for broker-to-broker trades.

5. *Will there be an individual monthly compliant trade percentage report for trades subject to Rule 800.49 made available to a Dealer Member within the quarter to assist the Dealer Member in managing its trade confirmation exemptions for broker-to-broker trades?*



Yes, CDS will make available an individual monthly compliant trade percentage report for broker-to-broker trades to each Dealer Member that is a Direct Participant in CDS's Direct Participant Trade Matching service.

6. *What happens if a Dealer Member has a quarterly compliant trade percentage for broker-to-broker trades that is less than 90% because of DKs and the underlying cause of those DKs results from another Dealer Member's own problems, and how will that impact the Dealer Member's ability to begin or continue to suppress trade confirmations for broker-to-broker trades under the trade confirmation exemption?*

Each Dealer Member that has a quarterly compliant trade percentage that is less than 90%, irrespective of the reason, must still promptly report to IIROC as required under Dealer Member Rule 800.49(6) and as detailed in the guidance to question 2 in the Broker-to-Broker Trade Matching – Rule 800.49 section above. The Dealer Member must immediately start sending trade confirmations for broker-to-broker trades to Dealer Members.

### ***Trade Confirmation Requirements – Rule 200.1(h) and Relationship with Institutional Trades***

The following guidance on the amendments is to assist Dealer Members in complying with Rule 200.1(h) in relation to institutional trades and understanding IIROC staff's interpretation of the Rule:

1. *With the implementation of the trade confirmation amendments, how can a Dealer Member use the trade confirmation exemption for institutional trades that are subject to NI 24-101?*

For institutional trades that are subject to NI 24-101, a Dealer Member will be able to satisfy part (vi) of the trade confirmation exemption if it has not triggered the trade matching exemption report filing requirements under NI 24-101 for each of the last three consecutive quarters.

2. *Is a Dealer Member expected to notify IIROC that it will be using the trade confirmation exemption for institutional trades, before it may use that exemption?*

Yes, before a Dealer Member may use the trade confirmation exemption for institutional trades for the very first time IIROC staff expects the Dealer Member to first notify its IIROC Financial and Operations Compliance manager by e-mail of its intention to use the trade confirmation exemption for institutional trades. The purpose of the notification is to give IIROC the opportunity to strengthen its oversight of these activities and to minimize any possible confusion to clients. That notification is only expected for the Dealer Member's very first use of the trade confirmation exemption for institutional trades and is not expected for subsequent trade confirmation exemptions for institutional trades.

In the Dealer Member's notification to IIROC, the Dealer Member must clearly state that it has the necessary procedures and systems in place to reliably meet the trade confirmation exemption requirements for institutional trades that are subject to NI 24-101 and that it does not anticipate



any repeated switching on and off of the sending of trade confirmations for institutional trades to clients as a result of it not consistently meeting those exemption requirements for institutional trades.

3. *What is meant by the words “relevant to the trade” in part (vi) of the exemption under Rule 200.1(h) for institutional trades?*

The phrase “relevant to the trade” means:

- where a Dealer Member does not want to send a trade confirmation for a DAP/RAP account trade of an Institutional Customer, then the rule or legislation that is relevant to the trade is National Instrument 24-101 (NI 24-101). For DAP/RAP account trades of Institutional Customers subject to NI 24-101, Dealer Members cannot avoid sending a trade confirmation for either an equity trade or debt trade if the Dealer Member has triggered any of the reporting requirements under NI 24-101, which means equity and debt reporting will not be considered separately with respect to NI 24-101.

## **Attachments**

[Attachment A](#) - Black-line of amendments to Rule 200.1(h) - Trade confirmation requirements

[Attachment B](#) - Black-line of amendments to Rule 800.49 - Broker-to-broker trade matching

[Attachment C](#) - Black-line of revisions made to Rule 200.1(h) since publication for comment

[Attachment D](#) - Black-line of revisions made to Rule 800.49 since publication for comment

[Attachment E](#) - Response to public comments received

[Attachment F](#) - Template report for a Dealer Member to use for reporting to IIROC when the Dealer Member’s Rule 800.49 quarterly compliant trade percentage is less than 90%.