



notice



ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Please distribute internally to:
Senior Management
Legal & Compliance
Operations
Trading Desk

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MR0428

October 24, 2006

**Joint Notice of the Staff of the Canadian Securities
Administrators, Market Regulation Services Inc., Bourse de
Montréal Inc., and the Investment Dealers Association**

**Status of the Transaction Reporting and Electronic Audit Trail
System (TREATS)**

A. Introduction

The electronic audit trail initiative is a project initiated and managed by the Canadian Securities Administrators (CSA) with the participation of Market Regulation Services Inc., the Bourse de Montréal Inc., and the Investment Dealers Association of Canada (together, the Regulators) to investigate, design and implement a solution to facilitate compliance with Canadian securities audit trail requirements introduced in National Instrument 23-101 *Trading Rules* (NI 23-101).

The purpose of this notice is to provide an update on the status of the TREATS project since the last notice on the subject was published in March 2006¹ (the March 2006 Notice).

B. Update on Activities Since the March 2006 Notice

Since the March 2006 Notice, the CSA published a notice regarding proposed amendments to NI 23-101 and Companion Policy 23-101CP² in July 2006 that has the

¹ Member Regulation Notice MR0391, March 17, 2006

² The notice relating to the proposed amendments was published on July 14, 2006 in English in the Ontario Securities Commission Bulletin at (2006) 29 OSCB 5735 and in English and French at Bulletin de l'Autorité des marchés financiers Vol. 3, no 28.

intended effect, among other things, of extending the deadline for the implementation of an electronic audit trail by dealers and inter-dealer bond brokers until January 1, 2010.

A Request for Proposals (RFP) was also issued³ to solicit firm proposals from suppliers to address the business and technical requirements for the TREATS solution, and to provide information that would help the Regulators in their selection process and the decision to move forward with the TREATS initiative.

Work has been completed on the data modeling for equities to outline the requirements for equity securities, and provide dealers and marketplaces with a resource for understanding their responsibilities to comply with the audit trail requirements stated in the NI 23-101. The Regulators had consulted with industry participants regarding these data modeling efforts directly and through the TREATS Discussion Forum at <http://treats.zeroforum.com>.⁴

As a result of the work to date concerning data modeling, the results of the RFP, and the consultations with the Industry Working Group⁵, the Regulators have identified additional issues that require further detailed examination. These issues include consideration of the current models that exist in other jurisdictions, a review of which aspects create the most benefits, as well as the completion of the data modeling and a Cost Benefit Analysis. We expect that this additional work, which will conclude with the completion of a Cost Benefit Analysis, will be completed by December 2007. The Regulators have commenced work on a Benefits Analysis with the assistance of external consultants.

C. Communications to Participants

The Regulators will endeavour to provide details and information on an ongoing basis to ensure that industry participants clearly understand the implications of this initiative and are able to suitably plan and prepare for the changes that will result. We will continue to publish notices as key information arises.

If there are any questions at this stage, please contact:

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³ The RFP can be found at Market Regulation / Special Projects / TREATS on the OSC web site.

⁴ To gain access to the TREATS Discussion Forum, please complete the online registration process at <http://treats.zeroforum.com/zerouser?cmd=register>.

⁵ The Industry Working Group is comprised of certain industry participants and service providers from the Industry Advisory Group who had indicated a willingness to be directly involved in the project.

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