

# IIROC NOTICE

## **Rules Notice Request for Comments**

Dealer Member Rules

**Comments Due By: July 4, 2016**

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**16-0117**

**June 2, 2016**

## **Proposed Amendments Respecting Market Transparency in Trading of Domestic Debt Securities**

### **Executive Summary**

IIROC is proposing to amend section 2100.1 and subsection 2100.4(d) of Dealer Member Rule 2100 *Inter-Dealer Bond Brokerage Systems* to ensure it remains current in light of the cessation of CANPX Inc. (“CanPX”) as an information processor on June 30, 2016 (“Proposed Amendments”). The Proposed Amendments would:

- add the definition of “Information Processor” under Dealer Member Rule 2100.1
- remove a reference to a redundant historical requirement that the IIROC Board of Directors (“Board”) recognize organizations that provide market transparency
- delete a provision in Dealer Member Rule 2100.4(d) which specifically references CanPX as a recognized organization which provides for market transparency
- ensure consistency with transparency requirements in National Instrument 21-101 *Marketplace Operation* (“NI 21-101”).

No technological implications or other impacts on Dealer Members and marketplaces are expected as a result of the Proposed Amendments.



If approved, the Proposed Amendments would become effective on the date of publication of the Notice of Approval.

### **How to Submit Comments**

We request comments on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Please send your comments on the Proposed Amendments in writing by July 4, 2016 to:

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Investment Industry Regulatory Organization of Canada  
Suite 2000  
121 King Street West  
Toronto, Ontario M5H 3T9  
e-mail: [tlam@iroc.ca](mailto:tlam@iroc.ca)

Please also forward a copy of your comments to the Recognizing Regulators to:

Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

***Please note that a copy of your comment letter will be posted and publicly available on the IIROC website at [www.iroc.ca](http://www.iroc.ca).***



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## **1. Discussion of Proposed Amendments**

### **1.1 Dealer Member Rule 2100.4(d)**

Currently, Dealer Member Rule 2100.4(d) names CanPX as an organization that is recognized by the Board that provides market transparency in domestic debt securities. On June 30, 2016, CanPX will cease to operate as an information processor that provides this transparency. As a result, IIROC is proposing updates to Dealer Member Rule 2100 to:

- remove the direct reference to CanPX in order to accommodate any party who acts as an information processor pursuant to NI 21-101
- eliminate the redundant requirement for the Board to recognize an organization that provides market transparency
- include a definition of information processor that aligns with the definition used by the Canadian Securities Administrators (“CSA”)
- ensure consistency with the requirements in NI 21-101.

The text of the Proposed Amendments is set out in Appendix “A” and a blackline of the changes is set out in Appendix “B”.

## **2. Analysis**

### **2.1 Issues with Current Requirements**

Introduced in 1987, Dealer Member Rule 2100 sets out the regulatory framework for inter-dealer bond brokerage systems. Dealer Member Rule 2100.4(d) requires that:

*To qualify for approval as an inter-dealer bond broker, an applicant for approval must demonstrate and undertake that it is a participant in or member of an organization which has been recognized by the Board of Directors and which provides for market transparency in the domestic debt securities trading business carried on through approved inter-dealer brokers by making available to any interested person an electronic record-based digital feed of real-time market price, volume and other information. CANPX Corporation as established and organized at the date this Rule becomes effective shall be deemed to have been recognized by the Board of Directors and to be an organization which provides for market transparency for the purposes of this Rule 2100.4(d).*

The main issues that arise from these requirements are:

- It is the CSA rather than IIROC that directly regulates the operation of an information processor making the reference to the need for the Board recognition inconsistent with NI 21-101.
- The current drafting of the rule does not support the use of any other party that acts as an information processor pursuant to NI 21-101.



- There is potential inconsistency between Dealer Member Rule 2100 and NI 21-101 with respect to transparency requirements.

#### *2.1.1 Information Processor and CanPX Status*

The CSA is the regulatory body in Canada with the specific authority to regulate the operation of an information processor under NI 21-101.<sup>1</sup> When NI 21-101 came into force in 2001, Dealer Member Rule 2100 was not amended to take into account the new provisions in NI 21-101 regarding information processors. The Proposed Amendments would rectify this issue by removing the redundant references to a Board-recognized organization that provides for market transparency and instead would require the provision of information to an information processor operating pursuant to NI 21-101.

Further, CSA Staff Notice 21-316 *Information Processor for Corporate Debt Securities*<sup>2</sup> states that CanPX will only continue to act as a designated information processor for corporate debt securities until June 30, 2016. After this date, direct reference to CanPX as a recognized market transparency organization in Dealer Member Rule 2100.4(d) would be outdated.

The Proposed Amendments would accommodate for any party to operate as an information processor pursuant to NI 21-101.

#### *2.1.2 Possible Inconsistency with Market Transparency Requirements*

Part 8 of NI 21-101 sets out the information transparency requirements applicable to marketplaces dealing in unlisted debt securities, inter-dealer bond brokers (“IDBBs”) and dealers. Where required under Part 8 of NI 21-101, marketplaces dealing in unlisted debt securities, IDBBs and dealers must provide certain pre- and post-trade information to the information processor.<sup>3</sup> This has the potential to make the transparency requirements in subsection 2100.4(d) inconsistent with those in NI 21-101 and create confusion for IDBBs. The Proposed Amendments would eliminate the possibility of such inconsistency and IDBBs would only need to look to NI 21-101 for market transparency requirements.

### **3. Description of Proposed Amendments**

To address the above issues, IIROC proposes to amend Dealer Member Rules 2100.1 and 2100.4(d).

These amendments would support the transition of the role of information processor from CanPX to any CSA-designated entity and would eliminate the possibility of any inconsistency between Dealer Member Rule 2100.4(d) and NI 21-101 respecting transparency requirements.

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<sup>1</sup> An information processor is defined in NI 21-101 as any person or company that receives and provides information under NI 21-101 and has filed Form 21-101F5 *Information Statement – Information Processor* (Form 21-101F5) and, in Quebec, that is a recognized information processor.

<sup>2</sup> OSC Bulletin (2016), 39 OSCB 1, January 7, 2016

<sup>3</sup> The requirements applicable to an information processor are set out in Part 14 of NI 21-101.



The Proposed Amendments would add a definition of “information processor” that aligns with Part 1 of NI 21-101. The requirement for an IDBB to be a member or participant of a Board-recognized organization that provides market transparency would be removed to avoid any inconsistency with the designation of information processors under Part 14 of NI 21-101 by the CSA. The reference to CanPX would also be removed and replaced with wording that would apply to any CSA-designated information processor. The Proposed Amendments would support any entity designated by the CSA to act as an information processor under NI 21-101.

#### **4. Impacts of the Proposed Amendments**

IIROC does not believe that there are any impacts directly associated with this proposal on Dealer Members or marketplaces.

#### **5. Technological Implications and Implementation Plan**

No technological implications for Dealer Members and marketplaces are expected as a result of the Proposed Amendments.

If approved, the Proposed Amendments would become effective on the date of publication of the Notice of Approval.

#### **6. Policy Development Process**

##### **6.1 Regulatory Purpose**

The Proposed Amendments would establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC’s functions and responsibilities as a self-regulatory entity.

##### **6.2 Regulatory Process**

The Board has determined the Proposed Amendments to be in the public interest and on May 18, 2016 approved them for public comment.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend that revisions be made to the applicable proposed amendments. If the revisions are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the applicable proposed amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions are material, the applicable proposed amendments as revised will be submitted to the Board for approval for republication.



## **Appendix A – Proposed Dealer Member Rule Amendments**

The Dealer Member Rules are hereby amended as follows:

1. Section 2100.1 is amended by:
  - a. replacing “.” at the end of subsection (e) with “; and”
  - b. adding the following after subsection (e):
    - (f) “Information Processor” means any person or company that receives and provides information under National Instrument 21-101 *Marketplace Operation* and has filed a 21-101F5 and, in Quebec, that is a recognized information processor.
2. Subsection 2100.4(d) is replaced with the following:

2100.4(d) It provides accurate and timely information regarding details of orders and trades for domestic debt securities to the Information Processor, as required by National Instrument 21-101 *Marketplace Operation*.



## Appendix B – Text of Dealer Member Rules to Reflect Proposed Amendments Respecting Market Transparency in Trading of Domestic Debt Securities

Text of Provision Following Adoption of the Proposed Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed Amendments
<p>2100.1. Definitions: In this Rule 2100, and for all purposes of Rule 36:</p> <p>(a) “Domestic Debt Securities” means Canadian dollar denominated debt securities issued or primarily traded in the Canadian markets, whether the issuer is the Government of Canada, a province, a municipality, a crown corporation, or a private sector corporation, and includes securities being traded on a "when issued" basis; a class of debt instruments is issued or primarily traded in the Canadian markets if the primary distribution of the class was effected principally to investors in Canada or if the bulk of secondary market trading occurs in Canada and, for greater certainty, Eurodollar debt securities are not issued or primarily traded in the Canadian markets;</p> <p>(b) “Eurodollar Debt Securities” means debt instruments issued in the international market that exists outside Canada and in respect of which an international secondary market exists primarily outside Canada;</p> <p>(c) “Inter-dealer Bond Broker” means an organization (whether or not incorporated) that provides information, trading and communications services in connection with trading in domestic debt securities among customers of the organization;</p> <p>(d) “Customers” means organizations authorized by an inter-dealer bond broker to use its services in connection with trading in domestic debt securities;</p> <p>(e) “Trader” means an individual who is subject to the supervision and control of a customer of an inter-dealer bond broker, by virtue of being an employee or of some other relationship, and who is authorized by the customer to use the services of the inter-dealer bond broker for the purposes of buying or selling domestic debt securities on behalf of that customer; and</p> <p>(f) “Information Processor” means any person or company that receives and provides information under National Instrument 21-101 <i>Marketplace Operation</i> and has filed a 21-101F5 and, in Quebec, that is a recognized information processor.</p>	<p>2100.1. Definitions: In this Rule 2100, and for all purposes of Rule 36:</p> <p>(a) “Domestic Debt Securities” means Canadian dollar denominated debt securities issued or primarily traded in the Canadian markets, whether the issuer is the Government of Canada, a province, a municipality, a crown corporation, or a private sector corporation, and includes securities being traded on a "when issued" basis; a class of debt instruments is issued or primarily traded in the Canadian markets if the primary distribution of the class was effected principally to investors in Canada or if the bulk of secondary market trading occurs in Canada and, for greater certainty, Eurodollar debt securities are not issued or primarily traded in the Canadian markets;</p> <p>(b) “Eurodollar Debt Securities” means debt instruments issued in the international market that exists outside Canada and in respect of which an international secondary market exists primarily outside Canada;</p> <p>(c) “Inter-dealer Bond Broker” means an organization (whether or not incorporated) that provides information, trading and communications services in connection with trading in domestic debt securities among customers of the organization;</p> <p>(d) “Customers” means organizations authorized by an inter-dealer bond broker to use its services in connection with trading in domestic debt securities;</p> <p>(e) “Trader” means an individual who is subject to the supervision and control of a customer of an inter-dealer bond broker, by virtue of being an employee or of some other relationship, and who is authorized by the customer to use the services of the inter-dealer bond broker for the purposes of buying or selling domestic debt securities on behalf of that customer; <u>and</u></p> <p><u>(f) “Information Processor” means any person or company that receives and provides information under National Instrument 21-101 <i>Marketplace Operation</i> and has filed a 21-101F5 and, in Quebec, that is a recognized information processor.</u></p>
<p>2100.4. Qualified Customers; Trader Location and Business. To qualify for approval as an inter-dealer bond broker, an applicant for approval must demonstrate and undertake that:</p> <p>(a) All of its customers are and will be Dealer Members of the Corporation or of another Canadian securities industry self-regulatory organization, Canadian chartered banks, other organizations described in paragraphs (a), (b) or (c) of Rule 2100.5 or any other financial institution approved by the Board of Directors; new customers other than Dealer Members or Canadian chartered banks will provide the inter-dealer bond broker with a favourable letter of reference from a participant in an approved inter-dealer bond brokerage system and with recent financial statements or other evidence of financial condition;</p> <p>(b) All of the traders for customers of the inter-dealer bond broker will be physically situated in Canada except:</p> <p>(i) As to traders for a customer that is a chartered bank listed in Schedule I to the Bank Act or an affiliate of such a bank, other than an affiliate that carries on business primarily as a securities firm or a subsidiary of such an</p>	<p>2100.4. Qualified Customers; Trader Location and Business. To qualify for approval as an inter-dealer bond broker, an applicant for approval must demonstrate and undertake that:</p> <p>(a) All of its customers are and will be Dealer Members of the Corporation or of another Canadian securities industry self-regulatory organization, Canadian chartered banks, other organizations described in paragraphs (a), (b) or (c) of Rule 2100.5 or any other financial institution approved by the Board of Directors; new customers other than Dealer Members or Canadian chartered banks will provide the inter-dealer bond broker with a favourable letter of reference from a participant in an approved inter-dealer bond brokerage system and with recent financial statements or other evidence of financial condition;</p> <p>(b) All of the traders for customers of the inter-dealer bond broker will be physically situated in Canada except:</p> <p>(i) As to traders for a customer that is a chartered bank listed in Schedule I to the Bank Act or an affiliate of such a bank, other than an affiliate that carries on business primarily as a securities firm or a subsidiary of such an</p>





Text of Provision Following Adoption of the Proposed Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed Amendments
<p>affiliate;</p> <p>(ii) As to traders for a customer that is a chartered bank listed in Schedule II to the Bank Act, or that is a subsidiary of such a bank that does not carry on business primarily as a securities firm, but not including traders for other affiliates of such a bank; and</p> <p>(iii) Where the trader is trading on behalf of a customer that satisfies Rule 2100.5;</p> <p>(c) The business of the inter-dealer bond broker relating to domestic debt securities shall be restricted to acting as agent on behalf of customers and shall not include dealing in domestic debt securities as principal, directly or indirectly through an entity in which it has an interest or which has an interest in the inter-dealer bond broker; and</p> <p>(d) It provides accurate and timely information regarding details of orders and trades for domestic debt securities to the Information Processor, as required by National Instrument 21-101 <i>Marketplace Operation</i>.</p>	<p>affiliate;</p> <p>(ii) As to traders for a customer that is a chartered bank listed in Schedule II to the Bank Act, or that is a subsidiary of such a bank that does not carry on business primarily as a securities firm, but not including traders for other affiliates of such a bank; and</p> <p>(iii) Where the trader is trading on behalf of a customer that satisfies Rule 2100.5;</p> <p>(c) The business of the inter-dealer bond broker relating to domestic debt securities shall be restricted to acting as agent on behalf of customers and shall not include dealing in domestic debt securities as principal, directly or indirectly through an entity in which it has an interest or which has an interest in the inter-dealer bond broker; and</p> <p>(d) <del>It is a participant in or member of an organization which has been recognized by the Board of Directors and which provides for market transparency in the domestic debt securities trading business carried on through approved inter-dealer brokers by making available to any interested person an electronic record-based digital feed of real-time market price, volume and other information. CANPX Corporation as established and organized at the date this Rule becomes effective shall be deemed to have been recognized by the Board of Directors and to be an organization which provides for market transparency for the purposes of this Rule 2100.4(d).</del> It provides accurate and timely information regarding details of orders and trades for domestic debt securities to the Information Processor, as required by National Instrument 21-101 <i>Marketplace Operation</i>.</p>