

New Self-Regulatory Organization of Canada

Proposed Amendments to Facilitate the Investment Industry's Move to T+1 Settlement

Clean copy of Proposed Amendments

A clean copy of the Proposed Amendments to Universal Market Integrity Rules (UMIR) and the Investment Dealer and Partially Consolidated Rules (IDPC Rules) follows:

Proposed Amendment #1 – UMIR 1.1 the definition for “Special Terms Order” is amended as follows:

PART 1 – DEFINITIONS AND INTERPRETATION

1.1 Definitions

“**Special Terms Order**” means an order for the purchase or sale of a security:

- (a) for less than a standard trading unit;
- (b) the execution of which is subject to a condition other than as:
 - (i) to price,
 - (ii) to the date of settlement; or
 - (iii) imposed by the marketplace on which the order is entered as a condition for the entry or execution of the order; or
- (c) that on execution would be settled on a date other than:
 - (i) the first business day following the date of the trade, or
 - (ii) any settlement date specified in a special rule or direction referred to in subsection (2) of Rule 6.1 that is issued by an Exchange or a QTRS,

but does not include an order that is a Basis Order, Call Market Order, Closing Price Order, Market-on-Close Order, Opening Order or Volume-Weighted Average Price Order.

Proposed Amendment #2 – IDPC Rule subclause 3816(2)(iv)(g) is amended as follows:

3816. Trade confirmations

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- (2) The written confirmation must contain, at a minimum, the day and the marketplace or marketplaces where the trade took place, or marketplace disclosure language acceptable to the *Corporation*; the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade; the name of the salesperson, if any, involved in the transaction; the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, the settlement date of the trade:

and

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(iv) in the case of trades in mortgage-backed securities, and subject to the proviso below:

- (a) the original principal amount of the trade,
- (b) the description of the security (including interest rate and maturity date),
- (c) the remaining principal amount (RPA) factor,
- (d) the purchase/sale price per \$100 of original principal amount,
- (e) the accrued interest,
- (f) the total settlement amount, and
- (g) the settlement date,

provided that in the case of trades entered into from the first *business day* of the month to the fourth *business day* of the month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in sub-clauses 3816(2)(iv)(a), 3816(2)(iv)(b), 3816(2)(iv)(d) and 3816(2)(iv)(g) and indicating that the information in sub-clauses 3816(2)(iv)(c), 3816(2)(iv)(e) and 3816(2)(iv)(f) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the security is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required in subsection 3816(2),

Proposed Amendment #3 – IDPC Rule paragraph 3816(2)(x)(b)(VI) is amended as follows:

(x) notwithstanding the provisions of this section 3816, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of a trade:

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(b) In delivery against payment and receipt against payment trade accounts, provided that:

- (I) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *Corporation requirements* or *securities laws*,
- (II) the *Dealer Member* maintains an electronic audit trail of the trade under *Corporation requirements* or *securities laws*,
- (III) prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*,
- (IV) the client is either:

- (A) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or
- (B) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,
- (V) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3816,
- (VI) for broker-to-broker trade matching, the *Dealer Member* has a quarterly compliant trade percentage calculated using the methodology in section 4756 of greater than or equal to 85% for at least two of the last four quarters, and
- (VII) for institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their trade confirmation waiver, referred to in sub-clause 3816(2)(x)(b), by providing a written notice confirming this fact to the *Dealer Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

Proposed Amendment #4 – IDPC Rule section 4756 is amended as follows:

4756. Trade matching quarterly compliant trade percentage

- (1) The quarterly compliant trade percentage for a *Dealer Member* is determined by dividing the sum of the quarter's compliant trades (which does not include "don't know" trades) by the total number of *non-exchange trades* that are executed during the quarter by the *Dealer Member* with other *Dealer Members*.
- (2) Where the *Dealer Member's* quarterly compliant trade percentage is less than 90% for more than two consecutive quarters, the *Corporation* may pursue disciplinary action.

Proposed Amendment #5 – IDPC Rule clause 4757(1)(iv) is amended as follows:

4757. Payment or delivery through client settlement agent

- (1) For any arrangement where the payment of securities purchased or delivery of securities sold is to be made to or through a client's settlement agent, all of the following procedures must be followed:
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 - (iv) the *Dealer Member* has obtained an agreement from the client stating that the client will:
 - (a) promptly provide its settlement agent with instructions regarding the transaction following its receipt of the transaction confirmation from the *Dealer Member*, or the

relevant date and information as to each execution from the *Dealer Member*, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and

- (b) ensure that its settlement agent affirms the transaction no later than the end of the day on the date of execution of the trade to which the confirmation relates,

Proposed Amendment #6 – IDPC Rule clause 4760(1)(i) and (ii) are amended as follows:

4760. When issued trading

- (1) Unless otherwise provided by the *Corporation* or the parties to the trade agree otherwise:
 - (i) all when issued trades made on or before the trading day before the anticipated date of issue of the security must be settled on the anticipated date of issue of such security,
 - (ii) all when issued trades made after the trading day before the anticipated date of issue of the security must be settled on the first settlement day after the trade date, and
 - (iii) if the security has not been issued on the settlement date in clause 4760(1)(i) or 4760(1)(ii), such trades must be settled on the date that the security is actually issued.

Proposed Amendment #7 – IDPC Rule subsections 4803(7) and (8) are amended as follows:

4803. Fixed income accrued interest

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- (7) For bonds or debentures that are only available in registered form, transactions made on the day of a regular interest payment and up to one *business day* before the closing of the transfer agent's books for the next interest payment, both days inclusive, will be on an "and interest" basis. The full amount of such interest payment must be deducted by the seller after the calculation of interest on the regular delivery basis, unless delivery is completed to the buyer by 12 p.m. at a transfer point on the date of the closing of the transfer agent's books for a regular interest payment.
- (8) For bonds or debentures that are only available in registered form, transactions from the day of closing of the transfer agent's books up to and including one *business day* before a regular interest payment must be "less interest" from settlement date to the regular interest payment date.

Proposed Amendment #8 – IDPC Rule subsection 4805(1) is amended as follows:

4805. Fixed income delivery

- (1) In section 4805 "regular delivery" is defined as:
 - (i) Government of Canada
 - (a) The same day as the transaction date for Government of Canada Treasury Bills.

- (b) The first *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds (except Treasury Bills) having an unexpired term to maturity of three years or less (or to the earliest call date where a transaction is completed at a premium). Any accrued interest must be stopped on the first *business day* after the transaction date.
- (c) The first *business day* after the transaction date for Government of Canada Bonds and Government of Canada Guaranteed Bonds having an unexpired term to maturity of longer than three years (where such a bond is traded at a premium the earliest call date shall be treated as the maturity date). Any accrued interest must be stopped on the first *business day* after the transaction date.
- (ii) Province of Canada
 - (a) The first *business day* after the transaction date for all provincial bonds or debentures. Any accrued interest must be stopped on the first *business day* after the transaction date.
- (iii) Other Bonds and Debentures
 - (a) The first *business day* after the transaction date for all municipal, corporation and other bonds or debentures (other than Government of Canada and Province of Canada treasury bills, bonds or debentures), and other certificates of indebtedness including mortgage-backed securities. Any accrued interest must be stopped on the first *business day* after the transaction date.

Proposed Amendment #9 – IDPC Rule subsection 4805(4) is amended as follows:

- (4) New issues delivery
 - (i) The *regular delivery* requirements are not intended to interfere in any way with the common practice of transactions between *Dealer Members* in new issues during the period of primary distribution on an "accrued interest to delivery" basis. However, the *regular delivery* requirements will come into effect on the appropriate number of *business days* prior to the new issue being first available for physical delivery.
 - (ii) Where a new issue delivery is made against payment outside of the points fixed for the initial syndicate delivery of the issue, additional accrued interest must be charged from the delivery date at the initial syndicate delivery point of the new issue, according to the length of time normally required for delivery to the locality in which the delivery is made.
 - (iii) For a mortgage-backed security transaction made during the period from the first *business day* of the month to the fourth *business day* of the month, inclusive, delivery must take place on or after the fifth *business day* of the month.

Proposed Amendment #10 – IDPC Rule subsection 4805(5) is amended as follows:

- (5) Physical Delivery
 - (i) For any transaction between *Dealer Members* where physical delivery is to be made, the seller must complete the delivery before close of business on settlement date.

- (ii) For any transaction between *Dealer Members*, the seller must complete the delivery on the buyer's terms, that is the delivery is to be made by the seller free of banking or shipping charges to the buyer.

Proposed Amendment #11 - IDPC Rule subclause 4808(2)(ii)(b) is amended as follows:

4808. Stock delivery

- (1) All trades are to be considered for *regular delivery* (defined in subsection 4808(2)), unless otherwise agreed to in writing by the parties to a transaction at the time of the transaction.
- (2) In section 4808 "regular delivery" is defined as:
 - (i) Exchange-listed shares
 - (a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.
 - (ii) Unlisted registered shares
 - (a) The settlement date generally accepted according to industry practice for the shares in the market in which the transaction occurs, including foreign jurisdictions.
 - (b) For transactions between *Dealer Members* in shares that occur on record date, the shares must be traded ex dividend, ex rights, or ex payments.
 - (c) For transactions between *Dealer Members* in shares that are not ex dividend, ex rights, or ex payments at the time the transaction occurs and delivery is not completed before twelve o'clock noon (12 p.m.) at a transfer point on the date of the closing of the transfer agent's books, the seller is responsible to the buyer for the payment of such dividends or payments, and delivery of such rights, as may be involved, on their due dates. For the purposes of this sub-clause 4808(2)(ii)(c), where the record date falls on a Saturday or other non-*business day*, the *business day* prior to the record date is to be treated as the effective record date.

Proposed Amendment #12 - IDPC Rule subsection 4808(4) is amended as follows for consistency with subsection 4805(5):

- (4) Physical Delivery
 - (i) For any transaction between *Dealer Members* where physical delivery is to be made, the seller must complete the delivery before close of business on settlement date.
 - (ii) For any transaction between *Dealer Members*, the seller must complete the delivery on the buyer's terms, that is the delivery is to be made by the seller free of banking or shipping charges to the buyer.

Proposed Amendment #13 – IDPC Rule subsection 4810(1) is amended as follows:

4810. Buy-ins

- (1) Buy-ins must be made within the times, using the notices prescribed, and according to *Corporation requirements*. For the purposes of clauses 4810(1)(i) through 4810(1)(iv) a "regular delivery transaction" is deemed to have taken place once the *Dealer Members* involved have agreed on a price.

- (i) For transactions between *Dealer Members* where the seller does not advise the buyer about the delivery by 11:30 a.m. on the second *business day* after a regular delivery transaction:
 - (a) The buyer may at his or her option buy-in the securities, where the buyer intends to buy-in the securities, the buyer must give written notice to the seller and to the *Corporation* on that day, or any subsequent *business day*, prior to 3:30 p.m., of his or her intention to buy-in for cash on the second *business day* after the original notice.
 - (b) The notice is deemed to automatically renew itself from *business day* to *business day* from 11:30 a.m. until closing until the transaction is finally completed.
 - (c) Where the buy-in is not executed on the second *business day* after the original notice, the seller has the privilege of advising the buyer each subsequent day before 11:30 a.m. of his or her ability, and intention, to make either whole or partial delivery on that day.
- (ii) Any *Dealer Member* who is bought-in may demand evidence that a bona fide transaction has taken place involving the delivery of the bought-in securities. The *Dealer Member* who is bought-in has the right, to deliver such part of his or her commitment according to clause 4810(1)(i) and must complete any such delivery to the nearest \$1,000 par value, or stock trading unit.
- (iii) The *Corporation* has the authority to postpone the execution of a buy-in from day to day, and to combine buy-ins in the same security, and to decide any dispute arising from the execution of the buy-in, and its decision is final and binding.
- (iv) When a buy-in has been completed the buyer must submit to the seller a statement of account showing:
 - (a) as credits, the amount originally contracted for as payment for the securities, and
 - (b) as debits, the amount paid on buy-in, the cost of the buyer's communication charges relative to the buy-in, and any bank or shipping charges incurred.

Where there is a credit balance remaining, the buyer must pay this amount to the seller, and where there is a debit balance remaining, the seller must pay this amount to the buyer.

Proposed Amendment #14 – IDPC Rule subsections 5560(3), 5561(4) and 5562(3) are amended as follows:

MARGIN REQUIREMENTS FOR WHEN ISSUED TRADING POSITIONS

5560. Margin for short positions

- (1) Subject to subsections 5560(2) and 5560(3), the minimum *Dealer Member inventory margin* and *client account margin* required for short positions resulting from short sales of a security traded on a when issued basis is the *normal margin required* for a short position in the security.
- (2) *Dealer Member inventory margin* shall be posted on the trade date of the short sale.
- (3) *Client account margin* shall be posted on the first settlement day after the trade date of the short sale.

5561. Margin for hedged positions

- (1) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold on a when issued basis is the *normal margin required* for a long position in the security.
- (2) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold for settlement into the regular market is the *normal margin required* for a short position in the security.
- (3) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.
- (4) *Client account margin* shall be posted on the first settlement day after the trade date of the sale.

5562. Margin for long positions

- (1) Subject to subsections 5562(2) and 5562(3), the minimum *Dealer Member inventory margin* and *client account margin* required for long positions resulting from purchases of securities *trading on a when issued basis* that have not been sold subsequently on a when issued basis is the *normal margin required* for a long position in the security.
- (2) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.
- (3) *Client account margin* shall be posted on the later of the first settlement day after the trade date of the purchase or the date of the issuance or distribution of the security.