

IIROC NOTICE

Rules Notice Request for Comments

UMIR / Dealer Member Rules

Comments Due By: November 13, 2017

Please distribute internally to:

Institutional
Legal and Compliance
Senior Management
Trading Desk
Retail

Contact:

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17-0109
May 17, 2017

Proposed Provisions Respecting Client Identifiers

Executive Summary

To enhance market integrity and investor protection, IIROC is publishing for comment proposed amendments (**Proposed Amendments**) to UMIR and the Dealer Member Rules (**DMR**) that would require client identifiers on:

- each order sent to a marketplace
- each reportable trade in a debt security.

Dealer Members would need to provide client identifiers using:

- a Legal Entity Identifier (**LEI**) for clients eligible to obtain an LEI
- their account number for clients not eligible to obtain an LEI.

In order to better address the risks of electronic trading, the Proposed Amendments would also require unique client identifiers for clients of a foreign dealer equivalent whose orders are entered under a routing arrangement and are automatically generated on a predetermined basis. In this case, the Participant would need to provide the:

- LEI of the foreign dealer equivalent as the client identifier
- unique identifier for the end-client whose orders are automatically generated on a predetermined basis.



In addition to client identifiers, the Proposed Amendments would introduce designations under UMIR 6.2(1)(b) to flag the following activity on a marketplace:

- orders sent using direct electronic access (**DEA**)
- orders entered under a routing arrangement (**RA**)
- orders entered through an order-execution only service (**OEO**).

In light of the proposed designations above, the Proposed Amendments would remove the current identifier requirements for DEA, RA, and certain OEO clients.

Impacts

IIROC acknowledges that the impacts of the Proposed Amendments on Dealer Members, marketplaces, investors and vendors may be significant. We expect these impacts would include:

- development to back office systems to accommodate LEIs
- systems development to include client identifiers on all order activity on marketplaces
- systems development to include client identifiers on all reportable debt transactions
- Participants using a common encryption method
- marketplace systems changes to pass-through client identifiers and account designations
- clients obtaining LEIs when necessary
- Participants obtaining LEIs from all eligible clients and confirming that LEIs remain current.

As part of the comment process, we are requesting specific comments on the following aspects of the Proposed Amendments:

- the implementation impacts
- the potential costs
- any alternative approaches to consider that may reduce impacts.

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

IIROC is publishing the Proposed Amendments to solicit comments on the best approach to expand the use of client identifiers to improve the risk management, surveillance and investigatory capabilities of regulators.



In order to garner further comment and feedback on the Proposed Amendments, IIROC will strike a consultation committee to assist in:

- identifying impacts, costs and alternatives with respect to expanding the use of client identifiers
- providing recommendations with respect to implementing the expanded use of client identifiers.

We ask all parties interested in participating in the consultation committee to contact Theodora Lam at tlam@iiroc.ca by **June 19, 2017**.

Upon reviewing and responding to any public comments and consultation committee input on the Proposed Amendments, we will bring a revised proposal to our Board for approval and publish the revised proposal for an additional comment period before implementing any proposed changes.

How to Submit Comments

We request comments on all aspects of the Proposed Amendments, including any matter that they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **November 13, 2017** to:

Theodora Lam
Policy Counsel, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000
121 King Street West
Toronto, Ontario M5H 3T9
e-mail: tlam@iiroc.ca

A copy should also be provided to the CSA by forwarding a copy 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

Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiroc.ca. A summary of the comments contained in each submission will also be included in a future IIROC Notice.



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1. Discussion of Proposed Amendments

1.1 Identifiers for all clients of a Participant, including DEA, RA, or OEO

In October 2014, we committed to looking at whether expanding the use of client identifiers in the form of an LEI or another account identifier would be appropriate.¹ We believe that expanding the use of client identifiers is appropriate. IIROC is of the view that publishing the Proposed Amendments for comment is beneficial to stimulate discussion on the best approach to expand the use of client identifiers in the trading of securities to improve the risk management, surveillance and investigatory capabilities of regulators.

To this end, IIROC is proposing to amend UMIR 6.2, DMR 3200, and DMR 2800C to require client identifiers on:

- each order sent to a marketplace
- each reportable trade in a debt security.

Dealer Members would need to provide client identifiers in the form and manner acceptable to IIROC. This would mean using:

- an LEI as the client identifier for clients eligible to obtain an LEI
- their account number as the client identifier for clients not eligible to obtain an LEI.

The Proposed Amendments would also require unique identifiers for clients of a foreign dealer equivalent, where orders are sent under an RA and are automatically generated on a predetermined basis by the client. In this case, the Participant would need to provide the:

- LEI of the foreign dealer equivalent as the client identifier
- unique identifier for each end-client of the foreign dealer equivalent that automatically generates orders on a predetermined basis. Participants would not need to provide the name or identity of the end-client, only a unique identifier. The unique identifier would not need to take the form of an LEI or account number.

While the Proposed Amendments would remove current UMIR 6.2(1)(a) requirements for DEA, RA, and OEO identifiers, they would introduce new designations under UMIR 6.2(1)(b) to flag orders sent through these arrangements.

2. Analysis

2.1 Background

IIROC currently requires the use of client identifiers in certain circumstances. Under UMIR 6.2, Participants must ensure that client identifiers are included for the following activity on a marketplace:

¹ See IIROC Notice [14-0250](#) – Rules Notice – UMIR – *Transaction Reporting for Debt Securities* (October 30, 2014).



- orders entered using DEA²
- orders entered under an RA³
- orders entered using OEO by a client:⁴
 - whose trading activity on marketplaces exceeds a daily average of 500 orders per trading day in any calendar month
 - that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or
 - that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.

DMR 3200 aligns with UMIR by requiring the use of client identifiers for the same OEO accounts as required under UMIR 6.2(1)(a)(iv).

Under DMR 2800C, Dealer Members must obtain LEIs when reporting principal transactions in debt securities. Client identifiers are currently optional for both the “Customer LEI” and “Customer Account Identifier” fields.

The Proposed Amendments would:

- consolidate existing requirements for client identifiers
- expand the use of client identifiers to include all client orders entered on a marketplace or reportable under DMR 2800C.

IIROC would expect Dealer Members to ensure that eligible clients obtain LEIs as part of the onboarding process for new clients or as part of its account documentation review required under IIROC rules for existing clients. Once a client has an LEI, Dealer Members would be required to ensure that client LEIs are renewed on an annual basis and do not lapse. A lapse in a client’s LEI would be considered a “material change” in client information under DMR 2500.II.A.5 and DMR 2700.II.4. We would expect Dealer Members to use account numbers as client identifiers for clients not eligible to obtain an LEI.

In addition to client identifiers, the Proposed Amendments would also require new designations to flag orders sent through DEA, RA, and OEO arrangements. We expect that flagging this order activity from these accounts together with the client identifier would improve the transparency of such activity and enhance regulatory capacity.

² UMIR 6.2(1)(a)(v)

³ UMIR 6.2(1)(a)(vi)

⁴ UMIR 6.2(1)(a)(iv)



2.2 Certain Clients of a Foreign Dealer Equivalent

UMIR 6.2 currently sets out the identifiers that must be contained on each order entered on a marketplace, including the identifier of the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under an RA.⁵

Currently there are certain foreign dealer equivalents under RAs that route orders of multiple clients under one client identifier. However, we have found regulating this activity to be challenging particularly when such client orders:

- are automatically generated on a predetermined basis
- are intermingled with other activity of the foreign dealer equivalent
- carry the same unique ID (currently the Trader ID).

To better address the risks of electronic trading and to maintain market integrity, IIROC must have the ability to identify and monitor higher-risk client flow that is automatically generated on a predetermined basis.

This is consistent with the IOSCO principles for direct electronic access to markets⁶ that the CSA has adopted in their electronic trading framework.⁷ Among others, the IOSCO principles include the disclosure of customer identification in order to facilitate market surveillance.

This proposed change would also level the playing field with current provisions that require unique identifiers for DEA clients who enter orders through DEA to be included on each of their orders and provide IIROC with a similar capacity to surveil this type of trading activity.

In order to address the issues above, we are proposing changes to UMIR 6.2(1) that would require the use of a unique identifier for each end-client of a foreign dealer equivalent who is party to an RA where the end-client automatically generates orders on a predetermined basis. This requirement would not extend to activity entered directly by the foreign dealer equivalent or through the foreign dealer equivalent's own technology.

IIROC recognizes that Participants may not have access to the identity of the ultimate end-client when the order is entered by a foreign dealer equivalent under an RA and, therefore, this proposed change would not require the disclosure of the name of a beneficial client. Instead, it would merely require that orders from each applicable end-client be distinguished with a unique identifier. This unique identifier would not need to take the form of an LEI or an account number.

⁵ UMIR 6.2(1)(a)(vi)

⁶ Technical Committee of the International Organization of Securities Commissions. [Final Report on Principles for Direct Electronic Access to Markets](#). August 2010.

⁷ See (2012) 35 OSCB 8599.



2.3 Legal Entity Identifier

The LEI is a unique identification code assigned according to standards set by the Global Legal Entity Identifier System (**GLEIS**). LEIs are universal identifiers that can be used across firms, assets, and jurisdictions. There are no materiality thresholds for issuing LEIs. Each legal entity only receives one LEI, which should be used in all corporate events and transactions. Any party to a financial transaction is eligible to obtain an LEI, with the exception of natural persons. Examples of legal entities eligible to obtain an LEI include:

- corporations, partnerships, and trusts
- legal entities that are not incorporated, including individuals acting in a business capacity under certain circumstances⁸
- governmental organizations and supranationals.⁹

Inquiries regarding LEI eligibility and the process of obtaining an LEI should be directed to the Local Operating Unit (**LOU**), which serves as local implementers of the global LEI system.¹⁰ In Canada, [CDS Clearing and Depository Services Inc.](#) is an LOU sponsored by the Ontario Securities Commission.¹¹

Accessing the infrastructure developed and maintained by the Global Legal Entity Identity Foundation (**GLEIF**) may be a cost-effective and administratively expedient alternative to Dealer Members creating, funding, and supporting a new system of issuing, verifying, and administering client identifiers. The GLEIF maintains the [LEI reference database](#), which is freely accessible to the public. The data quality and accuracy of LEIs are supported and maintained by LOUs, which must be accredited by the GLEIF and are governed by service level agreements between the GLEIF and LOUs. In issuing LEIs to legal entities,

⁸ See LEI ROC. [Statement on Individuals Acting in a Business Capacity](#). September 30, 2015. According to this Statement, retail clients that are individuals acting in a business capacity may be eligible to obtain an LEI. This includes individuals conducting an independent business activity that is registered in a business registry. An “independent business activity” does not include persons acting in a private or non-professional capacity (e.g. natural persons as taxpayers), or professionals acting as employees, even if they are subject to licensing or authorization by a financial regulator.

⁹ An LEI is a 20-character, alpha-numeric code, to uniquely identify legally distinct entities that engage in financial transactions. The LEI definition is based on a standard, published by the International Organization for Standardization (ISO 17442:2012), where “legal entities” eligible to obtain an LEI includes but is not limited to unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual). It excludes natural persons, but includes governmental organizations and supranationals. (See [The LEI](#) by LEI ROC.) LEI ROC has also recently published a statement indicating individuals acting in a business capacity may be eligible to obtain an LEI. (See Note 8)

¹⁰ LEI ROC. [How to obtain an LEI](#).

See also [Frequently Asked Questions](#) by the GMEI Utility.

¹¹ LEI ROC. [Endorsed Pre-LOUs of the Interim Global Legal Entity Identifier System \(GLEIS\)](#). January 4, 2017.



LOUs verify application data against reliable sources. Legal entities must provide accurate and up-to-date information which is reviewed annually by LOUs.

2.4 Current Use of LEIs for Derivative Trading in Canada

Client identifiers are currently required in various requirements pertaining to derivatives trading in Canada. In Ontario, OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting requires eligible counterparties participating in transactions reportable under the rule to obtain, maintain and renew an LEI.¹² If a counterparty is not eligible to receive an LEI, it must be identified with an alternate identifier. Similar requirements are included in Multilateral Instrument 96-101 Trade Repositories and Derivatives Data Reporting,¹³ Regulation 91-507 respecting Trade Repositories and Derivatives Data Report¹⁴ in Québec and Manitoba Securities Commission Rule 91-507 Trade Repositories and Derivatives Data Reporting.¹⁵

2.5 Other Jurisdictions

Other jurisdictions have also moved to require client identifiers. This is largely driven by the desire to enhance transparency in order to improve the risk management, surveillance and investigatory capabilities of regulators.

2.5.1 European Union

Under MiFID II and MiFIR, investment firms in the EU must report transactions of the purchase or sale of financial instruments to national competent authorities.¹⁶ Client identifiers are a piece of information to be reported, including LEIs where applicable,¹⁷ or natural person identifiers¹⁸ for clients that are not eligible to obtain an LEI. The report must also specify the person or entity responsible for the investment decision, including the use of an algorithm. Where an algorithm is the primary decision-maker for the investment decision, it must be identified using a unique and consistent code. Investment

¹² See section 28 of OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting.

¹³ See section 28 of Multilateral Instrument 96-101.

¹⁴ See section 28 of Regulation 91-507 Trade Repositories and Derivatives Data Reporting.

¹⁵ See section 28 of Manitoba Securities Commission Rule 91-507.

¹⁶ [Regulation \(EU\) No 600/2014](#) of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments. Paragraph 1 of Article 26 *Obligation to report transactions* provides: *Investment firms which execute transactions in financial instruments shall report complete and accurate details of such transactions to the competent authority as quickly as possible, and no later than the close of the following working day.*

¹⁷ [Regulation \(EU\) No 600/2014](#) of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments. See paragraph 3 of Article 26 *Obligation to report transactions*.

¹⁸ Where the client is a natural person, the investment firm may use the concatenation of the country of their nationality, followed by the identifier assigned by the country of nationality. If no identifier is assigned by the country of nationality, they must use the concatenation of the individual's first and last name and date of birth, as it appears on their passport. See Article 6 *Designation to identify natural persons* of [Regulatory Technical Standard \(RTS\) 22: Draft regulatory technical standards on reporting obligations under Article 26 of MiFIR](#).



firms must send their transaction reports on a T+1 basis directly to the national competent authorities. While investment firms have the option of asking other parties (e.g. approved reporting mechanisms or trading venues) to submit the report on their behalf, they retain the responsibility for the completeness, accuracy, and timeliness of the report.¹⁹ The transaction reporting obligations under MiFID II and MiFIR will come into effect in January 2018.²⁰

2.5.2 United States

The U.S. Securities and Exchanges Commission (**SEC**) approved the Consolidated Audit Trail National Market System Plan (**CAT NMS Plan**) on November 15, 2016. Under the CAT NMS Plan, self-regulatory organizations (**SROs**) and their members must send order and trade data in NMS equities and options to a central repository. Customer identification is part of the information that must be reported. The definition of “customer” includes both the account holder and the individual with authority to give trading instructions.²¹ SEC Rule 613(j)(5) states that broker-dealers may report using a Customer-ID, that being a code that uniquely and consistently identifies the customer for

¹⁹ [Regulation \(EU\) No 600/2014](#) of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments. Paragraph 7 of Article 26 *Obligation to report transactions* also provides that, where mistakes in the transaction report are attributable to the ARM or trading venue, the investment firm will not be responsible for those mistakes. However, they must take reasonable steps to verify the completeness, accuracy, and timeliness of the reports.

²⁰ European Commission. [Commission extends by one year the application date for the MiFID II package](#). February 10, 2016.

²¹ See definition of “customer” in [SEC Rule 613\(j\)\(1\)](#) at p112-113:

- (i) the account holder(s) of the account at a registered broker-dealer originating the order; and*
- (ii) any person from whom the broker-dealer is authorized to accept trading instructions for such account, if different from the account holder(s).*

The Rule does not require identification of registered representative who placed the order, or system used to originate the order.

Beneficial owner is also not required to be reported, as “account-holder” under Rule 613(j)(3) only captures information that broker-dealers currently needs to record in their books and records under Rule 17a-3(a)(9) of Exchange Act. (See [SEC Rule 613](#) at p139)

Where it is a joint account, information for both persons listed on the account must be reported ([SEC Rule 613](#) at p140).

See also Appendix D – *CAT NMS Plan Processor Requirements* of [CAT NMS Plan](#) , which provides the following information must be captured for each Customer:

- Social security number (SSN) or Individual Taxpayer Identification Number (ITIN);
- Date of birth;
- Current name;
- Current address;
- Previous name; and
- Previous address.

For legal entities, the CAT must capture the following attributes:

- Legal Entity Identifier (LEI) (if available);
- Tax identifier;
- Full legal name; and
- Address.



the purposes of providing data to the central repository.²² While a Customer-ID does not need to be attached to every order and trade, SROs must develop a proposal where regulators can access data in a linked fashion so that each order, and all subsequent reportable events, can be traced back to the customer through its Customer-ID.²³ Where a legal entity has an LEI, it must be reported as part of the customer identifying information.²⁴ While the CAT NMS Plan has not imposed the mandatory use of LEIs, SEC Commissioner Kara M. Stein has stated that “this will leave regulators and industry participants near-sighted and unable to figure out important interconnections or identify exposures between financial firms” and urged exchanges and FINRA to provide a report on the feasibility of mandating the use of LEIs for industry members and customers.²⁵

In addition to the Customer-ID, the CAT NMS Plan also requires broker-dealers to report Customer Account Information to the central repository upon receiving or originating an order.²⁶ The Customer Account Information includes the account number, account type, customer type, date when account was opened (or in some circumstances, the effective date of the account), and the Large Trader Identifier (LTID)²⁷ if applicable. To protect the confidentiality of customer information, SEC Rule 613(e)(4) requires the plan processor to use policies and procedures that ensure security and confidentiality of all information reported to the central repository.²⁸ Plan sponsors must protect customer information, which may include the encryption of such data.²⁹

The CAT NMS Plan requires reporting to be done on a T+1 basis.³⁰ Reporting under the CAT NMS Plan will be required as follows:

- Phase one - SROs to submit data to the central repository within one year after implementation of the plan
- Phase two - SRO members (except small SRO members) to submit data within two years of implementation of the plan

²² [SEC Rule 613](#) at p134.

²³ [SEC Rule 613](#) at p135.

²⁴ The definition of “Customer Identifying Information” in Article I of the [CAT NMS Plan](#) provides “... an Industry Member that has an LEI for a Customer must submit the Customer’s LEI in addition to other information of sufficient detail to identify a Customer.”

²⁵ Commissioner Kara M. Stein of the U.S. Securities and Exchange Commission. [Statement on the Joint Industry Plan on the Consolidated Audit Trail](#). November 15, 2016.

²⁶ SEC Rule 613(c)(7)(viii)(B)

²⁷ The LTID is an identifier issued by the U.S. Securities and Exchange Commission to identify large traders pursuant to [Rule 13h-1](#) of the *Securities Exchange Act of 1934*. A “large trader” is defined as “a person whose transactions in NMS securities equal or exceed 2 million shares or \$20 million during any calendar day, or 20 million shares or \$200 million during any calendar month”.

²⁸ [SEC Rule 613](#) at p137.

²⁹ See above.

³⁰ See subsections 6.3(b) and 6.4(b) of the [CAT NMS Plan](#).



- Phase three - small SRO members to submit data within three years of approval of the plan.³¹

2.6 Benefits of using Client Identifiers

2.6.1 Benefits to IIROC

We do not currently receive client identity information for each order and trade executed on a marketplace or reported pursuant to Rule 2800C, and the Proposed Amendments would make it significantly easier for IIROC to carry out its public interest mandate. Specifically, requiring the use of client identifiers would enhance IIROC's ability to perform a range of regulatory functions, including conducting:

- surveillance and investigations more efficiently
- data analyses in a more accurate and timely manner.

Trade analysis initially involves mapping out client identities and linking them to each order and trade on a marketplace, which can be time consuming and inefficient. Currently, we compile data from different sources of information (trade tickets and blotters, trade reports, allocation reports etc.) in order to link client identities to each event on the marketplace. Depending on the length of the period of review, the liquidity of the security, and the number of clients under review, we may have to send multiple information requests to Dealer Members to validate client order activity. This results in delays in reconciling information into a usable form.

We believe the Proposed Amendments would increase IIROC's efficiency in linking client identities to marketplace activity, as well as reduce the number and size of information requests we send to Dealer Members.

The use of LEIs may also enhance cross-asset surveillance for trading in listed equities as well as OTC fixed income securities. The LEI reference database has Level 1 information and may soon incorporate Level 2 reference data.³² Level 1 reference data includes "business card" information, such as the entity's legal name and address.³³

³¹ See [Rule 613 Implementation Timeline](#).

³² LEI ROC. [Collecting data on direct and ultimate parents of legal entities in the Global LEI System – Phase 1](#). March 10, 2016.

³³ The Legal Entity Identifier Regulatory Oversight Committee indicates that the reference data currently associated in the database with each entity includes:

- official name of the legal entity
- address of the headquarters of the legal entity
- address of legal formation
- date of the first LEI assignment
- date of last update of the LEI
- date of expiry, if applicable
- for entities with a date of expiry, the reason for the expiry should be recorded, and if applicable, the LEI of the entity that acquired the expired entity



Level 2 reference data would include information regarding the entity's corporate hierarchy and affiliations. Access to Level 2 information would increase our visibility into the entity's relationships as part of its corporate structure and allow us to more quickly link entities to immediate and ultimate parents, subsidiaries, or affiliates. This added transparency would enhance IIROC's ability to monitor potential market abuses.

Requiring the use of client identifiers would help ensure accuracy and consistency in order information across all marketplaces and in reported debt securities transactions. A current limitation with the regulatory data is that multiple identifiers may be used for the same client. For example, there may be multiple Trader IDs for the same DEA or RA client either at the same Dealer Member or across multiple Dealer Members. Using LEIs would allow IIROC to aggregate information from all accounts held by the same client across different platforms and Dealer Members for surveillance and regulatory purposes.

2.6.2 Benefits to Other Regulators

The CSA and the Bank of Canada also support the Proposed Amendments because the changes would:

- help both the CSA and the Bank of Canada carry out their public interest mandates
- be consistent with global proposals, such as the Financial Stability Board recommendations endorsed by the G20 in 2012.³⁴

2.6.3 Benefits to Dealer Members

The use of LEIs may help Dealer Members manage their internal risk by enabling the cross-asset consolidation of counterparty data. LEIs may also reduce the time and cost in consolidating and verifying data as, currently, a single entity may be identified by different names and codes, across different business lines, asset groups and/or platforms. Using LEIs to aggregate the accounts of the same entity may provide a more holistic picture of client holdings across different accounts and/or platforms. The use of LEIs may also assist in customer due diligence, especially in terms of background searches at the client onboarding stage.

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- official business registry where the foundation of the legal entity is mandated to be recorded on formation of the entity, where applicable
 - reference in the official business registry to the registered entity, where applicable. LEI ROC. [Progress Report by the Legal Entity Identifier Regulatory Oversight Committee. The Global LEI System and regulatory uses of the LEI](#). November 5, 2015.

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Item 44 of the [G20 Leaders Declaration](#) at the 2012 Los Cabos Summit provides:

"We endorse the FSB recommendations regarding the framework for development of a global legal entity identifier (LEI) system for parties to financial transactions, with a global governance framework representing the public interest. The LEI system will be launched by March 2013 and we ask the FSB to report on implementation progress by the November 2012 Finance Ministers 8 and Central Bank Governors' meeting. We encourage global adoption of the LEI to support authorities and market participants in identifying and managing financial risks."



We also expect that more granular client-level data would reduce the size and frequency of regulatory requests and could help Dealer Members process the data requests that they do receive more efficiently.

The use of LEIs, together with DEA and RA identifiers, would also eliminate the need to:

- obtain unique identifiers for each DEA or RA client
- report added or deleted DEA and RA identifiers to IIROC.

2.7 Confidentiality of Client Information

To ensure the confidentiality of client information, IIROC believes that encrypted keys should be used for client identifiers to ensure that the client information is only visible to IIROC. Transaction files containing client identifiers in the trading of debt securities would continue to use the Secure File Transfer Protocol (**SFTP**), as the information is directly reported to IIROC through each Dealer Member's reporting gateway and does not pass through a marketplace.

3. Technological Implications and Implementation Plan

The Proposed Amendments are consistent with other global initiatives regarding the transparency of client identities in the trading of securities. IIROC acknowledges there would be significant effort required by Dealer Members, marketplaces, and investors to achieve compliance with the Proposed Amendments. The purpose of publishing the Proposed Amendments is to solicit comments on the best approach to expand the use of client identifiers to improve the risk management, surveillance and investigatory capabilities of regulators.

We would consider the impacts of the Proposed Amendments when determining the appropriate implementation period. IIROC staff believe the implementation effort required is proportionate to the regulatory benefit of increased market integrity and investor protection through enhanced oversight and supervision capabilities, however, we think it is important to fully understand the implementation impact of the Proposed Amendments.

As part of the comment process, we are specifically asking for comments from stakeholders regarding implementation impacts, costs, and alternative approaches for consideration that would deliver the same regulatory benefits. These comments are important to develop a full understanding of the impacts, which will assist in determining the implementation timeline and process.

In order to garner further comment and feedback on the Proposed Amendments, IIROC will also strike a consultation committee to assist in identifying issues and providing recommendations with respect to expanding the use of client identifiers. We ask all parties interested in participating in the consultation committee to contact Theodora Lam at tlam@iiloc.ca by **June 19, 2017**.



Upon reviewing and responding to any public comments and consultation committee input on the Proposed Amendments, we will bring a revised proposal to our Board for approval and publish the revised proposal for an additional comment period before implementing any proposed changes.

3.1 Financial and Operational Impact on IIROC

The Proposed Amendments would affect surveillance and operations at IIROC. Specifically, IIROC would need to:

- make changes to accommodate the client identifiers and the account designations
- develop a decryption process to convert the data fields
- modify alert specifications and parameters to accommodate the additional information
- modify Trading Conduct Compliance's review modules.

3.2 Significant Impacts on Stakeholders

The Proposed Amendments would affect Dealer Members and marketplaces. Its impacts may vary based on the implementation plan. Possible impacts include:

- systems development to accommodate client identifiers and account designations on order messages using encrypted keys
- systems development to accommodate the use of unique client identifiers for certain end-clients of their foreign dealer equivalent clients
- systems development of a common encryption method
- obtaining LEIs from all existing eligible clients and confirming that LEIs remain current
- marketplace development to accommodate the pass-through of client identifiers and account designations.

3.3 Impacts on Investors

The Proposed Amendments may affect investors in that certain eligible investors may be required to apply for LEIs in order to trade on a marketplace or in debt securities. Impacts on investors eligible to obtain LEIs would include:

- Payment of fees. There is an initial set-up fee of ~USD \$200 to obtain an LEI, as well as an annual maintenance fee of ~USD \$100.
- Providing appropriate documentation to LOUs as part of the application process and providing updated information as necessary.



4. Questions

While we request comment on all aspects of the Proposed Amendments, we specifically request comment on the following questions:

1. Are there any other impacts of the Proposed Amendments on Dealer Members marketplaces or investors that we have not identified above?
2. Please provide comments that relate to the efforts, cost and time needed to implement the Proposed Amendments.
3. Should we consider a phased-in implementation approach? If so, how?
4. Please provide comments on any other potential approach that you believe would achieve the same regulatory benefits with less impact on stakeholders.
5. Would encrypting client identifiers address confidentiality and privacy concerns when trading on a marketplace? Are there other methods that would better ensure confidentiality of client information?
6. Should encryption also be required for account designations for orders sent using DEA, under an RA or through an OEO platform? Would treating this information as private data be sufficient? If treated as private data, this information would not be publicly disclosed but would be visible to marketplaces.
7. Which FIX fields or tags would be easiest in terms of implementation for Dealer Members and marketplaces for:
 - a. Client identifier
 - b. Unique identifier (subfield) for certain end-clients of a foreign dealer equivalent
 - c. Designations for orders sent using DEA, under an RA or through an OEO platform.

For example, FIX fields that may be considered to capture the information above may include:

- Tag 553 (Username or UserID)
- Tag 452 (PartyRole)
- Tag 448 (PartyID).

What other FIX fields or tags should we consider?

8. The proposal is intended to require all Dealer Members, including those that are not Participants, to ensure all clients have an appropriate client identifier and that non-Participant dealers pass on the correct client identifier to their executing dealers. Is this expectation sufficiently clear in the proposal? If not, what additional changes are necessary?



5. Policy Development Process

5.1 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
- assist in detecting and reviewing potential fraudulent and manipulative acts and practices
- promote the protection of investors.

5.2 Regulatory Process

The Board of Directors of IIROC (**Board**) has approved the publication of the Proposed Amendments for public comment.

The Market Rules Advisory Committee (**MRAC**) considered this matter as proposed in concept by IIROC staff. MRAC is an advisory committee comprised of representatives of each of: the marketplaces for which IIROC acts as a regulation services provider, Participants, institutional investors and subscribers, and the legal and compliance community.³⁵

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the CSA, we will re-submit the proposed amendments to the Board for approval for republication for an additional comment period.

6. Appendices

Appendix A – Text of DMR/UMIR Proposed Amendments

Appendix B – Blackline of DMR/UMIR Proposed Amendments

³⁵ Consideration by MRAC should not be construed as approval or endorsement of the Proposed Amendments. Members of MRAC are expected to provide their personal advice on topics and that advice may not represent the views of their respective organizations as expressed during the public comment process.



Appendix A – Proposed DMR / UMIR Amendments

The Universal Market Integrity Rules are hereby amended as follows:

1. Section 1.1 is amended by:
 - a. adding the following definition of “Legal Entity Identifier”:
“**Legal Entity Identifier**” or “**LEI**” means a unique identification code assigned to a counterparty in accordance with the standards set by the Global Legal Entity Identifier System.
 - b. adding the following definition of “Global Legal Entity Identifier System”:
“**Global Legal Entity Identifier System**” means the system for unique identification of parties to financial transactions developed by the Legal Entity Identifier System Regulatory Oversight Committee.
 - c. adding the following definition of “Legal Entity Identifier System Regulatory Oversight Committee”:
“**Legal Entity Identifier System Regulatory Oversight Committee**” means the international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the Global Legal Entity Identifier System dated November 5, 2012.
2. Paragraph 6.2(1)(a) is amended by:
 - a. replacing subparagraph (iv) with the following:
“(iv) the client for or on behalf of whom the order is entered, in the form and manner that is acceptable to the Market Regulator, and”
 - b. replacing subparagraph (v) with the following:
“(v) the client of a foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement, where such client order is automatically generated on a predetermined basis by that client, and in the form and manner acceptable to the Market Regulator; and”
 - c. repealing subparagraph (vi).
3. Paragraph 6.2(1)(b) is amended by:
 - a. Deleting “or” at the end of subparagraph (xv)



- b. Replacing “(xvi)” in subparagraph (xvi) with “(xix)”
- c. Adding the following after subparagraph (xv):
 - “(xvi) for the account of a client where the order is sent using direct electronic access,
 - (xvii) for the account of a client where the order is sent under a routing arrangement,
 - (xviii) for the account of a client using the order-execution only service of a Dealer Member as defined in Dealer Member Rule 3200, or”.

The Dealer Member Rules are hereby amended as follows:

- 1. Section 5 of Part A of Rule 3200 is amended by:
 - a. deleting the word “Certain” in the title of section 5
 - b. replacing subsection (a) with the following:
 - “(a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider includes a client identifier in the form and manner acceptable to the Market Regulator.”
 - c. repealing subsection (b)
 - d. repealing subsection (c).
- 2. Section 6 of Part B of Rule 3200 is amended by:
 - a. deleting the word “Certain” in the title of section 6
 - b. replacing subsection (a) with the following:
 - “(a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider includes a client identifier assigned in the form and manner acceptable to the Market Regulator.”
 - c. repealing subsection (b)
 - d. repealing subsection (c).
- 3. Section 1 of Rule 2800C is amended by:



- a. Deleting the following at the end of subsection 1.5:
“If the Global Legal Entity Identifier System is unavailable to a reporting counterparty when a reporting obligation under this Rule arises, a substitute legal identifier must be used as identified by the Corporation.”

4. Paragraph (c) of subsection 2.4 of Rule 2800C is amended by:

- a. Replacing rows 14 and 15 with the following:

No.	Data	Description
14.	CUSTOMER LEI	The LEI assigned to the client/customer, where the client/customer is eligible to obtain an LEI.
15.	CUSTOMER ACCOUNT IDENTIFIER	The account number of the customer where the counterparty is 'Client' and no Customer LEI is available.



Appendix B – Text of UMIR/DMR to Reflect Proposed UMIR/DMR Amendments Respecting Customer Identifiers

<p>1.1 Definitions</p> <p>...</p> <p><u>“Legal Entity Identifier” or “LEI” means a unique identification code assigned to a counterparty in accordance with standards set by the Global Legal Entity Identifier System.</u></p>	<p>1.1 Definitions</p> <p>...</p> <p>“Legal Entity Identifier” or “LEI” means a unique identification code assigned to a counterparty in accordance with the standards set by the Global Legal Entity Identifier System.</p>
<p><u>“Global Legal Entity Identifier System” means the system for unique identification of parties to financial transactions developed by the Legal Entity Identifier System Regulatory Oversight Committee.</u></p>	<p>“Global Legal Entity Identifier System” means the system for unique identification of parties to financial transactions developed by the Legal Entity Identifier System Regulatory Oversight Committee.</p>
<p><u>“Legal Entity Identifier System Regulatory Oversight Committee” means the international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the Global Legal Entity Identifier System dated November 5, 2012.</u></p>	<p>“Legal Entity Identifier System Regulatory Oversight Committee” means the international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the Global Legal Entity Identifier System dated November 5, 2012.</p>



<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p>(a) the identifier of:</p> <ul style="list-style-type: none">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,(iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,(v) the client for or on behalf of whom the order is entered under direct electronic access, and(vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and(iv) the client for or on behalf of whom the order is entered, in the form and manner that is acceptable to the Market Regulator, and(v) the client of a foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement, where such client order is automatically generated on a predetermined basis by that client, and in the form and manner acceptable to the Market Regulator; and	<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p>(a) the identifier of:</p> <ul style="list-style-type: none">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,(iv) the client for or on behalf of whom the order is entered, in the form and manner that is acceptable to the Market Regulator, and(v) the client of a foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement, where such client order is automatically generated on a predetermined basis by that client, and in the form and manner acceptable to the Market Regulator; and
<p>(b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <p>...</p> <ul style="list-style-type: none">(xv) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order, <p>or</p> <ul style="list-style-type: none">(xvi) for the account of a client where the order is sent using direct electronic access,(xvii) for the account of a client where the order is sent under a routing arrangement,(xviii) for the account of a client using the order-execution only service of a Dealer Member as defined in Dealer Member Rule 3200, or(xvi) (xix) of a type for which the Market Regulator may from time to time require a specific or particular designation.	<p>(b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <p>...</p> <ul style="list-style-type: none">(xv) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order,(xvi) for the account of a client where the order is sent using direct electronic access,(xvii) for the account of a client where the order is sent under a routing arrangement, or(xviii) for the account of a client using the order-execution only service of a Dealer Member as defined in Dealer Member Rule 3200, or(xix) of a type for which the Market Regulator may from time to time require a specific or particular designation.



**RULE 3200
MINIMUM REQUIREMENTS FOR DEALER MEMBERS
SEEKING APPROVAL UNDER RULE 1300.1(T) TO
OFFER AN ORDER-EXECUTION ONLY SERVICE**

A. Minimum requirements for Dealer Members offering solely an order-execution only service, either as the Dealer Member's only business or through a separate business unit of the Dealer Member

...

4. Supervision

...

5. Identification of **Certain Clients**

~~(a) The Dealer Member must ensure that a client identifier is assigned to each client that trades on a Marketplace for which the Corporation is the regulation services provider:~~

~~(a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month;~~

~~(b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation; or~~

~~(c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.~~

~~(b) The Dealer Member must provide each client identifier assigned pursuant to Rule A.5(a) and the name of the corresponding client to the Corporation. (c)~~

~~(a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider must be assigned pursuant to Rule A.5(a) includes a client identifier in the form and manner acceptable to the Market Regulator contain the client identifier assigned to that client.~~

6. Systems and Books and Records

...

**RULE 3200
MINIMUM REQUIREMENTS FOR DEALER MEMBERS
SEEKING APPROVAL UNDER RULE 1300.1(T) TO
OFFER AN ORDER-EXECUTION ONLY SERVICE**

A. Minimum requirements for Dealer Members offering solely an order-execution only service, either as the Dealer Member's only business or through a separate business unit of the Dealer Member

...

4. Supervision

...

5. Identification of Clients

(a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider includes a client identifier in the form and manner acceptable to the Market Regulator.

6. Systems and Books and Records

...



<p>B. Minimum requirements for Dealer Members offering both an advisory and an order-execution only service</p> <p>...</p> <p>5. Supervision...</p> <p>6. Identification of <u>Certain</u> Clients</p> <p>(a) The Dealer Member must ensure that a client identifier is assigned to each order-execution only service client that trades on a Marketplace for which the Corporation is the regulation services provider:</p> <p>(a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,</p> <p>(b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</p> <p>(c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.</p> <p>(b) The Dealer Member must provide to the Corporation each client identifier assigned in the form and manner acceptable to the Market Regulator pursuant to Rule B.6(a) and the name of the corresponding client to the Corporation.</p> <p>(e) (a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned includes a client identifier in the form and manner acceptable to the Market Regulator pursuant to Rule B.6(a) contain the client identifier assigned to that client.</p> <p>7. Systems and Books and Records</p> <p>...</p>	<p>B. Minimum requirements for Dealer Members offering both an advisory and an order-execution only service</p> <p>...</p> <p>5. Supervision...</p> <p>6. Identification of Clients</p> <p>(a) The Dealer Member must ensure that each client order to be entered on a Marketplace for which the Corporation is the regulation services provider includes a client identifier in the form and manner acceptable to the Market Regulator.</p> <p>7. Systems and Books and Records</p> <p>...</p>
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<p>RULE 2800C TRANSACTION REPORTING FOR DEBT SECURITIES</p> <p>...</p> <p>1. Definitions</p> <p>For purposes of Rule 2800C, the terms below have the meanings noted.</p> <p>...</p> <p>1.5 “Legal Entity Identifier” or “LEI” means a unique identification code assigned to a counterparty in accordance with standards set by the Global Legal Entity Identifier System. If the Global Legal Entity Identifier System is unavailable to a reporting counterparty when a reporting obligation under this Rule arises, a substitute legal identifier must be used as identified by the Corporation.</p>	<p>RULE 2800C TRANSACTION REPORTING FOR DEBT SECURITIES</p> <p>...</p> <p>1. Definitions</p> <p>For purposes of Rule 2800C, the terms below have the meanings noted.</p> <p>...</p> <p>1.5 “Legal Entity Identifier” or “LEI” means a unique identification code assigned to a counterparty in accordance with standards set by the Global Legal Entity Identifier System.</p>																								
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