The Ontario Securities Commission

OSC Bulletin

August 18, 2016

Volume 39, Issue 33

(2016), 39 OSCB

The Ontario Securities Commission administers the
Securities Act of Ontario (R.S.O. 1990, c. S.5) and the
Commodity Futures Act of Ontario (R.S.O. 1990, c. C.20)

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Published under the authority of the Commission by:
Thomson Reuters
One Corporate Plaza
2075 Kennedy Road
Toronto, Ontario
M1T 3V4

416-609-3800 or 1-800-387-5164

The OSC Bulletin is published weekly by Thomson Reuters Canada, under the authority of the Ontario Securities Commission.

Subscriptions to the print Bulletin are available from Thomson Reuters Canada at the price of $868 per year. The eTable of Contents is available from $148 to $155. The CD-ROM is available from $1392 to $1489 and $314 to $336 for additional disks.

Subscription prices include first class postage to Canadian addresses. Outside Canada, the following shipping costs apply on a current subscription:

440 grams	US – $5.41	Foreign – $18.50
860 grams	US – $6.61	Foreign – $10.60
1140 grams	US – $7.64	Foreign – $14.70

Single issues of the printed Bulletin are available at $20 per copy as long as supplies are available.

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ISSN 0226-9325

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1.1 Notices

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NOTICE OF MINISTERIAL APPROVAL OF
AMENDMENTS TO ONTARIO SECURITIES COMMISSION RULE 91-507
TRADE REPOSITORIES AND DERIVATIVES DATA REPORTING

August 18, 2016

Amendments to Ontario Securities Commission Rule 91-507 *Trade Repositories and Derivatives Data Reporting* (the Rule Amendments) have received Ministerial approval pursuant to section 143.3(3)(a) of the *Securities Act* (Ontario). The Rule Amendments were made by the Commission on May 12, 2016. On May 12, 2016, the Commission also adopted changes to Companion Policy 91-507CP to Ontario Securities Commission Rule 91-507 *Trade Repositories and Derivatives Data Reporting* (the Policy Changes).

The Rule Amendments and Policy Changes (collectively, the Amendments) were published in the Bulletin on May 12, 2016. See (2016) 39 OSCB 4517. The Amendments are effective July 29, 2016. The text of the Rule Amendments is reproduced in Chapter 5 of this Bulletin.

1.2 Notices of Hearing

1.2.1 Waverley Corporate Financial Services Ltd. and Donald McDonald – s. 8

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5

AND

IN THE MATTER OF
WAVERLEY CORPORATE FINANCIAL SERVICES LTD.
AND
DONALD MCDONALD

NOTICE OF HEARING
(Section 8)

TAKE NOTICE THAT the Ontario Securities Commission (the "Commission") will hold a hearing pursuant to section 8 of the *Securities Act*, RSO 1990, c S.5 (the "Act"), at the offices of the Commission at 20 Queen Street West, 17th Floor, commencing on September 12, 2016, at 10 a.m. or as soon thereafter as the hearing can be held;

AND TAKE NOTICE that the purpose of the hearing is to consider an application made by Waverley Corporate Financial Services Ltd. and Donald McDonald on July 20, 2016, for a hearing and review of a decision of a Director of the Compliance and Registrant Regulation Branch dated July 15, 2016;

AND TAKE FURTHER NOTICE that any party to the proceedings may be represented by a representative at the hearing; and

AND TAKE FURTHER NOTICE that upon failure of any party to attend at the time and place aforesaid, the hearing may proceed in the absence of that party and such party is not entitled to any further notice of the proceedings.

DATED at Toronto this 15th day of August, 2016.

"Robert Blair"
Acting Secretary to the Commission

1.5 Notices from the Office of the Secretary

1.5.1 Steven J. Martel et al.

FOR IMMEDIATE RELEASE
August 11, 2016

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED

AND

IN THE MATTER OF
STEVEN J. MARTEL,
MARTEL GROUP OF COMPANIES INC. and
8446997 CANADA INC.

TORONTO – The Commission issued an Order in the above noted matter which provides that the matter is adjourned to a pre-hearing conference on September 27, 2016 at 10:00 a.m., or such other date as may be agreed to by the parties and set by the Office of the Secretary.

The pre-hearing conference will be held *in camera*.

A copy of the Order dated August 10, 2016 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
ROBERT BLAIR
ACTING SECRETARY

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media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
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1.5.2 Scotia Capital Inc. et al.

FOR IMMEDIATE RELEASE
August 12, 2016

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5

AND

IN THE MATTER OF
SCOTIA CAPITAL INC.,
SCOTIA SECURITIES INC. AND
HOLLISWEALTH ADVISORY SERVICES INC.

TORONTO – The Commission issued its Oral Ruling and Reasons following the Settlement Hearing held in the above noted matter.

A copy of the Oral Ruling and Reasons approved by the Chair of the Panel on August 11, 2016 is available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
ROBERT BLAIR
ACTING SECRETARY

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1.5.3 Waverley Corporate Financial Services Ltd. and Donald McDonald

FOR IMMEDIATE RELEASE
August 16, 2016

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5

AND

IN THE MATTER OF
WAVERLEY CORPORATE FINANCIAL SERVICES LTD.
AND
DONALD MCDONALD

TORONTO – The Ontario Securities Commission will hold a hearing to consider the Application made by Waverley Corporate Financial Services Ltd. and Donald McDonald on July 20, 2016, for a hearing and review of a decision of a Director of the Compliance and Registrant Regulation Branch dated July 15, 2016.

The hearing will be held on September 12, 2016 at 10:00 a.m. on the 17th floor of the Commission's offices located at 20 Queen Street West, Toronto.

A copy of the Notice of Hearing dated August 15, 2016 is available at www.osc.gov.on.ca.

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

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Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – relief granted from the investment fund self-dealing restrictions in the Securities Act (Ontario) and National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations to allow pooled funds to invest in securities of underlying funds under common management – relief subject to certain conditions.

Applicable Legislative Provisions

Securities Act (Ontario) R.S.O. 1990, c. S.5, as am., ss. 111(2)(b), 111(3), 111(4), 113.
National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, ss. 13.5(2)(a), 15.1.

August 9, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
CI INVESTMENTS INC.
(the Filer)

AND

CI LIFECYCLE 2015 PORTFOLIO,
CI LIFECYCLE 2020 PORTFOLIO,
CI LIFECYCLE 2025 PORTFOLIO,
CI LIFECYCLE 2030 PORTFOLIO,
CI LIFECYCLE 2035 PORTFOLIO,
CI LIFECYCLE 2040 PORTFOLIO,
CI LIFECYCLE 2045 PORTFOLIO,
CI LIFECYCLE 2050 PORTFOLIO,
CI LIFECYCLE 2055 PORTFOLIO,
CI LIFECYCLE INCOME PORTFOLIO
(the LifeCycle Portfolios)

AND

IVARI CI CONSERVATIVE PORTFOLIO,
IVARI CI CANADIAN BALANCED PORTFOLIO,
IVARI CI BALANCED PORTFOLIO,
IVARI CI GROWTH PORTFOLIO,
IVARI CI MAXIMUM GROWTH PORTFOLIO
(the CI Portfolios and, together with the LifeCycle Portfolios, the Portfolio Pools)

AND

CI SIGNATURE CANADIAN BALANCED FUND,
CI SIGNATURE CANADIAN CORE BOND FUND,
CI SIGNATURE CANADIAN EQUITY PLUS FUND,
CI CAMBRIDGE ALL CANADIAN EQUITY FUND,
CI CAMBRIDGE US EQUITY FUND,
CI CAMBRIDGE INTERNATIONAL EQUITY FUND,
CI CAMBRIDGE GLOBAL EQUITY FUND,
CI SIGNATURE CORE BOND PLUS FUND,
CI SIGNATURE MONEY MARKET FUND,
KBSH EAFE EQUITY FUND,
CI BLACK CREEK INTERNATIONAL EQUITY POOL,
SIGNATURE CANADIAN BOND POOL,
SIGNATURE CORPORATE BOND POOL,
SIGNATURE GLOBAL INCOME & GROWTH POOL,
CI SIGNATURE LONG BOND FUND
(the Non-Portfolio Pools)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) for a decision:

(a) pursuant to section 113 of the *Securities Act* (Ontario) (the **OSA**) exempting each Portfolio Pool and Non-Portfolio Pool (together, the **Current Pooled Funds**) and each Future Pooled Fund (as defined below and, together with the Current Pooled Funds, the **Pooled Funds**), from paragraph 111(2)(b), subsection 111(3) and subsection 111(4) of the OSA (the **Related Party Relief**); and

(b) pursuant to section 15.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) exempting the Filer from paragraph 13.5(2)(a) of NI 31-103 (the **Consent Requirement Relief**),

in each case with respect to investments by the Pooled Funds in securities of the Underlying Mutual Funds (as defined below) and for a decision revoking the Prior Relief (as defined below) (collectively, the **Requested Relief**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions:

(a) the Ontario Securities Commission is the principal regulator for the application; and

(b) the Filer has provided notice that Section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon by the Filer in each of the other provinces of Canada (together with Ontario, the **Applicable Jurisdictions**).

Interpretation

Terms defined in MI 11-102 and National Instrument 14-101 *Definitions* have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is a corporation subsisting under the laws of the Province of Ontario with its head office located in Toronto, Ontario. The Filer is registered:

(a) under the securities legislation of each Applicable Jurisdiction as a portfolio manager;

(b) under the securities legislation of Ontario, Québec, and Newfoundland and Labrador as an investment fund manager;

(c) under the securities legislation of Ontario as an exempt market dealer; and

(d) under the *Commodity Futures Act* (Ontario) as a commodity trading counsel and a commodity trading manager.

First Asset Management Inc.

2. The parent company of the Manager, CI Financial Corp., acquired 100% indirect voting control of First Asset Investment Management Inc. (**FAIMI**) effective November 30, 2015.

3. FAIMI is a corporation subsisting under the laws of the Province of Ontario with its head office located in Toronto, Ontario. FAIMI is registered as an investment fund manager, a portfolio manager and an exempt market dealer under the *Securities Act* (Ontario).

4. FAIMI, or an affiliate of FAIMI, is or will be:

(a) the trustee and investment fund manager and may act as portfolio manager of one or more existing or future exchange traded mutual fund trusts; and

(b) the investment fund manager and may act as portfolio manager of one or more existing or future exchange traded mutual funds, each comprising a separate class of shares of First Asset Fund Corp., a mutual fund corporation subsisting under the laws of the Province of Ontario.

(individually an "**Underlying ETF**" and collectively, the "**Underlying ETFs**").

The Top Funds

5. Each Current Pooled Fund is, or will be, a trust formed under the laws of the Province of Ontario. Each Pooled Fund is, or will be:

(a) a "mutual fund" (as such term is defined in the OSA); and

(b) not a reporting issuer under the securities legislation of any province or territory of Canada.

6. The Filer is, or will be, the trustee and manager of each Current Pooled Fund.

7. The Filer may, in the future, become the trustee and manager of one or more trusts formed under the laws of the Province of Ontario each of which is:

(a) a "mutual fund" (as such term is defined in the OSA); and

(b) not a reporting issuer under the securities legislation of any province or territory of Canada,

(each a **Future Pooled Fund**).

8. Each Current Pooled Fund is not in default of securities legislation in any Applicable Jurisdiction.

9. Each LifeCycle Portfolio is sold exclusively to accredited investors (as defined in National Instrument 45-106 *Prospectus Exemptions* (**NI 45-106**)) other than individuals (**Institutional Investors**). Each Institutional Investor uses the units it owns of the LifeCycle Portfolios as the reference assets for investment products and services it offers to its clients. Each LifeCycle Portfolio provides a risk/return profile suitable for a specific investment horizon. To accomplish this goal, the LifeCycle Portfolio obtains exposure to a combination of fixed income and equity investments. Over time, the LifeCycle Portfolio adjusts its risk/return profile by increasing its exposure to fixed income investments (and decreases its exposure to equity investments) as the LifeCycle Portfolio approaches a pre-determined future date. This simplifies the investment process for Institutional Investors because they only need to own units of a single LifeCycle Portfolio as the reference asset for their corresponding investment product or service with an equivalent investment horizon, rather than investing directly in multiple mutual funds and periodically rebalancing such holdings to achieve the same profile.

10. Each CI Portfolio is sold exclusively to Institutional Investors. Each Institutional Investor uses the units it owns of the CI Portfolios as the reference assets for investment products and services it offers to its clients. Each CI Portfolio provides a pre-determined risk/return profile. To accomplish this goal, the CI Portfolio obtains exposure to a combination of fixed income and equity investments consistent with its risk/return profile. This simplifies the investment process for Institutional Investors because they only need to own units of a single CI Portfolio as the reference asset for their corresponding investment product or service with an equivalent risk/return profile, rather than investing directly in multiple mutual funds to achieve the same profile.

11. Units of each Non Portfolio Pool may be purchased by any investor who qualifies to purchase such units on a prospectus-exempt basis. Each Non-Portfolio Pool has its own investment objective and strategies. To achieve its investment objective, each Non-Portfolio Pool invests its assets in a combination of fixed income and equity securities, as well as securities of Underlying Mutual Funds.

The Underlying Funds

12. To achieve its investment objective, each Pooled Fund invests, or will invest some or all of its assets in securities of existing or future mutual funds managed by the Manager or an affiliate of the Manager, including (subject to obtaining the Requested Relief) the Underlying ETFs (collectively, the "**Underlying Mutual Funds**").

13. Each Underlying Mutual Fund is, or will be, either:

    (a) a trust formed under the laws of the Province of Ontario; or

    (b) one or more classes of shares of CI Corporate Class Limited, a corporation subsisting under the laws of the Province of Ontario, or one or more series of a class of shares of First Asset Fund Corp., a corporation subsisting under the laws of the Province of Ontario (in either case, an **Underlying Corporate Mutual Fund**). The name of an Underlying Corporate Mutual Fund typically includes the word "Class".

14. Each Underlying Mutual Fund is, or will be:

    (a) a "mutual fund" (as such term is defined in the OSA); and

    (b) a reporting issuer under the securities legislation of each province and territory of Canada.

    Accordingly, National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**) (in the case of Underlying Mutual Funds that are not Underlying ETFs), National Instrument 81-102 *Investment Funds* (**NI 81-102**), National Instrument 41-101 *Prospectus Contents – Non-Financial Matters* (**NI 41-101**) (in the case of Underlying Mutual Funds that are Underlying ETFs), and National Instrument 81-107 *Independent Review Committee for Investment Funds* apply to each Underlying Mutual Fund.

15. The Filer, FAIMI or another affiliate of the Filer is, or will be, the manager of each Underlying Mutual Fund.

16. Each existing Underlying Mutual Fund is not in default of securities legislation in any province or territory of Canada.

The Fund-on-Fund Structure

17. Each investment by a Pooled Fund in securities of an Underlying Mutual Fund ("**Fund-on-Fund Investing**") is, or will be, compatible with the investment objective and investment strategies of the Pooled Fund and, in the case of a Portfolio Pool, is, or will be, aligned with the risk/return profile of the Portfolio Pool.

18. On September 22, 2015, the Filer obtained related party relief and consent requirement relief (the **Prior Relief**). The Prior Relief only permits investments in Underlying Mutual Funds that are managed by the Filer, and as such, does not permit investments in Underlying Mutual Funds managed by FAIMI or an affiliate.

19. Each Underlying Mutual Fund typically holds, or will hold, investments in numerous different issuers, in some cases comprising more than 100 positions. Different Underlying Mutual Funds may use different portfolio advisers, each of which has its own investment approach. Fund-on-Fund Investing thereby provides each Pooled Fund with immediate diversification through exposure to the investment portfolios of all the Underlying Mutual Funds in which the Pooled Fund invests its assets. Each Portfolio Pool typically invests, or will invest, in 11 to 18 Underlying Mutual Funds which also provides the Portfolio Pool with diversification regarding portfolio advisers of the Underlying Mutual Funds.

20. When a Pooled Fund engages in Fund-on-Fund Investing:

    (a) there is, or will be, no duplication of management fees or incentive fees in respect of the investment by the Pooled Fund in the Underlying Mutual Funds;

    (b) there are, or will be, no sales fees or redemption fees payable by the Pooled Fund in respect of the acquisition, disposition or redemption of securities of the Underlying Mutual Funds; and

    (c) if the Underlying Mutual Fund is an Underlying ETF, the Pooled Fund may pay brokerage commissions when it purchases or sells the Underlying ETF on an exchange.

21. Each current investor in a Pooled Fund has received disclosure in writing of:

    (a) the intention of the Pooled Fund to invest in securities of Underlying Mutual Funds; and

    (b) the relationships and potential conflicts of interest between the Pooled Fund and the Underlying Mutual Funds, including that the Underlying Mutual Funds are managed by the Filer,

    the **Previous Fund-on-Fund Disclosure**.

22. Each future investor in a Pooled Fund will receive, prior to their first purchase of securities of a Pooled Fund, an offering memorandum or other written document containing the New Fund-on-Fund Information (as defined below).

23. Each Pooled Fund and Underlying Mutual Fund prepares annual audited financial statements and interim unaudited financial statements in accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**) and complies with the other requirements of NI 81-106 applicable to it.

24. Unitholders of each Pooled Fund receive, on request, a copy of such Pooled Fund's audited annual financial statements and interim unaudited financial statements. The financial statements of each Pooled Fund disclose its holdings of securities of Underlying Mutual Funds.

25. The Filer will not cause the securities of an Underlying Mutual Fund held by a Pooled Fund to be voted at any meeting of the securityholders of the Underlying Mutual Fund; provided that the Filer may arrange for the securities of the Underlying Mutual Fund held by a Pooled Fund to be voted by the unitholders of the Pooled Fund.

26. The custodian of the assets of each Pooled Fund and each Underlying Mutual Fund is, or will be, a financial institution that meets the qualifications for an investment fund custodian set out in subsection 6.2 of NI 81-102 or, for assets held outside of Canada, subsection 6.3 of NI 81-102.

27. Each Pooled Fund and its Underlying Mutual Funds have, or will have, matching valuation dates. Accordingly, each Underlying Mutual Fund is, or will be, valued no less frequently than the Pooled Funds which invest in the Underlying Mutual Fund.

28. Each Underlying Mutual Fund's securities are, or will be, redeemable no less frequently than the units of the Pooled Funds which invest in the Underlying Mutual Fund (subject, in the case of any Underlying Mutual Fund that is an Underlying ETF, to the conditions relating to redemptions set out in its prospectus).

29. No Pooled Fund purchases or holds, or will purchase or hold, securities of an Underlying Mutual Fund unless, at the time of the purchase, the Underlying Mutual Fund holds no more than 10% of its net assets in securities of other investment funds unless:

    (a) the other investment fund is a "money market fund" (as defined in NI 81-102);

    (b) the securities of the other investment fund are "index participation units" (as defined in NI 81-102); or

    (c) the Underlying Mutual Fund is a "clone fund" (as defined in NI 81-102).

30. Each Pooled Fund currently invests some or all of its assets in securities of Underlying Mutual Funds (other than Underlying ETFs). Such current investments comply with the requirements of securities legislation applicable to the Pooled Funds and the Filer except to the extent of any previously granted relief.

31. The aggregate amount invested from time to time in an Underlying Mutual Fund by a Pooled Fund and other related investment funds exceeds 20% of the outstanding voting securities of the Underlying Mutual Fund. As a result, each

Pooled Fund, either alone or together with other related investment funds, is a substantial security holder of an Underlying Mutual Fund. Absent the Related Party Relief:

(a) paragraph 111(2)(b) of the OSA prohibits each Pooled Fund from using Fund-on-Fund Investing where it is a substantial security holder of the Underlying Mutual Fund; and

(b) subsections 111(3) and 111(4) of the OSA requires each Pooled Fund to dispose of such investments.

32. Certain directors and/or officers of CI Corporate Class Limited or First Asset Fund Corp. are or may, from time to time, be responsible persons (as such term is defined in NI 31-103) of a Pooled Fund. Absent the Consent Requirement Relief, paragraph 13.5(2)(a) of NI 31-103 prohibits the Filer from causing a Pooled Fund to invest in securities of an Underlying Corporate Mutual Fund in such circumstances.

33. By using Fund-on-Fund Investing, each Pooled Fund can obtain immediate, diversified exposure to the investment portfolios of all the Underlying Mutual Funds in which the Pooled Fund invests a portion of its assets. A single investment using Fund-on-Fund Investing provides a Pooled Fund with exposure to the numerous investments held by an Underlying Mutual Fund. In the case of a Portfolio Pool, Fund-on-Fund Investing provides the Portfolio Pool with exposure as many as 300 investments and potentially over 1,000 investments held by its Underlying Mutual Funds. The resulting diversification of investment exposure could not be replicated by a Pooled Fund investing directly in securities rather than using Fund-on-Fund Investing. Further, the Pooled Funds may use Fund-on-Fund Investing to obtain diversification regarding portfolio advisers of the Underlying Mutual Funds, which diversification could not be replicated by the Pooled Fund investing directly in securities rather than using Fund-on-Fund Investing.

34. Fund-on-Fund Investing by the Pooled Funds complies with all the requirements of section 2.5 of NI 81-102 and therefore addresses all the potential issues associated with these investments. The Requested Relief is required only because the Pooled Funds are not currently subject to the requirements of NI 81-102 and therefore cannot rely upon the exemptions contained in subsection 2.5(7) of NI 81-102.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Requested Relief sought is granted provided that:

(a) the Prior Relief is hereby revoked and replaced with the present decision;

(b) securities of the Pooled Funds are distributed in Canada solely pursuant to exemptions from the prospectus requirements in NI 45-106;

(c) each Underlying Mutual Fund is, or will be, a “mutual fund” (as such term is defined in the OSA) to which the NI 81-102 and one of NI 81-101 or NI 41-101 applies;

(d) the investment by a Pooled Fund in an Underlying Mutual Fund is, or will be, compatible with the fundamental investment objectives of the Pooled Fund;

(e) no Pooled Fund purchases or holds, or will purchase or hold, securities of an Underlying Mutual Fund unless, at the time of the purchase of securities of the Underlying Mutual Fund, the Underlying Mutual Fund holds no more than 10% of its net assets in securities of other investment funds unless:

(i) the other investment fund is a “money market fund” (as defined in NI 81-102);

(ii) the securities of the other investment fund are “index participation units” (as defined in NI 81-102) issued by an investment fund; or

(iii) the Underlying Mutual Fund is a “clone fund” (as defined in NI 81-102).

(f) no management fees or incentive fees are payable by a Pooled Fund that, to a reasonable person, would duplicate a fee payable by an Underlying Mutual Fund for the same service;

(g) no sales fees or redemption fees are payable by a Pooled Fund in relation to its purchases or redemptions of securities of an Underlying Mutual Fund other than brokerage fees incurred for the purchase and sale of Underlying Mutual Funds that are exchange traded funds;

(h) the Filer, or its affiliate, does not cause the securities of the Underlying Mutual Fund held by a Pooled Fund to be voted at any meeting of holders of such securities, except that the Filer, or its affiliate, may arrange for the securities the Pooled Fund holds of the Underlying Mutual Fund to be voted by the beneficial holders of securities of the Pooled Fund; and

(i) prior to making their first investment in a Pooled Fund, each investor will be provided with an offering memorandum or, if no offering memorandum is prepared, another written document that discloses the following (the **New Fund-on-Fund Information**):

(i) that the Pool Fund may purchase securities of the Underlying Mutual Funds;

(ii) the fact that the Filer or an affiliate of the Filer is the investment fund manager of both the Pooled Fund and the Underlying Mutual Funds;

(iii) the approximate or maximum percentage of net assets of the Pooled Fund that the Pooled Fund intends to invest in securities of the Underlying Mutual Funds;

(iv) the process or criteria used to select the Underlying Mutual Funds;

(v) where the Pooled Fund indirectly bears any fees (including performance-based fees) or expenses incurred by an Underlying Mutual Fund, a description of such fees and expenses; and

(vi) that they are entitled to receive from the Filer, or its affiliates, on request and free of charge, a copy of:

(A) the Fund Facts, ETF Summary Document or ETF Facts, if available;

(B) the annual or semi-annual financial statements;

(C) the management report of fund performance (MRFP); and

(D) any other continuous disclosure documents that the Underlying Mutual Funds may make available to its investors;

relating to all Underlying Mutual Funds in which the Pooled Fund may invest its assets.

The Related Party Relief:

"Garnet W. Fenn"
Commissioner
Ontario Securities Commission

"Judith Robertson"
Commissioner
Ontario Securities Commission

The Consent Requirement Relief:

"Darren McKall"
Manager, Investment Funds and Structured Products
Ontario Securities Commission

2.1.2 City National Bank

Headnote

National Policy 11-203 Process for Exemptive Relief Applications in Multiple Jurisdictions – Exemptions from applicable registration and prospectus requirements provided to permit U.S. bank to offer U.S. dollar deposit accounts and services to Canadian residents, including those Canadian residents that have been referred or introduced by a related Canadian bank.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 74(1), 25, 53.

TRANSLATION

July 20, 2016

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
QUÉBEC AND ONTARIO
(the "Jurisdictions")

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
CITY NATIONAL BANK
(the "Filer")

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the "**Decision Maker**") has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the "**Legislation**") for an exemption for the Filer from the Registration Requirement and the Prospectus Requirement in respect of the deposit-taking activities of the Filer with Canadian residents (the "**Exemptive Relief Requested**").

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

(a) the *Autorité des marchés financiers* is the principal regulator for this application,

(b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 – *Passport System* ("**MI 11-102**") is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Yukon, the Northwest Territories and Nunavut (the "**Other Jurisdictions**"), and

(c) the decision is the decision of the principal regulator and evidences the decision of the Ontario Securities Commission.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

In this decision, the following additional terms have the following meanings:

"Act" means the *Securities Act* (Québec);

"Bank Act" means the *Bank Act* (Canada);

"City National" means City National Bank;

"FDIC" means the United States Federal Deposit Insurance Corporation;

"FRB" means the United States Federal Reserve Board;

"OCC" means the United States Office of the Comptroller of Currency;

"OSA" means the *Securities Act* (Ontario);

"OSFI" means the Office of the Superintendent of Financial Institutions;

"RBC" means Royal Bank of Canada; and

"US Deposit Accounts" means the United States dollar deposit-taking chequing and savings accounts issued by City National.

Representations

This decision is based on the following facts represented by the Filers:

1. RBC is a Schedule I Bank under the *Bank Act* and is subject to extensive governance expectations and regulatory oversight of, in particular, the OSFI.

2. City National is a United States national banking association chartered by the OCC under the United States *National Bank Act* and an indirect wholly-owned subsidiary of RBC. City National was indirectly acquired by RBC on November 2, 2015 as a result of the merger of City National Corporation, the parent holding company of City National, with and into RBC USA Holdco, a wholly-owned U.S. bank holding company subsidiary of RBC, with RBC USA Holdco being the surviving corporation.

3. City National carries on the business of banking in the United States. It offers a full complement of banking, trust and investment services through 75 offices, including 16 full-service regional centers, in Southern California, the San Francisco Bay Area, Nevada, New York City, Nashville and Atlanta. City National's business includes the offering and/or maintenance of US Deposit Accounts services to a small number (approximately 248 as of October 2015) Canadian residents, including Québec and Ontario residents (the "**Canadian Customers**").

4. The primary federal regulator of City National is the OCC. City National is also a member of the US Federal Reserve System and is subject to the regulatory oversight of, *inter alia*, the FRB. Each of the OCC and the FRB is a regulatory authority created under the federal laws of the United States.

5. City National is subject to continual, ongoing bank supervision, examination and audits by the OCC. City National must file periodic reports with the OCC and the FRB concerning its activities and financial condition. In addition, City National must obtain regulatory approvals from the OCC prior to entering into certain transactions, such as mergers with, or acquisitions of, other financial institutions. The OCC has been granted extensive discretionary authority under the laws of the United States to assist it with the fulfillment of its supervisory and enforcement obligations. It exercises this authority for the purpose of conducting periodic examinations of City National's compliance with various regulatory requirements, including minimum capital and consumer disclosure requirements, and to establish policies respecting the classification of assets and the establishment of loan loss reserves for regulatory purposes.

6. As a result, City National is subject to a comprehensive scheme of regulation and supervision in the United States which the Filer believes is comparable to the regulatory framework governing Schedule I and Schedule II banks pursuant to the Bank Act and the supervisory responsibilities of OSFI.

7. In addition, deposits held by City National are insured by the FDIC under the United States *Federal Deposit Insurance Act*, as amended, and the regulations promulgated thereunder, for up to US$250,000 at this time per depositor (deposits owned by the same depositor may be combined for purposes of calculating this limit). City National and other United States federally insured depository institutions are required to pay premiums for this deposit insurance. The FDIC deposit insurance is guaranteed by the United States Treasury Department.

8. It is contemplated that the US Deposit Accounts may in the future be marketed in Canada by RBC to RBC's Canadian Customers. It is currently anticipated that any such marketing activities would consist of the delivery of information regarding City National deposit account services to select Canadian Customers and referring those Canadian Customers to City National's U.S. based sales team.

9. In addition, RBC employees may in the future, to the extent permitted by the *Bank Act*, engage from time to time, in certain clerical steps to facilitate the opening of the US Deposit Accounts in the United States by Canadian Customers. It is currently anticipated that these clerical steps would be operational and administrative in nature and would include, for example, providing account documentation to Canadian Customers who wish to open a US Deposit Account and providing information relating to such Canadian Customer to City National to facilitate a discussion between City National and the Canadian Customer.

10. To the extent permitted by the *Bank Act*, RBC may also in the future, engage in additional referral activities and may take a more proactive role in City National's relationship with its customers ("**Referral Arrangements**"). Any compensation received by RBC or paid by RBC to its employees in connection with such Referral Arrangements would be in accordance with RBC's bank policies and practices and would be disclosed to the Canadian Customer (including the Referral Arrangement and the method of calculating any fees arising from such Referral Arrangement) prior to the opening of a US Deposit Account.

11. The offering of the US Deposit Accounts by City National to Canadian Customers constitutes a distribution of securities as a result of City National's unique status under the *Bank Act*, and the meanings attributable to the terms "security" and "dealer" under the legislation, and the corresponding provisions of the applicable legislation in the Other Jurisdictions. As a result, City National is subject to the Prospectus Requirement and the Registration Requirement.

12. Although City National is an indirect subsidiary of RBC and is engaged in the business of banking in the United States, it is not a Schedule I, Schedule II or Schedule III bank for purposes of the *Bank Act*. As a result, Canadian bank exemptions under the Act and the OSA are not available to the Filer in these circumstances.

13. The US Deposit Accounts are, and will be, issued in compliance with applicable US law, including applicable anti-money laundering and consumer protection legislation.

14. The US Deposit Accounts are, and will be, insured by FDIC for up to the maximum applicable FDIC deposit coverage amount.

15. The US Deposit Accounts offered to Canadian Customers would not contravene any Canadian federal or provincial deposit-taking legislation or any provision of the *Bank Act*.

16. The US Deposit Accounts that are offered to Canadian Customers would be subject to the same regulation and oversight by the OCC and FRB as US Deposit Accounts that would be offered to residents of the United States.

17. Other than in compliance with Canadian securities laws, City National will not trade in any securities other than US Deposit Accounts with or on behalf of persons or companies who are resident in Canada.

18. Except for the inadvertent activities described in paragraph 3, the Filer is not in default of securities legislation in the Jurisdictions or any of the Other Jurisdictions.

Decision

Each of the Decision Makers is satisfied that the exemptive relief application meets the test set out in the Legislation for the Decision Makers to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemptive Relief Requested is granted provided that:

a) RBC continues to be subject to regulation, examination and supervision by the OSFI;

b) City National continues to be subject to regulation, examination and supervision by the OCC and/or the FRB;

c) the US Deposit Accounts are insured by the FDIC up to the applicable coverage limits under the FDIC rules, regardless of the residence or citizenship of the holder of a US Deposit Account;

d) the details of the FDIC insurance coverage in respect of the US Deposit Accounts are disclosed to each prospective holder of a US Deposit Account prior to the opening of the US Deposit Account; and

e) prior to the opening of the US Deposit Account or the making of an initial deposit therein, City National or RBC would inform the Canadian Customer of any Referral Arrangements between City National and RBC relating to the US Deposit Account, including the method of calculating the fees received by RBC, if any, arising from such Referral Arrangement.

"Lucie J. Roy"
Senior Director, Corporate Finance

2.1.3 Canadian Imperial Bank of Commerce and the Persons and Companies Listed in Annex A – s. 5.1 of OSC Rule 48-501 Trading During Distributions, Formal Bids and Share Exchange Transactions

Headnote

Application for a decision, pursuant to section 5.1 of OSC Rule 48-501, exempting the applicants from trading restrictions imposed by section 2.2 of OSC Rule 48-501. Decision granted.

Rule Cited

Ontario Securities Commission Rule 48-501 – Trading During Distributions, Formal Bids and Share Exchange Transactions.

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, CHAPTER S.5, AS AMENDED
(the "Act")

AND

ONTARIO SECURITIES COMMISSION RULE 48-501
TRADING DURING DISTRIBUTIONS, FORMAL BIDS
AND SHARE EXCHANGE TRANSACTIONS
(the "Rule")

AND

IN THE MATTER OF
CANADIAN IMPERIAL BANK OF COMMERCE
AND THE PERSONS AND COMPANIES LISTED IN ANNEX A
(collectively, the "Applicants")

DECISION
(Section 5.1 of the Rule)

UPON the Director (as defined in the Act) having received the an application (the "**Application**") from the Applicants for a decision (or its equivalent) pursuant to Section 5.1 of the Rule, exempting Canadian Imperial Bank of Commerce (the "**Bank**"), all affiliates of the Bank (each individually, an "**Affiliate**" and collectively, the "**Affiliates**"), including the Applicants, and any person or company that is an insider of the Bank (each individually, an "**Insider**" and collectively, the "**Insiders**"), as applicable, from the trading restrictions imposed on issuer-restricted persons by section 2.2 of the Rule;

AND UPON considering the Application and the recommendation of staff of the Ontario Securities Commission (the "**Commission**");

AND UPON the Applicants having represented to the Director that:

Background of the Applicants

1. The Bank is a Schedule I bank under the *Bank Act* (Canada). The principal executive offices of the Bank and the Bank's head office are located at Commerce Court, 199 Bay Street, Toronto, Ontario, M5L 1A2. The common shares of the Bank ("**CIBC Shares**") are listed for trading on both the Toronto Stock Exchange ("**TSX**") and the New York Stock Exchange ("**NYSE**").

2. Each of the other Applicants, other than the Bank, CIBC Mellon Trust Company and CIBC Mellon Global Securities Services Company, is a director or indirect wholly-owned subsidiary of the Bank.

3. The Bank and CIBC World Markets Inc. ("**CIBC World Markets"**) effect trades in CIBC Shares for their own accounts and for the accounts of their clients, for the purpose of hedging positions (or adjusting or liquidating existing hedge positions) of the Bank, the Affiliates and of their clients. In addition, to hedge its economic exposure arising from the issuance of structured notes that it may issue from time to time and that are linked to baskets or indices that include CIBC Shares, the Bank may enter into hedging transactions in CIBC Shares at the time of the issuance of the structured notes and/or over the life of such structured notes.

4. CIBC World Markets is the designated market maker on the TSX for certain exchange-traded funds ("**ETFs**") and may also trade certain ETFs which may include CIBC Shares. The traded ETFs for which CIBC World Markets is the market maker generally consist of 10 or more securities and CIBC Shares comprise less than 10% of the value of each such ETF. These ETFs are listed solely on Canadian exchanges. In order to appropriately hedge its positions in ETFs for which CIBC World Markets acts as a market maker, CIBC World Markets may effect trades in the securities that are components of the applicable ETFs, including CIBC Shares.

5. During the restricted period (the "**Restricted Period**") these hedging and other transactions with respect to ETFs will be effected exclusively on the TSX or other exchanges or automated trading systems ("**ATSs**") in Canada, and all such transactions will be entered into in the ordinary course of business and not in the contemplation or facilitation of the Bank's proposed acquisition (the "**Proposed Acquisition**") of PrivateBancorp Inc. ("**PrivateBancorp**").

6. The Bank and certain of its Affiliates, including the Applicants indicated by a checkmark under the column "**Dealer"** in Annex A, (each individually, a "**Dealer**" and collectively, "**Dealers**") engage in discount brokerage and/or full-service brokerage activities for their clients through ordinary client facilitation and related services. The discount brokerage division engages only in unsolicited brokerage activities, while the full service brokerage division provides additional services, including discussions with clients regarding investment strategies (including with respect to CIBC Shares) and solicited and unsolicited brokerage activities. The Dealers also effect transactions in CIBC Shares for their own principal accounts in order to facilitate unsolicited client transactions. The Dealers may accomplish these activities by engaging in direct buying and selling of CIBC Shares or relaying buy and sell orders for CIBC Shares to unaffiliated third parties. These activities are conducted primarily in Canada, except that these transactions may be routed to the Bank's subsidiaries in the United States for best execution considerations.

7. The Dealers also engage in discount brokerage and full-service brokerage activities for their clients through ordinary client facilitation and related services. The Dealers may accomplish these activities by relaying buy and sell orders for CIBC Shares to CIBC World Markets or unaffiliated third parties.

8. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Asset Manager**" in Annex A (each individually, an "**Asset Manager**" and collectively, the "**Asset Managers**"), each provides advisory or sub-advisory services on a discretionary basis to clients who have granted the Asset Managers discretionary investment authority over the assets in the clients' accounts (each, a "**Managed Account**"), and who have consented, in writing, to allow the Asset Managers to exercise such discretionary investment authority to purchase CIBC Shares on behalf of the Managed Accounts.

9. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Investment Fund Manager**" in Annex A (each individually, an "**IFM**" and collectively, the "**IFMs**"), each manages investment funds that have an Independent Review Committee (an "**IRC**"), which has approved the purchase of CIBC Shares in the ordinary course (which would include the time period that would fall during the Restricted Period) in accordance with either section 6.2 of National Instrument 81-107 — *Independent Review Committee for Investment Funds* or the terms and conditions of exemptive relief that has been granted by the Commission (each, an "**Authorized CIBC Fund**").

10. The Asset Managers and the IFMs manage assets of certain mutual funds, exchange-traded funds, pooled funds, individuals and other institutional accounts (such as corporations, trusts, pension plans, foundations, not-for-profit organizations and other affiliated and third-party investment management firms) (i.e., the Managed Accounts and the Authorized CIBC Funds). As part of their ordinary investment management activities on behalf of the Managed Accounts or the Authorized CIBC Funds, the Asset Managers and the IFMs, as applicable, may buy and sell CIBC Shares for certain of the Managed Accounts or Authorized CIBC Funds. Transactions undertaken by the Asset Managers and IFMs may be routed through certain Affiliates, including the Dealers, or to unaffiliated third parties, at the direction of the applicable Asset Manager.

11. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Plan Facilitator**" in Annex A (each individually, a "**Plan Facilitator**" and collectively, the "**Plan Facilitators**"), each purchases, or causes to be purchased, CIBC Shares on a regular basis on behalf of (i) persons or companies (including persons or companies that are Insiders) who are participants in a pension, benefit, incentive, compensation or similar plan of the Bank or an Affiliate, including those plans listed in Annex B (each individually, an "**Employee Plan**" and collectively, the "**Employee Plans**"); or (ii) the Managed Accounts, Authorized CIBC Funds or Insiders that are participants in the shareholder investment plan of the Bank available in respect of CIBC shares (the **SIP**", and together with the Employee Plans, the "**Plans**").

12. The Employee Plans are a combination of pension and supplemental executive retirement benefits, equity ownership and voluntary-participation savings programmes sponsored and administered by the Bank that are available to the employees of the Bank and the Affiliates. Plan participation is either by way of designation, compulsory or, in respect of the CIBC employee share purchase plan (the "**ESPP**"), voluntary participation and contribution of earnings by a pre-

determined payroll deduction. Benefits and awards granted under the applicable Employee Plans are subject to requirements contained therein including, but not limited to, service, withdrawal restrictions, maturity and vesting restrictions. The Bank's obligation under the Employee Plans to deliver CIBC Shares is satisfied through purchases on the secondary market and by issuance from treasury.

13. The Bank operates the SIP to provide common shareholders residing in the United States with a means to receive additional CIBC Shares rather than cash dividends (the "**Stock Dividend Option**") and holders of CIBC Shares and CIBC Class A preferred shares residing in Canada with a means to receive dividends reinvested in CIBC Shares (the "**DRIP Option**") and to purchase additional CIBC common shares without paying brokerage commissions or service charges (the "**Share Purchase Option**"). The plan is only open to shareholders residing in Canada and the United States. The requirements of the SIP are satisfied either through open market share purchases of CIBC Shares by CIBC World Markets or through issuance of CIBC Shares from treasury.

14. The Plan Facilitators, from time to time, purchase, or cause to be purchased, CIBC Shares on the open market to facilitate the grant of awards or exercises pursuant to the terms of the Employee Plans or under the SIP. In respect of the Employee Plans, the Plan Facilitators make, or cause to be made, such purchases on a regular basis, depending on the applicable Employee Plan, solely to satisfy the Bank's obligation to deliver shares based on pre-determined payroll deductions of the employee or grants and exercise under the Plans. All purchases of CIBC Shares by, or on behalf of, the Plan Facilitators in connection with the Plans are in accordance with the terms and conditions of the applicable Plan.

15. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "Banking Entity" in Annex A (each individually, a "**Banking Entity**" and collectively, the "**Banking Entities**"), each provides retail and commercial banking services to its clients and engages in the marketing and sale of investment products to its clients, including funds that may hold CIBC Shares. In addition, certain of the Banking Entities provide investment advice and financial planning guidance to banking clients, and such advice and guidance may include information that would assist clients in determining whether to purchase or sell CIBC Shares. The transactions that may result from these market activities are effected on the TSX, the NYSE or other equity markets.

16. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Trustee**" and collectively, the "**Trustees**"), each acts as trustees, corporate service providers, administrators, executors or personal representatives of estates and trusts ("**Estates and Trusts**"). As part of their responsibilities, the Trustees sell CIBC Shares already held by Estates and Trusts and purchase CIBC Shares on a limited basis where permitted under applicable laws and with any required consents. Such activities are conducted in accordance with the Trustees' fiduciary duty to act in a manner that is in the best interests of the beneficiaries or grantors and to deal fairly, honestly and in good faith in doing so. The transactions that may result from these market activities may occur through the TSX, the NYSE or other equity markets.

17. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Custodian**" in Annex A (each individually, a "**Custodian**" and collectively, the "**Custodians**"), each engages in the provision of custody services, including the settlement of trades in CIBC Shares, which clients or third parties authorized by clients to operate their accounts, such as a client's investment advisor or manager, arrange to be executed with a third-party broker. In connection with such custody services, a Custodian may also perform ancillary services, such as acting as a trustee and purchasing or selling CIBC Shares upon the direction of their clients or the clients' investment advisors or managers (which may include effecting purchases or sales of shares in accordance with the trustee's fiduciary obligations). Any purchases or sales of CIBC Shares that a Custodian may engage in as a trustee are incidental to their function of providing custodial services to their clients. The Custodians do not have any discretion as to such purchases or sales and execute transactions either in accordance with their fiduciary obligations (as trustees) or upon specific directions of clients or their portfolio managers. The transactions that may result from these market activities may be effected on the TSX, the NYSE or other equity markets.

18. The Bank and certain Affiliates, including the Applicants indicated by a checkmark under the column "**Securities Lending Agent**" in Annex A (each individually, an "**SLA**" and collectively, the "**SLAs**"), each borrows and lends securities, including CIBC Shares, from and to clients as part of stock lending transactions in the ordinary course of business. In some circumstances, a client may purchase CIBC Shares from a third party in anticipation of lending them to an SLA, or a client may arrange for a third party to purchase CIBC Shares after the client has borrowed them from an SLA. In addition, certain subsidiaries of the Bank accept CIBC Shares as collateral for loans. In the event that the borrower defaults on a loan, such collateral may be foreclosed on and in some circumstances disposed of, including by selling it in the market. The transactions that may result from these market activities may be effected on the TSX, the NYSE or other equity markets.

19. The activities of the SLAs do not constitute bids for, purchases of or inducements to make bids for or purchases of CIBC Shares in the traditional sense. Nonetheless, in some circumstances (1) the activities of the SLAs could be

construed as attempts to induce a bid or purchase because a client may purchase CIBC Shares from a third party in anticipation of lending them to an SLA, or a client may arrange for a third party to purchase CIBC Shares after the client has borrowed them from an SLA; and (2) the activities of the SLAs could be construed as attempts to induce a bid or purchase because the SLA may foreclose on collateral that includes CIBC Shares and dispose of it, including by selling it in the market.

20. An Insider may purchase CIBC Shares upon the exercise of their stock options and sell CIBC Shares to fund the exercise price. The vesting schedule of the stock options is pre-determined pursuant to the terms of the applicable Employee Plan. Insiders may also request an increase in their contributions or allocations in respect of the ESPP or effect transfers of existing investments into an investment in CIBC Shares, and such activities may result in the bidding for or purchase of CIBC Shares by such Insiders.

21. An insider who is not a reporting insider of the Bank (as that term is defined in NI 55-104 (each individually, a "**Non-reporting Insider**" and collectively, the "**Non-reporting Insiders**") may, in the normal course, transact in CIBC Shares in personal investment accounts in furtherance of their personal investment objectives. Such transactions are completed on an individual basis, outside of any Employee Plans or other plans sponsored by the Bank or an Affiliate and are subject to relevant "black-out periods" and restricted periods, as applicable, under the Bank's policies and procedures respecting information barriers and personal trading.

Normal Course Issuer Bid

22. The Bank operates a normal course issuer bid ("**NCIB**") to repurchase CIBC Shares for cancellation through the TSX, the NYSE and/or through a Canadian ATS. The Bank's NCIB is in compliance with the securities laws of Canada and the United States, as well as the rules of the TSX and NYSE. These rules are in place to prevent NCIBs from abnormally influencing the market price of an issuer's shares. The Bank is subject to annual and daily share repurchase limits in respect of its NCIB. Over a 12-month period, total shares repurchased must not exceed the greater of (i) 10% of the public float and (ii) 5% of common shares issued and outstanding. The Bank strictly abides by these repurchase limits. In addition, share repurchases made by the Bank must be made at a price which is not greater than the last independent trade of a board lot. CIBC World Markets has built NCIB-specific trading algorithms to ensure that NCIB repurchases are made at a price that is not greater than the last independent trade of a board lot. During the Restricted Period, the Bank will conduct repurchases under its NCIB only in accordance with the exemptive relief requested in this Application.

Information Barriers

23. The Bank has established information barrier policies and procedures ("**Information Barriers P&P**") in accordance with OSC Policy 33-601 – *Guidelines for Policies and Procedures Concerning Inside Information* to prevent material non-public information from passing between the sales/trading areas and other areas of the Bank and the Affiliates. Accordingly, during restricted periods prior to announcements of earnings results or other material developments that have not yet become public, the Bank's traders and sales force who conduct trading activities are generally able to continue their market activities, although senior management may restrict such activities in extraordinary circumstances. The Bank will continue to maintain these policies and procedures during the distribution related to the Proposed Acquisition.

The Proposed Acquisition of PrivateBancorp

24. On June 29, 2016, the Bank, PrivateBancorp and CIBC Holdco Inc., a Delaware corporation and a direct, wholly-owned subsidiary of the Bank ("**HoldCo**"), entered into an Agreement and Plan of Merger (the "**Merger Agreement**") pursuant to which the Bank will acquire PrivateBancorp. Under the Merger Agreement, PrivateBancorp will merge with HoldCo, with HoldCo surviving the merger.

25. Headquartered in Chicago, through its subsidiary The PrivateBank and Trust Company, PrivateBancorp delivers customized business and personal financial services to middle-market companies, as well as business owners, executives, entrepreneurs and families across 34 offices in 12 states and, as of March 31, 2016, had US$17.7 billion in assets.

26. In connection with the Proposed Acquisition, subject to proration, equalizations and certain other limitations set forth in the Merger Agreement, each share of PrivateBancorp common stock (except for (x) shares of PrivateBancorp common stock owned by PrivateBancorp as treasury stock or owned by PrivateBancorp or the Bank (in each case other than shares of PrivateBancorp common stock (A) held in any employee benefit plans of PrivateBancorp or any of its subsidiaries or related trust accounts, managed accounts, mutual funds and the like, or otherwise held in a fiduciary or agency capacity or (B) held, directly or indirectly, in respect of a debt previously contracted), and (y) each issued and outstanding share of PrivateBancorp common stock the holder of which has perfected his right to dissent under

Delaware General Corporation Law and has not effectively withdrawn or lost such right as of the effective time of the Proposed Acquisition) shall be converted into the right to receive without interest, (i) 0.3657 CIBC Shares, and (ii) US$18.80 in cash.

27. The Proposed Acquisition is subject to the approval of PrivateBancorp stockholders. PrivateBancorp plans to mail the proxy statement/prospectus to its common stockholders as soon as practicable following the declaration of effectiveness of the registration statement referred to below, and the meeting of PrivateBancorp's stockholders to vote on whether to approve the Proposed Acquisition is expected to occur between 20 and 60 business days from the date of such mailing.

28. The CIBC Shares to be delivered in the Proposed Acquisition distribution will be registered under the *Securities Act of 1933*, as amended, and the rules and regulations promulgated thereunder, pursuant to a registration statement on Form F-4. An application will be made to list on the TSX and the NYSE the CIBC Shares issuable in the Proposed Acquisition and upon exercise of converted PrivateBancorp stock options and all other PrivateBancorp equity awards.

Trading Restrictions in Connection with the Proposed Acquisition

29. As a result of the pending distribution of CIBC Shares that is to be made by the Bank as consideration for PrivateBancorp's common stock (the "**Merger Distribution**"), each Applicant, each other Affiliate and each Insider will be an "issuer-restricted person" and, accordingly, will be subject to the trading restrictions that are imposed on issuer-restricted persons by section 2.2 of the Rule (the "**IRP Trading Restrictions**") during the Restricted Period.

30. The Restricted Period will begin on the date of dissemination of the proxy circular referred to above and end on the date on which the Proposed Acquisition is approved by the shareholders of PrivateBancorp or the Proposed Acquisition is terminated.

31. For greater certainty, none of the Dealers has been appointed by the Bank to be soliciting dealer or advisor in respect of obtaining security holder approval for the Proposed Acquisition, nor will any Dealer be either a related entity or acting jointly or in concert with any person or company acting in such capacity. As such, none of the Dealers will be a "dealer restricted person" as defined in the Rule.

Effects of the Trading Restrictions on the Bank, the Affiliates and the Insiders

32. In the absence of the exemption from the IRP Trading Restrictions that has been sought on behalf of the Asset Managers pursuant to the Application, an Asset Manager would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, on behalf of Managed Accounts during the Restricted Period.

33. In the absence of the exemption from the IRP Trading Restrictions that has been sought on behalf of the IFMs pursuant to the Application, an IFM would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, on behalf of Authorized CIBC Funds during the Restricted Period.

34. In the absence of the exemptions sought by the Asset Managers and the IFMs pursuant to the Application, an Asset Manager or an IFM may be precluded from discharging its fiduciary obligations to a Managed Account or to an Authorized CIBC Funds, as applicable, in accordance with their investment objectives during the Restricted Period even though CIBC Shares are a highly-liquid security.

35. In the absence of the exemption from the IRP Trading Restrictions that has been sought by the Plan Facilitators pursuant to the Application, a Plan Facilitator would be unable to continue bidding for or purchasing CIBC Shares on behalf of an Insider, a Managed Account, or an Authorized CIBC Fund, as applicable, or to attempt to induce or cause any person or company to purchase CIBC Shares, to facilitate the fulfilment of the obligations of the Bank to deliver CIBC Shares in accordance with the terms and conditions of the relevant Plan during the Restricted Period.

36. In the absence of the exemption from the IRP Trading Restrictions that has been sought by the Banking Entities, Trustees and Custodians pursuant to the Application, a Banking Entity, a Trustee or a Custodian, as the case may be, would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, in connection with providing ordinary course banking and financial services to its clients during the Restricted Period.

37. In the absence of the exemption from the IRP Trading Restrictions that has been sought by the SLAs pursuant to the Application, an SLA would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, incidental to providing ordinary course securities lending and borrowing services to its clients during the Restricted Period.

38. In the absence of the exemption from the IRP Trading Restrictions that has been sought on behalf of the Insiders pursuant to the Application, an Insider would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, in accordance with the terms and conditions of the Plans during the Restricted Period.

39. In the absence of the exemption from the IRP Trading Restrictions that has been sought on behalf of the Non-Reporting Insiders pursuant to the Application, a Non-Reporting Insider would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, for the account of such Non-Reporting Insider or an account over which such Non-Reporting Insider exercises direction or control during the Restricted Period.

40. In the absence of the exemption from the IRP Trading Restrictions that has been sought by the Dealers pursuant to the Application, a Dealer would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, for their own account or for accounts over which they exercise control or direction, for the account of the Bank, the Affiliates or the Insiders in connection with a Managed Account, an Authorized CIBC Fund, a Plan or the provision of banking and financial services in the ordinary course or incidental to provision of securities lending and borrowing services in the ordinary course, in connection with the Bank's NCIB or the provision of ordinary course market making, trading facilitation, hedging, index-related adjustments or brokerage services, as the case may be, during the Restricted Period.

41. In the absence of the exemption from the IRP Trading Restrictions that has been sought by the Bank pursuant to the Application, the Bank would be unable to continue bidding for and purchasing CIBC Shares, or to attempt to induce or cause any person or company to purchase CIBC Shares, in connection with its NCIB during the Restricted Period.

AND UPON the Director being satisfied that to do so would not be prejudicial to the public interest;

IT IS THE DECISION of the Director pursuant to section 5.1 of the Rule that for purposes of the Proposed Acquisition, the following are exempt from section 2.2 of the Rule:

(a) the bidding for or the purchasing of CIBC Shares by an Asset Manager on behalf of a Managed Account;

(b) the bidding for or the purchasing of CIBC Shares by an IFM on behalf of an Authorized CIBC Fund;

(c) the bidding for or the purchasing of CIBC Shares by a Plan Facilitator on behalf of an Insider that is a participant in an Employee Plan or a Managed Account, an Authorized CIBC Fund or an Insider that is a participant in the SIP, in each case in accordance with the terms and conditions of the relevant Plan;

(d) the bidding for or the purchasing of CIBC Shares by a Banking Entity in connection with the provision of retail and commercial banking services;

(e) the bidding for or the purchasing of CIBC Shares by a Trustee in connection with the provision of trusteeship services, corporate services, or administration, execution and personal representation of estates and trusts services;

(f) the bidding for or the purchasing of CIBC Shares by a Custodian in connection with the provision of custody services;

(g) the bidding for or the purchasing of CIBC Shares by an SLA in connection with the provision of securities lending and borrowing services;

(h) the bidding for or the purchasing of CIBC Shares by an Insider in accordance with the terms of a Plan;

(i) the bidding for or the purchasing of CIBC Shares by a Non-Reporting Insider for the account of such Non-Reporting Insider or an account over which such Non-Reporting Insider exercises direction or control;

(j) the bidding for or the purchasing of CIBC Shares by a Dealer for their own account or for accounts over which they exercise control or direction, for the account of the Bank, the Affiliates or the Insiders in connection with a Managed Account, an Authorized CIBC Fund, a Plan or the provision of banking and financial services in the

ordinary course or incidental to provision of securities lending and borrowing services in the ordinary course, in connection with the Bank's NCIB or the provision of ordinary course market making, trading facilitation, hedging, index-related adjustments or brokerage services;

(k) the bidding for or the purchasing of CIBC Shares by the Bank in connection with the Bank's NCIB; and

(l) any activities conducted by the Bank, any Affiliate or any Insider that may be considered an attempt to induce or cause any person or company to purchase CIBC Shares in furtherance of any of the activities or actions set out in Paragraphs (a) to (k) above.

DATED this 15th day of August, 2016

"Susan Greenglass"
Director, Market Regulation Branch
Ontario Securities Commission

Annex A

APPLICANTS

	Entity	Dealer	Asset Manager	Investment Fund Manager	Plan Facilitator	Banking Entity	Trustee	Custodian	Securities Lending Agent
1.	CIBC Asset Management Inc.		x	x	x				
2.	CIBC Investor Services Inc.	x				x			
3.	CIBC Securities Inc.[1]	x							
4.	CIBC Trust Corporation		x				x	x	
5.	CIBC World Markets Inc.	x			x	x			x
6.	CIBC World Markets Corp.	x			x				x
7.	AT Investment Advisers, Inc.		x	x					
8.	Atlantic Trust Company, National Association		x	x			x	x	
9.	Atlantic Trust Company of Delaware		x				x	x	
10.	CIBC World Markets plc	x				x		x	
11.	CIBC Mellon Global Securities Services Company				x			x	
12.	CIBC Mellon Trust Company			x			x		

[1] CIBC Securities Inc. is not permitted to trade in CIBC Shares (only mutual funds).

Annex B

EMPLOYEE PLANS

Country	Plan Name	Plan Type	Sponsor	Trustee
Canada	CIBC Pension Plan	Pension Plan	CIBC	CIBC Mellon
Canada	Supplemental Executive Retirement Plan	Pension Plan	CIBC	CIBC Mellon
Canada	Top-Up Retirement Plan	Pension Plan	CIBC	CIBC Mellon
Canada	Pension Plan for Employees of CIBC World Markets Inc.	Pension Plan	CIBC	CIBC Mellon
Canada	CIBC Employee Share Purchase Plan	Savings Plan	CIBC	Sun Life Financial Trust Inc.
Canada	CIBC Employee Stock Option Plan	Savings Plan	CIBC	N/A
United Kingdom	CIBC Retirement Savings Plan	Pension Plan	CIBC	Board of Trustees appointed by the Bank and member nominated.
United Kingdom	The CIBC Employee Share Purchase Plan	Savings Plan	CIBC	Capita IRG Trustees Limited
United Kingdom	CIBC Short Term Incentive Plan	Deferred Equity Plan	CIBC	N/A
United Kingdom	CIBC Annual Incentive Plan	Deferred Equity Plan	CIBC	N/A
Hong Kong / Singapore / Japan	CIBC Employee Share Purchase Plan	Savings Plan	CIBC	Sun Life Financial Trust Inc.

2.2 Orders

2.2.1 Steven J. Martel et al. – s. 127

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5

AND

IN THE MATTER OF
STEVEN J. MARTEL,
MARTEL GROUP OF COMPANIES INC. and
8446997 CANADA INC.

ORDER
(Section 127 of the Securities Act)

WHEREAS:

1. on March 29, 2016, Staff of the Ontario Securities Commission filed a Statement of Allegations seeking orders against the following Respondents: Man Camp Master Limited Partnership, Man Camp Limited Partnership #1, Man Camp Limited Partnership #2, Man Camp Limited Partnership #3, Man Camp Limited Partnership #4 (collectively, the "**MCLPs**"), Steven J. Martel ("**Martel**"), Martel Group of Companies Inc. ("**MGC**"), and 8446997 Canada Inc. ("**844 Inc.**");

2. on March 29, 2016, the Commission issued a Notice of Hearing in respect of that Statement of Allegations, setting April 15, 2016 as the hearing date;

3. on April 15, 2016, Staff and an agent for Martel attended the hearing and no one appeared on behalf of the other Respondents (*i.e.*, the MCLPs, MGC and 844 Inc.), although properly served. The Commission ordered that:

   a) by May 13, 2016, Staff shall provide disclosure to the Respondents of documents and things in the possession or control of Staff that are relevant to the hearing;

   b) this matter be adjourned to a second appearance on August 10, 2016 or to such other date as may be agreed to by the parties and set by the Office of the Secretary (the "**Second Appearance**"); and

   c) at least five (5) days before the next hearing date, Staff will provide the Respondents with their witness lists and indicate any intent to call an expert witness, including the name of the expert witness and the issue on which the expert will be giving evidence;

4. on July 22, 2016, Staff filed with the Commission:

   a) a Notice of Withdrawal withdrawing the allegations against the MCLPs; and

   b) an Amended Statement of Allegations withdrawing certain allegations against the remaining Respondents;

5. on August 10, 2016, Staff and counsel for Martel attended the Second Appearance and no one appeared on behalf of the remaining Respondents (i.e., MGC and 844 Inc.), although properly served. Staff and counsel for Martel requested the scheduling of a pre hearing conference; and

6. the Panel considered the submissions of Staff and counsel for Martel and the Commission is of the opinion that it is in the public interest to make this order;

IT IS ORDERED that:

1. the matter is adjourned to a pre-hearing conference on September 27, 2016 at 10:00 a.m., or such other date as may be agreed to by the parties and set by the Office of the Secretary.

DATED at Toronto this 10th day of August, 2016.

"D. Grant Vingoe"

2.2.2 Sceptre Ventures Inc. – s. 144

Headnote

Application by an issuer for a full revocation of a cease trade order issued by the Commission – cease trade order issued because the issuer had failed to file certain continuous disclosure materials required by Ontario securities law – defaults subsequently remedied by bringing continuous disclosure filings up-to-date – cease trade order revoked.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 127, 144.

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, CHAPTER S.5, AS AMENDED
(the Act)

AND

IN THE MATTER OF
SCEPTRE VENTURES INC.

ORDER
(Section 144)

WHEREAS the securities of Sceptre Ventures Inc. (the "**Applicant**") are subject to a cease trade order dated January 7, 2016 issued by the Director of the Ontario Securities Commission (the "**Commission**"), pursuant to paragraph 2 of subsection 127(1) and subsection 127(4.1) of the Act (the "**Ontario Cease Trade Order**"), ordering that all trading in the securities of the Applicant, whether direct or indirect, cease until the Ontario Cease Trade Order is revoked by the Director;

AND WHEREAS the Ontario Cease Trade Order was made on the basis that the Applicant was in default of certain filing requirements under Ontario securities law as described in the Ontario Cease Trade Order;

AND WHEREAS the Applicant has applied to the Commission for a full revocation of the Ontario Cease Trade Order (the "**Application**") pursuant to section 144 of the Act;

AND UPON the Applicant having represented to the Commission as follows:

1. The Applicant was incorporated under the *Business Corporations Act* (British Columbia) on February 1, 2008.

2. The head office of the Applicant is located at #1501-128 West Pender Street, Vancouver, BC, V6B 1R8.

3. The Applicant is a reporting issuer in the provinces of Ontario, Alberta and British Columbia and is not a reporting issuer or equivalent under the securities legislation of any other jurisdiction in Canada. The Applicant's principal regulator is the British Columbia Securities Commission ("**BCSC**").

4. The authorized capital of the Applicant consists of an unlimited number of common shares without par value ("**Common Shares**"). As of July 25, 2016, the Applicant has 11,795,765 Common Shares issued and outstanding. Other than the Common Shares the Applicant has no other securities, including debt securities, outstanding.

5. The Applicant was originally a Capital Pool Company as defined in Exchange policy 2.4 of the TSX Venture Exchange and listed on the TSX Venture Exchange on April 16, 2010. The Applicant did not complete its Qualifying Transaction by April 16, 2012, in accordance with the Exchange Policies and its shares were transferred to the NEX Exchange of the TSX Venture Exchange.

6. The Ontario Cease Trade Order was issued as a result of the Applicant's failure to file the following continuous disclosure materials as required by Ontario securities law:

    a) audited annual financial statements for the year ended June 30, 2015;

    b) management's discussion and analysis relating to the audited annual financial statements for the year ended June 30 2015;

c) interim financial statements for the three-month period ended September 30, 2015;

d) management's discussion and analysis relating to the interim financial statements for the three-month period ended September 30, 2015; and

e) certification of the foregoing filings as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109")

(collectively, the "**Required Filings**")

7. Subsequent to the issuance of the Ontario Cease Trade Order, the Applicant also failed to file with the Commission, within the timeframe stipulated by the applicable legislation, its interim financial statements for the periods ended December 31, 2015 and March 31, 2016, the management's discussion and analysis relating to the interim financial statements for the periods ended December 31, 2015 and March 31, 2016, as well as the certification of the foregoing filings as required by NI 52-109 (collectively, the "**Interim Filings**").

8. The Applicant is also subject to a cease trade order dated January 4, 2016 issued by the BCSC (the "**B.C. Cease Trade Order**").

9. On June 27, 2016, the Applicant filed on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") the Required Filings and the Interim Filings.

10. On July 18, 2016 the Applicant also filed on SEDAR its audited annual financial statements for the year ended June 30, 2016, the management's discussion and analysis relating to the audited annual financial statements for the year ended June 30, 2016, as well as the certification of the foregoing filings as required by NI 52-109.

11. The Applicant has concurrently applied to the BCSC for a full revocation of the B.C. Cease Trade Order.

12. The Applicant has paid all outstanding participation fees, filing fees and late fees owing to the Commission, the BCSC and the Alberta Securities Commission.

13. The Applicant's SEDAR and SEDI profiles are up to date.

14. Other than the Ontario Cease Trade Order and the B.C. Cease Trade Order, the Applicant is not in default of its continuous disclosure obligations under Ontario, Alberta or British Columbia securities laws.

15. In connection with the Application the Applicant has given the Commission a written undertaking (the "**Undertaking**") to the following effects:

a) that the Applicant will hold an annual meeting of shareholders within three months of the date on which the Ontario Cease Trade Order is revoked; and, ?

b) that the Applicant will not complete

(i) a restructuring transaction involving, directly or indirectly, an existing or proposed, material underlying business which is not located in Canada,

(ii) a reverse take-over with a reverse take-over acquirer that has direct or indirect, existing or proposed, material underlying business which is not located in Canada, or ?

(iii) a significant acquisition involving, directly or indirectly, an existing or proposed, material underlying business which is not located in Canada,

unless,

(i) the Applicant files a preliminary prospectus and a final prospectus with the Ontario Securities Commission and obtains receipts for the preliminary prospectus and the final prospectus from the Director under the *Securities Act* (Ontario),

(ii) the Applicant files or delivers with the preliminary prospectus and the final prospectus the documents required by Part 9 of National Instrument 41-101 *General Prospectus Requirements* ("**NI 41-101**") including a completed personal information form and authorization in the form set out in Appendix A

of NI 41-101 for each current and incoming director, executive officer and promoter of the Applicant, and

(iii) the preliminary prospectus and the final prospectus contain the information required by the applicable securities legislation, including the information required for a probable restructuring transaction, reverse takeover or significant acquisition (as applicable);

16. Upon the issuance of this revocation order, the Applicant will issue a news release and file a material change report on SEDAR to announce the revocation of the Ontario Cease Trade Order, which news release will also disclose a description of the aforementioned Undertaking.

AND UPON considering the Application and the recommendation of the staff of the Commission;

AND UPON the Director being satisfied that it would not be prejudicial to the public interest to revoke the Ontario Cease Trade Order;

IT IS ORDERED, pursuant to section 144 of the Act, that the Ontario Cease Trade Order is hereby revoked.

DATED at Toronto, Ontario on this 12th day of August, 2016.

"Winnie Sanjoto"
Manager, Corporate Finance
Ontario Securities Commission

Chapter 3

Reasons: Decisions, Orders and Rulings

3.1 OSC Decisions

3.1.1 Scotia Capital Inc. et al. – ss. 127(1), 127(2)

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5

AND

IN THE MATTER OF
SCOTIA CAPITAL INC.,
SCOTIA SECURITIES INC. AND
HOLLISWEALTH ADVISORY SERVICES INC.

ORAL RULING AND REASONS
(Subsections 127(1) and 127(2) of the Securities Act)

Hearing:	July 29, 2016		
Oral Ruling:	July 29, 2016, approved by the Chair of the Panel on August 11, 2016		
Panel:	Timothy Moseley	–	Commissioner and Chair of the Panel
	Monica Kowal	–	Vice-Chair
	William J. Furlong	–	Commissioner
Appearances:	Yvonne B. Chisholm Michelle Vaillancourt	–	For Staff of the Commission
	James Douglas Caitlin Sainsbury	–	For Scotia Capital Inc., Scotia Securities Inc., and Holliswealth Advisory Services Inc.

ORAL RULING AND REASONS

The following ruling and reasons have been prepared for the purpose of publication in the Ontario Securities Commission Bulletin and are based on portions of the transcript of the hearing. The excerpts from the transcript have been edited, and the text has been approved by the Chair of the panel for the purpose of providing a public record of the oral ruling and reasons.

Chair of the panel:

[1] Staff has made allegations against Scotia Capital Inc., Scotia Securities Inc., and Holliswealth Advisory Services Inc., which I will refer to collectively as the "**Scotia Dealers**". The allegations relate to matters that were reported by the Scotia Dealers to Staff beginning in February 2015. Specifically, Staff alleges that each of the Scotia Dealers failed to establish, maintain and apply appropriate controls and procedures with respect to supervision, as a result of which certain clients paid excess fees. Staff also alleges that these inadequacies were not detected or corrected by the Scotia Dealers in a timely manner.

[2] Had Staff's allegations been proven at a contested hearing, the inadequacies referred to would have constituted a breach of section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which requires registered firms such as the Scotia Dealers to establish, maintain and apply policies and procedures that establish a sufficient system of controls and supervision. However, this is not a contested hearing. Staff and the Scotia Dealers have entered into a settlement agreement in which the Scotia Dealers neither admit nor deny Staff's allegations or the facts underlying those allegations.

[3] Our obligation is to consider whether the settlement agreement should be approved and whether it would be in the public interest to issue the order contemplated by that agreement and proposed by the parties.

[4] The settlement agreement is the product of negotiation between Staff and the Scotia Dealers. The Commission respects that process and accords significant deference to the resolution reached by the parties in cases like this. However, we must still be satisfied that the measures called for in the settlement agreement are appropriate and in the public interest.

[5] This panel had the opportunity to meet with counsel for Staff and for the Scotia Dealers in a confidential pre-settlement conference. We reviewed the proposed settlement agreement and the compensation plan referred to in that agreement and we heard submissions from counsel.

[6] All of the factors that we have heard today from both counsel are relevant to our decision. There are several factors that are particularly important.

[7] First, the Scotia Dealers will be accountable for paying compensation to the affected clients.

[8] Second, the Scotia Dealers have committed to produce enhanced policies and procedures designed to prevent a recurrence of the alleged inadequacies. These revised policies and procedures will be subject to review by Staff.

[9] Third, the Scotia Dealers have made a voluntary payment of $800,000 to the Commission for the benefit of third parties or for investor education, and an additional voluntary payment of $50,000 to reimburse the Commission for costs.

[10] Fourth, as counsel have noted, the Scotia Dealers discovered the inadequacies and self-reported them to Staff. Following that self-reporting, the Scotia Dealers provided prompt, detailed and candid co-operation to Staff. The Scotia Dealers had already formulated an intention to pay appropriate compensation to affected clients.

[11] Fifth, there is no evidence of dishonest conduct on the part of the Scotia Dealers.

[12] Finally, Staff and counsel for the Scotia Dealers have submitted that based on all the facts underlying the alleged inadequacies, and that are relevant to this settlement, the compensation plan called for in the agreement is globally appropriate across all affected clients. Based on the facts before us, and on those submissions, in our view the compensation plan achieves that goal.

[13] As with all settlements, this one succeeds in resolving a matter in a timely and effective way that is efficient and that saves the substantial costs that would be incurred as a result of a contested hearing.

[14] This is a settlement where the respondents neither admit nor deny the specific allegations made. That is unusual, but not unprecedented. Even where a registrant responds appropriately to issues that have been raised, as the Scotia Dealers did, it does not follow automatically that the registrant is entitled to have a no-contest settlement approved. However, taking into account the steps taken by the Scotia Dealers, and with reference to the factors identified in section 17 of OSC Staff Notice 15-702 – *Revised Credit for Co-operation Program*,[1] in our view it is appropriate to approve a no-contest settlement in this case.

[15] The reality is that compliance inadequacies occur, even at well-meaning registered firms. It is critical that when such inadequacies do occur, the registrant responds in the way that the Scotia Dealers have.

[16] This proposed settlement should make it clear to all that registered firms must have in place strong compliance systems, a principal purpose of which is to provide reasonable assurance that investors are protected and that they are treated fairly.

[17] For all these reasons, we approve the settlement agreement and we find that it is in the public interest to issue an order in the form of Schedule 'A' to that agreement.

Approved by the Chair of the Panel on 11th day of August, 2016.

"Timothy Moseley"

[1] (2014), 37 OSCB 2583.

Chapter 4

Cease Trading Orders

4.1.1 Temporary, Permanent & Rescinding Issuer Cease Trading Orders

Company Name	Date of Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/Revoke

THERE IS NOTHING TO REPORT THIS WEEK.

Failure to File Cease Trade Orders

Company Name	Date of Order	Date of Revocation
Nightingale Informatix Corporation	05 August 2016	16 August 2016
RMN-1 Small Business Development Corporation	15 August 2016	
RMN-2 Small Business Development Corporation	15 August 2016	
Sceptre Ventures Inc.	07 January 2016	12 August 2016

4.2.1 Temporary, Permanent & Rescinding Management Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order

THERE IS NOTHING TO REPORT THIS WEEK.

4.2.2 Outstanding Management & Insider Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
DataWind Inc.	06 July 2016	18 July 2016	18 July 2016		
Northern Power Systems Corp.	31 March 2016	13 April 2016	13 April 2016		
Starrex International Ltd.	30 December 2015	11 January 2016	11 January 2016		

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Chapter 5

Rules and Policies

5.1.1 Amendments to OSC Rule 91-507 Trade Repositories and Derivatives Data Reporting

AMENDMENTS TO
ONTARIO SECURITIES COMMISSION RULE 91-507
TRADE REPOSITORIES AND DERIVATIVES DATA REPORTING

1. Ontario Securities Commission Rule 91-507 Trade Repositories and Derivatives Data Reporting (the "Rule") is amended by this Instrument.

2. Paragraph 26(5)(c) is replaced with the following:

(c) the reporting counterparty instructs the designated trade repository referred to in paragraph (b) to provide the Commission with access to the data that is reported pursuant to paragraph (b) and otherwise uses its best efforts to provide the Commission with access to such data..

3. Paragraph 26(6)(a) is replaced with the following:

(a) is reported to the same designated trade repository or, if reported to the Commission under subsection (4), to the Commission, and.

4. Section 28 is amended by adding the following subsections (4) and (5):

(4) If a counterparty to a transaction is an individual or is not eligible to receive a legal entity identifier as determined by the Global Legal Entity Identifier System, the reporting counterparty must identify such a counterparty with an alternate identifier.

(5) If subsection (4) applies, then despite subsection (1), the designated trade repository must identify such a counterparty with the alternate identifier supplied by the reporting counterparty..

5. The Rule is amended by adding the following section 28.1:

28.1 Each local counterparty to a transaction required to be reported under this Rule that is eligible to receive a legal entity identifier as determined by the Global Legal Entity Identifier System, other than an individual, must obtain, maintain and renew a legal entity identifier assigned to the counterparty in accordance with the standards set by the Global Legal Entity Identifier System..

6. Subsection 39(3) is replaced with the following:

(3) For each transaction reported pursuant to this Rule, a designated trade repository must make transaction level reports available to the public at no cost, in accordance with the requirements in Appendix C..

7. Paragraph 40(b) is amended by adding "or a recognized or exempt clearing agency***" after "***dealer***".***

8. Section 41 is amended by adding "reporting***" before "***counterparty***".***

9. The Rule is amended by adding the following section 41.1:

41.1 Despite any other section of this Rule, a reporting counterparty is under no obligation to report derivatives data in relation to a transaction if, at the time the transaction is executed,

(a) the counterparties to the transaction are affiliated companies; and

(b) neither counterparty is one or more of the following:

(i) a derivatives dealer;

(ii) a recognized or exempt clearing agency;

(iii) an affiliate of a person or company referred to in subparagraph (i) or (ii)..

10. Subsection 43(2) is replaced with the following:

(3) Despite subsection (1), subsection 39(3) does not apply until January 16, 2017..

11. Appendix A is replaced with the following:

Appendix A to OSC Rule 91-507 – Trade Repositories and Derivatives Data Reporting
Minimum Data Fields Required to be Reported to a Designated Trade Repository

Instructions:

The reporting counterparty is required to provide a response for each of the fields unless the field is not applicable to the transaction.

Data field	Description	Required for Pre-existing Transactions
Transaction identifier	The unique transaction identifier as provided by the designated trade repository or the identifier as identified by the two counterparties, electronic trading venue of execution or clearing agency.	Y
Master agreement type	The type of master agreement, if used for the reported transaction.	N
Master agreement version	Date of the master agreement version (e.g., 2002, 2006).	N
Cleared	Indicate whether the transaction has been cleared by a clearing agency.	Y
Intent to clear	Indicate whether the transaction will be cleared by a clearing agency.	N
Clearing agency	LEI of the clearing agency where the transaction is or will be cleared.	Y
Clearing member	LEI of the clearing member, if the clearing member is not a counterparty.	N
Clearing exemption	Indicate whether one or more of the counterparties to the transaction are exempted from a mandatory clearing requirement.	N
Broker/Clearing intermediary	LEI of the broker acting as an intermediary for the reporting counterparty without becoming a counterparty.	N
Electronic trading venue identifier	LEI of the electronic trading venue where the transaction was executed.	Y
Inter-affiliate	Indicate whether the transaction is between two affiliated companies. (This field is only required to be reported as of April 30, 2015.)	N
Collateralization	Indicate whether the transaction is collateralized. Field Values: • Fully (initial and variation margin required to be posted by both parties), • Partially (variation only required to be posted by both parties), • One-way (one party will be required to post some form of collateral), • Uncollateralized.	N
Identifier of reporting counterparty	LEI of the reporting counterparty or, in the case of an individual or counterparty that is not eligible to receive an LEI, its alternate identifier.	Y

Data field	Description	Required for Pre-existing Transactions
Identifier of non-reporting counterparty	LEI of the non-reporting counterparty or, in the case of an individual or counterparty that is not eligible to receive an LEI, its alternate identifier.	Y
Counterparty side	Indicate whether the reporting counterparty was the buyer or seller. In the case of swaps, other than credit default, the buyer will represent the payer of leg 1 and the seller will be the payer of leg 2.	Y
Identifier of agent reporting the transaction	LEI of the agent reporting the transaction if reporting of the transaction has been delegated by the reporting counterparty.	N
Jurisdiction of reporting counterparty	If the reporting counterparty is a local counterparty under this Rule or the derivatives data reporting rules of Manitoba or Québec, or is a local counterparty under paragraph (a) or (c) of the definition of local counterparty in the derivatives data reporting rules of any other jurisdiction of Canada, indicate all such jurisdictions.	N
Jurisdiction of non-reporting counterparty	If the non-reporting counterparty is a local counterparty under this Rule or the derivatives data reporting rules of Manitoba or Québec, or is a local counterparty under paragraph (a) or (c) of the definition of local counterparty in the derivatives data reporting rules of any other jurisdiction of Canada, indicate all such jurisdictions.	N
A. Common Data	• These fields are required to be reported for all derivative transactions even if the information may be entered in an Asset field below. • Fields do not have to be reported if the unique product identifier adequately describes those fields.	
Unique product identifier	Unique product identification code based on the taxonomy of the product.	N
Contract or instrument type	The name of the contract or instrument type (e.g., swap, swaption, forwards, options, basis swap, index swap, basket swap, other).	Y
Underlying asset identifier 1	The unique identifier of the asset referenced in the transaction.	Y
Underlying asset identifier 2	The unique identifier of the second asset referenced in the transaction, if more than one. If more than two assets identified in the transaction, report the unique identifiers for those additional underlying assets.	Y
Asset class	Major asset class of the product (e.g., interest rate, credit, commodity, foreign exchange, equity, etc.).	N
Effective date or start date	The date the transaction becomes effective or starts.	Y
Maturity, termination or end date	The date the transaction expires.	Y
Payment frequency or dates	The dates or frequency the transaction requires payments to be made (e.g., quarterly, monthly).	Y
Reset frequency or dates	The dates or frequency at which the price resets (e.g., quarterly, semi-annually, annually).	Y
Day count convention	Factor used to calculate the payments (e.g., 30/360, actual/360).	Y
Delivery type	Indicate whether transaction is settled physically or in cash.	Y

Data field	Description	Required for Pre-existing Transactions
Price 1	The price, yield, spread, coupon, etc., of the derivative. The price/rate should not include any premiums such as commissions, collateral premiums, accrued interest, etc.	Y
Price 2	The price, yield, spread, coupon, etc., of the derivative. The price/rate should not include any premiums such as commissions, collateral premiums, accrued interest, etc.	Y
Price notation type 1	The manner in which the price is expressed (e.g., percent, basis points, etc.).	Y
Price notation type 2	The manner in which the price is expressed (e.g., percent, basis points, etc.).	Y
Price multiplier	The number of units of the underlying reference entity represented by 1 unit of the transaction.	N
Notional amount leg 1	Total notional amount(s) of leg 1 of the transaction.	Y
Notional amount leg 2	Total notional amount(s) of leg 2 of the transaction.	Y
Currency leg 1	Currency(ies) of leg 1.	Y
Currency leg 2	Currency(ies) of leg 2.	Y
Settlement currency	The currency used to determine the cash settlement amount.	Y
Up-front payment	Amount of any up-front payment.	N
Currency or currencies of up-front payment	The currency in which any up-front payment is made by one counterparty to another.	N
Embedded option	Indicate whether the option is an embedded option.	N
B. Additional Asset Information	These additional fields are required to be reported for transactions in the respective types of derivatives set out below, even if the information is entered in a Common Data field above.	
i) Interest rate derivatives		
Fixed rate leg 1	The rate used to determine the payment amount for leg 1 of the transaction.	Y
Fixed rate leg 2	The rate used to determine the payment amount for leg 2 of the transaction.	Y
Floating rate leg 1	The floating rate used to determine the payment amount for leg 1 of the transaction.	Y
Floating rate leg 2	The floating rate used to determine the payment amount for leg 2 of the transaction.	Y
Fixed rate day count convention	Factor used to calculate the fixed payer payments (e.g., 30/360, actual/360).	Y
Fixed leg payment frequency or dates	Frequency or dates of payments for the fixed rate leg of the transaction (e.g., quarterly, semi-annually, annually).	Y
Floating leg payment frequency or dates	Frequency or dates of payments for the floating rate leg of the transaction (e.g., quarterly, semi-annually, annually).	Y
Floating rate reset frequency or dates	The dates or frequency at which the floating leg of the transaction resets (e.g., quarterly, semi-annually, annually).	Y

Data field	Description	Required for Pre-existing Transactions
ii) Currency derivatives		
Exchange rate	Contractual rate(s) of exchange of the currencies.	Y
iii) Commodity derivatives		
Sub-asset class	Specific information to identify the type of commodity derivative (e.g., Agriculture, Power, Oil, Natural Gas, Freights, Metals, Index, Environmental, Exotic).	Y
Quantity	Total quantity in the unit of measure of an underlying commodity.	Y
Unit of measure	Unit of measure for the quantity of each side of the transaction (e.g., barrels, bushels, etc.).	Y
Grade	Grade of product being delivered (e.g., grade of oil).	Y
Delivery point	The delivery location.	N
Load type	For power, load profile for the delivery.	Y
Transmission days	For power, the delivery days of the week.	Y
Transmission duration	For power, the hours of day transmission starts and ends.	Y
C. Options	These additional fields are required to be reported for options transactions set out below, even if the information is entered in a Common Data field above.	
Option exercise date	The date(s) on which the option may be exercised.	Y
Option premium	Fixed premium paid by the buyer to the seller.	Y
Strike price (cap/floor rate)	The strike price of the option.	Y
Option style	Indicate whether the option can be exercised on a fixed date or anytime during the life of the transaction (e.g., American, European, Bermudan, Asian).	Y
Option type	Put/call.	Y
D. Event Data		
Action	Describes the type of event to the transaction (e.g., new transaction, modification or cancellation of existing transaction, etc.).	N
Execution timestamp	The time and date of execution or novation of a transaction, expressed using Coordinated Universal Time (UTC).	Y (If available)
Post-transaction events	Indicate whether the transaction resulted from a post-transaction service (e.g. compression, reconciliation, etc.) or from a lifecycle event (e.g. novation, amendment, etc.).	N
Reporting timestamp	The time and date the transaction was submitted to the trade repository, expressed using UTC.	N

E. Valuation data	These additional fields are required to be reported on a continuing basis for all reported derivative transactions, including reported pre-existing transactions.	
Value of transaction calculated by the reporting counterparty	Mark-to-market valuation of the transaction, or mark-to-model valuation	N
Valuation currency	Indicate the currency used when reporting the value of the transaction.	N
Valuation date	Date of the latest mark-to-market or mark-to-model valuation.	N
F. Other details		
Other details	Where the terms of the transaction cannot be effectively reported in the above prescribed fields, provide any additional information that may be necessary.	Y

12. The Rule is amended by adding the following Appendix C:

Appendix C to OSC Rule 91-507 – Trade Repositories and Derivatives Data Reporting
Requirements for the public dissemination of transaction level data

Instructions:

1. A designated trade repository is required to disseminate to the public at no cost the information contained in Table 1 for each of the asset classes and underlying asset identifiers listed in Table 2 for:

   a) a transaction reported to the designated trade repository pursuant to this Rule;

   b) a lifecycle event that changes the pricing of an existing derivative reported to the designated trade repository pursuant to this Rule;

   c) a cancellation or correction of previously disseminated data relating to a transaction referred to in paragraph (a) or a lifecycle event referred to in paragraph (b).

Table 1

Data field	Description
Cleared	Indicate whether the transaction has been cleared by a clearing agency.
Electronic trading venue identifier	Indicate whether the transaction was executed on an electronic trading venue.
Collateralization	Indicate whether the transaction is collateralized.
Unique product identifier	Unique product identification code based on the taxonomy of the product.
Contract or instrument type	The name of the contract of instrument type (e.g., swap, swaption, forwards, options, basis swap, index swap, basket swap, other).
Underlying asset identifier 1	The unique identifier of the asset referenced in the transaction.
Underlying asset identifier 2	The unique identifier of the second asset referenced in the transaction, if more than one. If more than two assets identified in the transaction, report the unique identifiers for those additional underlying assets.
Asset class	Major asset class of the product (e.g., interest rate, credit, commodity, foreign exchange, equity, etc.).
Effective date or start date	The date the transaction becomes effective or starts.
Maturity, termination or end date	The date the transaction expires.

Data field	Description
Payment frequency or dates	The dates or frequency the transaction requires payments to be made (e.g., quarterly, monthly).
Reset frequency or dates	The dates or frequency at which the price resets (e.g., quarterly, semi-annually, annually).
Day count convention	Factor used to calculate the payments (e.g., 30/360, actual/360).
Price 1	The price, yield, spread, coupon, etc., of the transaction. The price/rate should not include any premiums such as commissions, collateral premiums, accrued interest, etc.
Price 2	The price, yield, spread, coupon, etc., of the transaction. The price/rate should not include any premiums such as commissions, collateral premiums, accrued interest, etc.
Price notation type 1	The manner in which the price is expressed (e.g., percent, basis points, etc.).
Price notation type 2	The manner in which the price is expressed (e.g., percent, basis points, etc.).
Notional amount leg 1	Total notional amount(s) of leg 1 of the transaction.
Notional amount leg 2	Total notional amount(s) of leg 2 of the transaction.
Currency leg 1	Currency(ies) of leg 1.
Currency leg 2	Currency(ies) of leg 2.
Settlement currency	The currency used to determine the cash settlement amount.
Embedded option	Indicate whether the option is an embedded option.
Option exercise date	The date(s) on which the option may be exercised.
Option premium	Fixed premium paid by the buyer to the seller.
Strike price (cap/floor rate)	The strike price of the option.
Option style	Indicate whether the option can be exercised on a fixed date or anytime during the life of the transaction. (e.g., American, European, Bermudan, Asian).
Option type	Put, call.
Action	Describes the type of event to the transaction (e.g., new transaction, modification or cancellation of existing transaction, etc.).
Execution timestamp	The time and date of execution or novation of a transaction, expressed using Coordinated Universal Time (UTC).

Table 2

Asset Class	Underlying Asset Identifier
Interest Rate	CAD-BA-CDOR
	USD-LIBOR-BBA
	EUR-EURIBOR-Reuters
	GBP-LIBOR-BBA
Credit	All Indexes
Equity	All Indexes

Exclusions:

2. Notwithstanding item 1, each of the following is excluded from the requirement to be publicly disseminated:

   a) a transaction in a derivative that requires the exchange of more than one currency;

   b) a transaction resulting from a bilateral or multilateral portfolio compression exercise;

   c) a transaction resulting from novation by a recognized or exempt clearing agency;

Rounding:

3. A designated trade repository must round the notional amount of a transaction for which it disseminates transaction level data pursuant to this Rule and this Appendix in accordance with the rounding conventions contained in Table 3.

Table 3

Reported Notional Amount Leg 1 or 2	Rounded Notional Amount
< 1,000	Round to nearest 5
≥1,000, <10,000	Round to nearest 100
≥10,000, <100,000	Round to nearest 1,000
≥100,000, <1 million	Round to nearest 10,000
≥1 million, <10 million	Round to nearest 100,000
≥10 million, <50 million	Round to nearest 1 million
≥50 million, <100 million	Round to nearest 10 million
≥100 million, <500 million	Round to nearest 50 million
≥500 million, <1 billion	Round to nearest 100 million
≥1 billion, <100 billion	Round to nearest 500 million
>100 billion	Round to nearest 50 billion

Capping:

4. Where the rounded notional amount of a transaction, as set out in Table 3, would exceed the capped rounded notional amount in CAD of that transaction as set out in Table 4, a designated trade repository must disseminate the capped rounded notional amount for the transaction in place of the rounded notional amount.

5. When disseminating transaction level data pursuant to this Rule and this Appendix, for a transactions to which item 4 applies, a designated trade repository must indicate that the notional amount for a transaction has been capped.

6. For each transaction for which the capped rounded notional amount is disseminated, if the information to be disseminated includes an option premium, a designated trade repository must adjust the option premium in a manner that is consistent and proportionate relative to the capping and rounding of the reported notional amount of the transaction.

Table 4

Asset Class	Maturity Date less Effective Date	Capped Rounded Notional Amount in CAD
Interest Rate	Less than or equal to two years	250 million
Interest Rate	Greater than two years and less than or equal to ten years	100 million
Interest Rate	Greater than ten years	50 million
Credit	All dates	50 million
Equity	All dates	50 million

Timing:

7. A designated trade repository must disseminate the information contained in Table 1 48 hours after the time and date represented by the execution timestamp field of the transaction..

13. This Instrument comes into force on July 29, 2016.

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Chapter 6

Request for Comments

6.1.1 Proposed Amendments to NI 24-101 Institutional Trade Matching and Settlement, Changes to Companion Policy 24-101 Institutional Trade Matching and Settlement, and CSA Consultation Paper 24-402 Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment

CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

Notice and Request for Comments:

Proposed Amendments to
National Instrument 24-101 *Institutional Trade Matching and Settlement*

and

Proposed Changes to
Companion Policy 24-101 *Institutional Trade Matching and Settlement*

and

CSA Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment*

August 18, 2016

Part I. Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are publishing for comment (the **Proposed Revisions**) proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (**Instrument**) and proposed changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement* (**Companion Policy**) (collectively, the Instrument and Companion Policy are referred to as **NI 24-101**).

Some of the Proposed Revisions amend the Instrument and change the Companion Policy in anticipation of shortening the standard settlement cycle for equity and long-term debt market trades in Canada from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**). The move to a T+2 settlement cycle is expected to occur on September 5, 2017, at the same time as the markets in the United States move to a T+2 settlement cycle. The other Proposed Revisions are intended to clarify or modernize certain provisions of NI 24-101.

The text of the amending Instrument and Companion Policy follow after this Notice in Annexes A and B, respectively, and will also be available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.nbsc-cvmnb.ca
www.osc.gov.on.ca
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca

Concurrently with this Notice, we are also publishing CSA Consultation Paper 24-402 *Policy Considerations for Enhancing Settlement Discipline in a T+2 Settlement Cycle Environment* (**Consultation Paper**). The Consultation Paper provides an overview of existing settlement discipline measures in the Canadian equity and debt markets. It raises certain policy considerations for addressing the risk that the transition to a standard T+2 settlement cycle may increase settlement failures in our markets. We discuss potential measures to enhance settlement discipline, specifically in relation to NI 24-101. We are seeking stakeholder views on the Consultation Paper. Any proposal to adopt measures arising from the Consultation Paper, including a proposal to further amend NI 24-101, would require another public comment process. The Consultation Paper is set out in Annex E.

We are publishing for comment for 90 days this Notice, the Proposed Revisions and the Consultation Paper. The comment period will expire on November 16, 2016. See below under "7. Comment process" of Part IV.

This Notice includes the following Annexes:

- Annex A: the proposed amendments to the Instrument;
- Annex B: the proposed changes to the Companion Policy;
- Annex C: Blackline version of the Instrument reflecting the proposed amendments to the Instrument;
- Annex D: Blackline version of the Companion Policy reflecting the proposed changes to the Companion Policy;
- Annex E: the Consultation Paper;
- Annex F: Local Matters (where applicable).

Part II. Background to, and purpose of Proposed Revisions

1. Introduction to NI 24-101

NI 24-101 came into force in 2007 and was developed largely to encourage more efficient and timely pre-settlement confirmation, affirmation, trade allocation and settlement instructions processes for institutional trades in Canada, otherwise described in this Notice as institutional trade matching (**ITM**).

Registered dealers and advisers trading on a DAP/RAP basis for or with an institutional investor must have ITM policies and procedures designed to match a *DAP/RAP trade* as soon as practical after the trade is executed, but no later than noon on T+1 (**ITM deadline**).[1] In addition, registered firms are required to complete and file exception reports on Form 24-101F1 if they did not meet, with respect to their institutional trades, the ITM threshold of 90 percent (**ITM threshold**) of trades by value and volume matched by the ITM deadline during a calendar quarter. Clearing agencies (in particular, CDS Clearing and Depository Services Inc. (**CDS**)) and matching service utilities (**MSUs**) are required to submit quarterly data on the matching of institutional equity and debt trades of their participants or users.

For more background information on NI 24-101, including its history and regulatory objective, please see the Consultation Paper being published concurrently with this Notice.

2. Migration to T+2 settlement cycle

The Canadian securities industry is preparing for the migration to a standard T+2 settlement cycle on September 5, 2017, at the same time as the industry in the United States is moving to T+2. For further information on the move to a T+2 settlement cycle, please see the Consultation Paper being published concurrently with this Notice.

For a successful migration to T+2 settlement, registered firms and other capital market stakeholders will need to review and change, as required, their current clearing and settlement procedures and internal operations and processes. In addition, self-regulatory organizations, marketplaces and clearing agencies will need to change various rules and procedures that specifically mandate a three day settlement cycle, that are keyed to the settlement date and require pre-settlement actions, or that generally

[1] See subsections 3.1(1) and 3.3(1) of the Instrument. A DAP/RAP trade is a trade in a security executed for a client account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and for which settlement is completed on behalf of the client by a custodian other than the dealer that executed the trade. See the definition "DAP/RAP trade" in section 1.1 of the Instrument.

facilitate the prompt clearance and settlement of trades.[2] While NI 24-101 does not expressly mandate a T+3 settlement cycle, nor would currently prevent the T+2 migration, there are a number of provisions that require revision to facilitate the move to a T+2 settlement cycle.

3. General reform of NI 24-101

We are proposing to update the Instrument to reflect certain developments since it came into force in 2007, as well as clarify certain existing provisions. One major development in the Canadian markets since 2007 is the significant rise in the trading of exchange-traded mutual funds (**ETFs**). We also propose to revise the existing requirements applicable to a MSU's systems and business continuity planning.

Part III. Summary of the Proposed Revisions

Section 1 of this Part explains our Proposed Revisions in anticipation of the transition to a T+2 settlement cycle. While we are not proposing any amendments to the ITM deadline or ITM threshold at this time, in the Consultation Paper we discuss potential substantive changes to NI 24-101 and other measures that we might consider to increase the likelihood of timely settlement, and we ask specific questions on such potential changes.

Section 2 of this Part describes modernizing and clarifying amendments to the Instrument (including the Forms) and Companion Policy. Minor amendments to modernize and clarify the Instrument, Forms and Companion Policy are not discussed.

We welcome comments from stakeholders on all aspects of such amendments.

1. Proposed Revisions as a result of T+2 migration

a) References to "T+3"

While the primary focus of the Instrument is on having ITM policies and procedures to match trades no later than noon on T+1, NI 24-101 contains a number of references to T+3. They can be found in the definitions section of the Instrument (section 1.1), the Forms 24-101F2 and F5, and Part 5 of the Companion Policy. We propose to remove these references or replace them with "T+2".

b) Non-North American trades

The Instrument permits matching to occur no later than noon on T+2 if the DAP/RAP trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region (**non-North American trades**).[3]

We are proposing to repeal the provisions that extend the ITM deadline to noon on T+2 for non-North American trades. In our view, these provisions are no longer appropriate in a standard T+2 settlement environment. The extended deadline of noon on T+2 for non-North American trades leaves insufficient time to solve problems and avoid failed trades; instead, parties need to match earlier on T+1 regardless of the cross-border nature of the trade, so that they have time to address issues and avoid failed trades. This might require improving processes in order to match on T+1, but the move to a T+2 settlement cycle will align the securities settlement cycle in Canada with the settlement cycles of most of the major foreign markets, including the U.S. and Europe. While several of the complexities with foreign investment or cross-border transactions will continue to exist,[4] market participants will need to review their internal operations and adapt their ITM policies and procedures accordingly to meet the current ITM deadline of noon on T+1. This is consistent with the need for market participants to align their policies and procedures to meet the standard settlement in the U.S., Europe and other T+2 jurisdictions.

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2 On July 28, 2016, the Investment Industry Regulatory Organization of Canada (**IIROC**) published for comment proposed amendments to IIROC's Universal Market Integrity Rules, Dealer Member Rules, and Form 1 to facilitate the investment industry's move to T+2 settlement. See IIROC Notice 16-0177 *Amendments to facilitate the investment industry's move to T+2*, at: http://www.osc.gov.on.ca/documents/en/Marketplaces/iiroc_20160728_iiroc-notice-16-0177.pdf.

3 See subsections 3.1(2) and 3.3(2). "North American region" means Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean. See section 1.1.

4 Such complexities include communication lags, structural challenges, currency differences, mismatches in global settlement cycles, and time zone issues.

2. Proposed Revisions to clarify or modernize NI 24-101

a) Application to ETFs

The Instrument does not currently apply to a trade in a security of a mutual fund to which National Instrument 81-102 *Investment Funds* (**NI 81-102**) applies.[5] Mutual fund trades were originally carved out of the Instrument because traditional purchase and redemption transactions in mutual fund securities were not cleared and settled through the facilities of a clearing agency such as CDS. However, because ETFs are mutual funds and therefore subject to NI 81-102, ETF securities that are bought and sold generally just like any other stock on the secondary markets and settled on a DAP/RAP basis through the facilities of CDS, are not subject to NI 24-101.

From a policy perspective, we are of the view that a secondary-market trade in an ETF security that settles on a DAP/RAP basis through the facilities of CDS should be subject to the Instrument, particularly the trade matching requirements of the Instrument (Parts 3 and 4). Such trades bring the same risks to our markets and the clearing and settlement infrastructure that serves such markets as any other trade in equity or fixed-income securities. In addition, non-redeemable investment funds that trade on a marketplace and settle on a DAP/RAP basis through CDS are currently subject to the Instrument. We are of the view that all investment funds that are traded on a marketplace should be treated in the same way under the Instrument. Currently, CDS includes ETF trades in the calculation of the aggregate number and value of equity DAP/RAP trades entered and matched at CDS, as part of its reporting of ITM data under NI 24-101. Consequently, we believe that registered firms' ITM policies and procedures should not be materially impacted by the inclusion of ETF trades into the ITM requirements.

We are proposing to amend paragraph (f) of section 2.1 of the Instrument by clarifying that the Instrument does not apply to a trade to which Part 9 or 10 of NI 81-102 applies. Part 9 governs purchases of securities of a mutual fund from the mutual fund, and Part 10 governs redemptions of investment fund securities. Moreover, the Companion Policy and forms are being amended to clarify that DAP/RAP trades in ETFs are to be included in the exception reports under Form 24-101F1 by registered firms as "equity" DAP/RAP trades, and not as "debt" DAP/RAP trades.

b) Clearing agency

In the Instrument, "clearing agency" is defined as a recognized clearing agency in certain CSA jurisdictions, which, in 2007, seemed appropriate as CDS was the only recognized clearing agency at the time. Since 2007, CSA jurisdictions have recognized a number of additional clearing agencies operating in Canada that perform a wide variety of clearing and settlement services, which differ from, and may be broader than, the securities settlement services performed by CDS.[6] We propose to update the definition of the term to fit the context of the Instrument.

c) MSU systems and business continuity planning requirements

To mitigate the probability and effects of systems failures, Part 6 of the Instrument sets out requirements for an MSU governing its systems and business continuity planning. These requirements, adopted in 2007, were based on similar regulatory requirements applicable at the time to marketplaces, information processors and clearing agencies. Such similar provisions have since been modernized and updated so that they continue to be effective in helping ensure that systems are reliable, robust and have adequate controls. Because MSUs play an important infrastructure role in the clearing and settlement of securities transactions,[7] we propose requiring MSUs to follow existing IT practices for technology service providers.

Consequently, we are proposing to update the provisions of section 6.5 of the Instrument to mirror the provisions found in other rules applicable to marketplaces, information processors, clearing agencies and trade repositories, such as those found in National Instrument 21-101 *Marketplace Operation* and National Instrument 24-102 *Clearing Agency Requirements*. See new sections 6.6 to 6.8 of the Instrument, revised Form 24-101F3 *Matching Service Utility – Notice of Operations*, and sections 4.5 to 4.8 of the Companion Policy. These include new requirements to ensure that, from a systems perspective, the launching of a new MSU or material changes made to an MSU's technology requirements are conducted according to prudent business practices and are implemented so that MSU users and service vendors have a reasonable opportunity to adapt to these changes. An MSU beginning operations or making a material change to its systems can negatively impact many other parties if these actions are not carried out in a careful manner.

d) Amendments to Form 24-101F1 *Registered Firm Exception Report of DAP/RAP Trade Reporting and Matching*

To avoid the quarterly exception reporting requirement in Part 4 of the Instrument, a registered firm must have matched during a calendar quarter at least 90 percent of its DAP/RAP trades by volume or value by noon on T+1. Form 24-101F1 (**Form F1**) should only be submitted for DAP/RAP trades for the type of security (equity or debt) that did not meet the 90 percent threshold

[5] See paragraph (f) of section 2.1.

[6] See, for example, in Ontario: http://www.osc.gov.on.ca/en/Marketplaces_clearing-agencies_index.htm

[7] See ss. 4.1(2) of the Companion Policy.

by the relevant timeline. If a registered firm does not meet the threshold for both equity and debt DAP/RAP trades, then it should submit Form F1 for both equity and debt DAP/RAP trades (i.e., by completing both tables in Exhibit A of Form F1). If the firm does not meet the threshold only for one type of security (i.e., for equity but not debt, or for debt but not equity), it should only submit Form F1 for the one type of security, by completing only one of the tables in Exhibit A of Form F1. As noted above, a DAP/RAP trade in an ETF security should be reported as an equity DAP/RAP trade, and not as a debt DAP/RAP trade. We are proposing amendments to Form F1 and Companion Policy to clarify this approach to completing Form F1.

Part IV. Other Matters

1. Authority for Instrument

In those jurisdictions in which amendments to the Instrument will be adopted, securities legislation provides the securities regulatory authority with authority in respect of the subject matter of the Instrument. See Annex F, where applicable.

2. Alternatives considered to the Proposed Revisions

The alternative to the Proposed Revisions would be not to proceed with making amendments to the Instrument or changes to the Companion Policy to facilitate the move to T+2 settlement or to clarify and update provisions in the Instrument that are unclear or outdated. Not proceeding with the T+2 related Proposed Revisions would generally be inconsistent with the desire to facilitate the move to T+2. In addition, without the proposed amendments to clarify and update the Instrument, there would be less certainty and clarity with respect to the application and interpretation of NI 24-101. Moreover, not updating the MSU systems and business continuity planning requirements could have adverse consequences to our markets. See discussion below under “4. Anticipated costs and benefits”.

3. Unpublished materials

In proposing revisions to the Instrument and Companion Policy, we have not relied on any significant unpublished study, report, or other material.

4. Anticipated costs and benefits

As noted above, not proceeding with the T+2 related Proposed Revisions would generally be inconsistent with the desire to facilitate the move to T+2. See the Consultation Paper, which discusses the importance of ensuring that the transition in Canada to a standard T+2 settlement cycle occurs simultaneously with the move to T+2 by the securities industry in the United States. Also, the Proposed Revisions to clarify and update the Instrument would bring more certainty and clarity with respect to the application and interpretation of NI 24-101. In addition, updating the MSU systems and business continuity planning requirements will promote more reliable and robust MSU controls and is consistent with requirements imposed on other market infrastructures that pose similar risks to the integrity of Canadian capital markets. The failure of an MSU’s systems could have wide-reaching and unintended consequences.

5. CSA Staff Notice 24-305

If the Proposed Revisions are made following the comment process, CSA Staff intend to update and republish CSA Staff Notice 24-305 *Frequently Asked Questions About NI 24-101 – Institutional Trade Matching and Settlement and Related Companion Policy.*

6. Effective date for Proposed Revisions

If the Proposed Revisions are made following the comment process, all of the Proposed Revisions will be brought into force or, in respect of the Companion Policy, be adopted as of September 5, 2017.

7. Comment process

Please submit your comments in writing on or before November 16, 2016. If you are not sending your comments by email, please include a CD containing the submissions. Address your submission to the following CSA member commissions:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission

Financial and Consumer Services Commission (New Brunswick)
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

Please deliver your comments only to the addresses that follow. Your comments will be forwarded to the remaining CSA member jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
E-mail: comments@osc.gov.on.ca

M^{e} Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22^{e} étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax: 514-864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received will be made publicly available and posted on the Websites of certain CSA jurisdictions. We cannot keep submissions confidential because securities legislation requires that a summary of the written comments received during the comment period be published. In this context, you should be aware that some information which is personal to you, such as your e-mail and address, may appear in the websites. It is important that you state on whose behalf you are making the submission.

Questions with respect to this Notice, the Proposed Revisions, and the Consultation Paper may be referred to:

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Ontario Securities Commission
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ANNEX A

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

1. National Instrument 24-101 Institutional Trade Matching and Settlement is amended by this Instrument.

2. Section 1.1 is amended by

a. replacing the definition "clearing agency***" with the following:***

"clearing agency" means a recognized clearing agency that operates as a securities settlement system within the meaning of National Instrument 24-102 *Clearing Agency Requirements*;

b. in the definition "DAP/RAP trade***",***

i. adding the words "in a security***" immediately after "***means a trade***", and***

ii. replacing the word "made***" with "***completed***" in paragraph (b),***

c. repealing the definitions "North American region***" and "***T+3***", and***

d. replacing the semicolon at the end of the definition "T+2***" with a period.***

3. Section 1.2 is amended by

a. replacing in the heading of the section "Eastern Time***" with "***clearing agency***",***

b. replacing subsection (2) with the following:

For the purposes of this Instrument, in Québec, a clearing agency includes a clearing house and a settlement system within the meaning of the Québec *Securities Act*.

4. Paragraph 2.1(f) is replaced by the following:

(f) a trade to which Part 9 or 10 of National Instrument 81-102 *Investment Funds* applies,

5. Parts 3 to 8 are amended by replacing the word "shall***" wherever it is found by the word "***must***".***

6. Subsection 3.1(1) is amended by adding "Eastern Time***" immediately after "***12p.m. (noon)***".***

7. Subsection 3.1(2) is repealed.

8. Subsection 3.3(1) is amended by adding "Eastern Time***" immediately after "***12p.m. (noon)***".***

9. Subsection 3.3(2) is repealed.

10. Section 5.1 is amended by deleting the words "through which trades governed by this Instrument are cleared and settled***".***

11. Section 6.5 is replaced by the following:

6.5 System requirements

For each system operated by a matching service utility that supports the matching service utility's trade matching function, a matching service utility must

(a) develop and maintain

(i) an adequate system of internal controls over that system, and

(ii) adequate information technology general controls, including, without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support,

(b) in accordance with prudent business practice, on a reasonably frequent basis, and, in any event, at least annually,

(i) make reasonable current and future capacity estimates, and

(ii) conduct capacity stress tests to determine the ability of that system to process transactions in an accurate, timely and efficient manner, and

(c) promptly notify the regulator or, in Québec, the securities regulatory authority of any material systems failure, malfunction, delay or security breach, and provide timely updates on the status of the failure, malfunction, delay or security breach, the resumption of service, and the results of the matching service utility's internal review of the failure, malfunction, delay or security breach.

12. The Instrument is further amended by adding the following sections:

6.6 Systems reviews

(1) A matching service utility must annually engage a qualified party to conduct an independent systems review and vulnerability assessment and prepare a report in accordance with established audit standards and best industry practices to ensure that the matching service utility is in compliance with paragraph 6.5(a) and paragraph 6.8(a).

(2) The matching service utility must provide the report resulting from the review conducted under subsection (1) to

(a) its board of directors, or audit committee, promptly upon the report's completion, and

(b) the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the calendar year end.

6.7 Matching service utility technology requirements and testing facilities

(1) A matching service utility must make available to its users, in their final form, all technology requirements regarding interfacing with or accessing the matching service utility

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by users, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by users.

(2) After complying with subsection (1), the matching service utility must make available testing facilities for interfacing with or accessing the matching service utility

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by users, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by users.

(3) The matching service utility must not begin operations before

(a) it has complied with paragraphs (1)(a) and (2)(a), and

(b) the chief information officer of the matching service utility, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that all information technology systems used by the matching service utility have been tested according to prudent business practices and are operating as designed.

(4) The matching service utility must not implement a material change to the systems referred to in section 6.5 before

(a) it has complied with paragraphs (1)(b) and (2)(b), and

(b) the chief information officer of the matching service utility, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that the change has been tested according to prudent business practices and is operating as designed.

(5) Subsection (4) does not apply to the matching service utility if the change must be made immediately to address a failure, malfunction or material delay of its systems or equipment and if

(a) the matching service utility immediately notifies the regulator or, in Québec, the securities regulatory authority, of its intention to make the change, and

(b) the matching service utility discloses to its users the changed technology requirements as soon as practicable.

6.8 Testing of business continuity plans

A matching service utility must

(a) develop and maintain reasonable business continuity plans, including disaster recovery plans, and

(b) test its business continuity plans, including its disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually.

13. Form 24-101F1 is amended by adding the following at the end of the text under the heading "*INSTRUCTIONS:*" and immediately before the heading "*EXHIBITS:*":

Include DAP/RAP trades in an exchange-traded fund (ETF) security in the equity DAP/RAP trades statistics. Exhibit A(1) applies only to trades in equity and ETF securities. Exhibit A(2) applies only to trades in debt and other fixed-income securities.

14. Form 24-101F1 is further amended by replacing the portion of the Form under the heading "*Exhibit A – DAP/RAP trade statistics for the quarter*" and immediately before the heading "*Exhibit B – Reasons for not meeting exception reporting thresholds*" with the following:

Where applicable, complete Table 1 or 2, or both, below for each calendar quarter. Deadline means noon Eastern time on T+1.

(1) Equity DAP/RAP trades (includes ETF trades)

Entered into the clearing agency by deadline (to be completed by dealers only)				*Matched (to be completed by dealers and advisers)*							
# of trades	**%**	**$ value of trades**	**%**	**# of trades matched**	**%**	**$ value of trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	**%**

(2) Debt DAP/RAP trades

Entered into the clearing agency by deadline (to be completed by dealers only)				*Matched (to be completed by dealers and advisers)*							
# of trades	**%**	**$ value of trades**	**%**	**# of trades matched**	**%**	**$ value of trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	**%**

Legend

"# of Trades" is the total number of transactions in the calendar quarter;

"$ Value of Trades" is the total value of the transactions (purchases and sales) in the calendar quarter.

15. Form 24-101F1 is further amended by replacing references to "Companion Policy 24-101CP***" under the headings "*****Exhibit B – Reasons for not meeting exception reporting thresholds*****" and "*****Exhibit C – Steps to address delays*****" with "***Companion Policy 24-101***"***

16. Form 24-101F2 is amended under the heading "INSTRUCTIONS:" by

a. inserting the following paragraph immediately after the first paragraph:

Include client trades in an exchange-traded fund (ETF) security in the equity trades statistics.

b. replacing "shall***" with "***must***" in the last sentence.***

17. Form 24-101F2 is further amended in each of Table 1 (Equity trades) and Table 2 (Debt trades) under the heading and subheadings "**EXHIBITS: – 1. DATA REPORTING – Exhibit A – Aggregate matched trade statistics*****" by removing the entire row titled "***T+3***" and changing the title of the row titled "***>T+3***" with "***>T+2***".***

18. Form 24-101F3 is amended under the heading "INSTRUCTIONS:" by

a. deleting "or 10.2(4)***" in the first sentence,***

b. replacing "shall***" with "***must***" in the second paragraph,***

c. deleting the last sentence of the last paragraph.

19. Form 24-101F3 is further amended under the heading "**6. SYSTEMS COMPLIANCE*****" by***

a. replacing the text of Exhibit K – Security with the following:

Exhibit K – General and security

Provide a high level description of the systems used to perform your services of a matching service utility, including the processes and procedures implemented by you to provide for the security of the systems.

b. replacing the text under the subheading "**Exhibit M – Business continuity*****" with the following:***

Exhibit M – Business continuity

Provide a brief description of your business continuity and disaster recovery plans that includes, but is not limited to, information regarding the following:

1. Where the primary processing site is located.

2. What the approximate percentage of hardware, software and network redundancy is at the primary site.

3. Any uninterruptible power source (UPS) at the primary site.

4. How frequently market data is stored off-site.

5. Any secondary processing site, the location of any such secondary processing site, and whether all of the matching service utility's critical business data is accessible through the secondary processing site.

6. The creation, management, and oversight of the plans, including a description of responsibility for the development of the plans and their ongoing review and updating.

7. Escalation procedures, including event identification, impact analysis, and activation of the plans in the event of a disaster or disruption.

8. Procedures for internal and external communications, including the distribution of information internally, to the securities regulatory authority, and, if appropriate, to the public, together with the roles and responsibilities of the matching service utility's staff for internal and external communications.

9. The scenarios that would trigger the activation of the plans.

10. How frequently the business continuity and disaster recovery plans are tested.

11. Procedures for record keeping in relation to the review and updating of the plans, including the logging of tests and deficiencies.

12. The targeted time to resume operations of critical information technology systems following the declaration of a disaster by the matching service utility and the service level to which such systems are to be restored.

13. Any single points of failure faced by the matching service utility.

c. replacing the text of "*Exhibit O – Independent systems audit*" with the following:

Exhibit O – Independent systems audit

1. Provide high level information on the qualified party engaged to provide an annual independent systems review and vulnerability assessment.

2. If applicable, provide a copy of the last systems operations audit report.

20. Form 24-101F4 is amended under the heading "*INSTRUCTIONS:*" by replacing "*shall*" with "*must*" in the second paragraph.

21. Form 24-101F5 is amended under the heading "*INSTRUCTIONS:*" by

a. adding the following paragraph after the first paragraph:

Include DAP/RAP trades in an exchange-traded fund (ETF) security in the equity DAP/RAP trades statistics.

b. replacing "*shall*" with "*must*" in the second and third sentences.

22. Form 24-101F5 is further amended under the heading "*EXHIBITS*" by

a. adding the text and punctuation "*,malfunction, delay or security breach*" immediately after "*systems failures*" in the sentence under the subheadings "*1. SYSTEMS REPORTING – Exhibit B – Material systems failures reporting*"

b. by removing the entire row titled "*T+3*" and changing the title of the row titled "*>T+3*" with "*>T+2*" in each of Table 1 (Equity trades) and Table 2 (Debt trades) under the subheadings "*2. DATA REPORTING – Exhibit C – Aggregate matched trade statistics*".

23. This Instrument comes into force on September 5, 2017.

ANNEX B

PROPOSED CHANGES TO COMPANION POLICY 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

1. Companion Policy 24-101 Institutional Trade Matching and Settlement is changed by this Document.

2. The title of the Companion Policy is simplified to read as follows:

COMPANION POLICY 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

3. Subsection 1.2(2) is changed by replacing, in the last sentence of footnote 3, the words "within one hour of the execution of the trade***" with "***by no later than 6 pm on the day of the trade***".***

4. Paragraph 1.2(3)(c) is changed by replacing footnote 5 by the following:

[5] See, for example, section 14.12 of NI 31-103 and IIROC Member Rule 200.1(h).

5. Subsection 1.3(1) (including footnotes) is replaced by the following (including a footnote):

(1) Clearing agency – While the terms "clearing agency" and "recognized clearing agency" are generally defined in securities legislation,[6] we have defined clearing agency for the purposes of the Instrument to narrow its scope to a recognized clearing agency that operates as a securities settlement system. The term *securities settlement system* is defined in National Instrument 24-102 *Clearing Agency Requirements* as a system that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Today, the definition of *clearing agency* in the Instrument applies to CDS Clearing and Depository Services Inc. (**CDS**). For the purposes of the Instrument, a clearing agency includes, in Quebec, a clearing house and settlement system within the meaning of the Québec *Securities Act*. See subsection 1.2(2). [Footnote 6: See, for example, s. 1(1) of the *Securities Act* (Ontario).]

6. Subsection 1.3(4) is changed by replacing, in the second sentence, the words "the Joint Financial Questionnaire and Report of the Canadian SROs***" with "***IIROC Form 1, Part II***".***

7. Section 2.2 is changed by

a. adding in the first sentence "Eastern Time***" immediately after "***12p.m. (noon)***"***

b. deleting the second and third sentences,

c. adding immediately after the first sentence the following new sentence (including a footnote):

The policies and procedures requirement of Part 3 of the Instrument is consistent with the overarching obligation of a registered firm to manage the risks associated with its business in accordance with prudent business practices.[7] [Footnote 7: See s. 11.1 of NI 31-103, which requires registered firms to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices.]

8. Section 3.1 is changed by

a. replacing, in the second sentence of paragraph (a), the words "a percentage target of the DAP/RAP trades***" with "***90 percent of the DAP/RAP trades (by volume and value)***"***

b. deleting the first word ("They …***") in the second sentence of paragraph (b) and inserting in its place the following text:***

DAP/RAP trades in exchange-traded funds are reportable in the equities category of DAP/RAP trades.

Form 24-101F1 should only be submitted for DAP/RAP trades for the type of security (equity or debt) that did not meet the 90 percent threshold by the relevant timeline. If a registered firm does not meet the threshold for both equity and debt DAP/RAP trades, then it should submit the Form for both equity and debt DAP/RAP trades (i.e., by completing both tables in Exhibit A of Form 24-101F1). If the firm does not meet the threshold only for one type of security (i.e., for equity but not debt, or for debt but not equity), it should only submit the

Form for the one type of security, by completing only one of the tables in Exhibit A of Form 24-101F1. A registered firm …

9. Paragraph 3.2(b) is changed by

a. replacing the first sentence with the following:

The Canadian securities regulatory authorities may consider the consistent inability to meet the matching percentage target as evidence that either the policies and procedures of one or more of the trade matching parties have not been properly designed or, if properly designed, have been inadequately complied with.

b. Replacing, in the second sentence, the word "will***" with "***may***".***

10. Section 3.3 is changed by replacing the words "participants or users/subscribers***" with "***participants, users or subscribers***".***

11. Section 3.4 is changed by replacing the word "may***" with "***should***".***

12. Subsection 4.1(1) is changed by

a. deleting the first word ("The …***") in the second sentence and inserting in its place "***For the purposes of the Instrument, the …***"***

b. adding the following text (including a footnote) immediately after the last sentence:

In Québec, a person or company that seeks to provide centralized facilities for matching must, in addition to the requirements of the Instrument, apply for recognition as a matching service utility or for an exemption from the requirement to be recognized as a matching service utility pursuant to the *Securities Act* (Québec, chapter V-1.1) or *Derivatives Act* (Québec, chapter I-14.01). In certain other jurisdictions, in addition to the requirements of the Instrument, such person or company may be required to apply either for recognition as a clearing agency or for an exemption from the requirement to be recognized as a clearing agency.[10] [Footnote 10: See, for example, the scope of the definition of "clearing agency" in s. 1(1) of the *Securities Act* (Ontario), which includes providing centralized facilities "for comparing data respecting the terms of settlement of a trade or transaction".]

13. Section 4.2 is changed by replacing the beginning portion of the first sentence "Sections s 6.1(1) and 10.2(4) of the Instrument require …***" with "***Subsection 6.1(1) of the Instrument requires***".***

14. Section 4.5 is replaced with the following new section 4.5, together with added new sections 4.6 to 4.8:

4.5 System requirements

(1) The intent of these provisions is to ensure that controls are implemented to support information technology planning, acquisition, development and maintenance, computer operations, information systems support, and security. Recognized guides as to what constitutes adequate information technology controls include 'Information Technology Control Guidelines' from the Canadian Institute of Chartered Accountants (CICA) and 'COBIT' from the IT Governance Institute.

(2) Capacity management requires that the matching service utility monitor, review, and test (including stress test) the actual capacity and performance of the system on an ongoing basis. Accordingly, under paragraph 6.5(b), the matching service utility is required to meet certain standards for its estimates and for testing. These standards are consistent with prudent business practice. The activities and tests required in that paragraph are to be carried out at least once a year. In practice, continuing changes in technology, risk management requirements and competitive pressures will often result in these activities being carried out or tested more frequently.

(3) A failure, malfunction or delay or other incident is considered to be "material" if the matching service utility would, in the normal course of operations, escalate the matter to or inform its senior management ultimately accountable for technology. It is also expected that, as part of this notification, the matching service utility will provide updates on the status of the failure and the resumption of service. Further, the matching service utility should have comprehensive and well-documented procedures in place to record, report, analyze, and resolve all operational incidents. In this regard, the matching service utility should undertake a "post-incident" review to identify the causes and any required improvement to the normal operations or business continuity

arrangements. Such reviews should, where relevant, include the matching service utility's participants. The results of such internal reviews are required to be communicated to the securities regulatory authority as soon as practicable. Paragraph 6.5(c) also refers to a material security breach. A material security breach or systems intrusion is considered to be any unauthorized entry into any of the systems that support the functions of the matching service utility or any system that shares resources with one or more of these systems. Virtually any security breach would be considered material and thus reportable to the securities regulatory authority. The onus would be on the matching service utility to document the reasons for any security breach it did not consider material.

4.6 Systems reviews

(1) A qualified party is a person or a group of persons with relevant experience in both information technology and in the evaluation of related internal systems or controls in a complex information technology environment. Qualified persons may include external auditors or third party information system consultants, as well as employees of the matching service utility or an affiliated entity of the matching service utility, but may not be persons responsible for the development or operation of the systems or capabilities being tested. Before engaging a qualified party, a matching service utility should discuss its choice with the regulator or, in Québec, the securities regulatory authority.

4.7 Matching service utility technology requirements and testing facilities

(1) The technology requirements required to be disclosed under subsection 6.7(1) do not include detailed proprietary information.

(2) We expect the amended technology requirements to be disclosed as soon as practicable, either while the changes are being made or immediately after.

4.8 Testing of business continuity plans

(1) Paragraph 6.8 (a) of the Instrument requires that matching service utility develop and maintain reasonable business continuity plans, including disaster recovery plans. Business continuity planning should encompass all policies and procedures to ensure uninterrupted provision of key services regardless of the cause of potential disruption. In fulfilling the requirement to develop and maintain reasonable business continuity plans, the Canadian securities regulatory authorities expect that matching service utilities are to remain current with best practices for business continuity planning and to adopt them to the extent that they address their critical business needs.

(2) A matching service utility's business continuity plan and its associated arrangements should be subject to frequent review and testing. At a minimum, under paragraph 6.8(b), such tests must be conducted annually. Tests should address various scenarios that simulate wide-scale disasters and inter-site switchovers. The matching service utility's employees should be thoroughly trained to execute the business continuity plan and participants, critical service providers, and linked clearing agencies should be regularly involved in the testing and be provided with a general summary of the testing results. The CSA expects that the matching service utility will also facilitate and participate in industry-wide testing of the business continuity plan. The matching service utility should make appropriate adjustments to its business continuity plan and associated arrangements based on the results of the testing exercises.

15. Section 5.1 is changed by

a. replacing, in the second sentence, "T+3***" with "***T+2***"***

b. renumbering footnote 10 to 11.

16. This Document becomes effective as of September 5, 2017.

ANNEX C

BLACKLINE VERSION OF NI 24-101 REFLECTING PROPOSED AMENDMENTS

CANADIAN SECURITIES ADMINISTRATORS

NATIONAL INSTRUMENT 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

TABLE OF CONTENTS

NATIONAL INSTRUMENT 24-101
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

PART 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions –

In this Instrument,

"clearing agency" means~~,~~ a recognized clearing agency that operates as a securities settlement system within the meaning of National Instrument 24-102 *Clearing Agency Requirements*;

~~(a) in Ontario, a clearing agency recognized by the securities regulatory authority under section 21.2 of the *Securities Act* (Ontario),~~

~~(b) in Québec, a clearing house for securities recognized by the securities regulatory authority, and~~

~~(c) in every other jurisdiction, an entity that is carrying on business as a clearing agency in the jurisdiction;~~

"custodian" means a person or company that holds securities for the benefit of another under a custodial agreement or other custodial arrangement;

"DAP/RAP trade" means a trade in a security

(a) executed for a client trading account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and

(b) for which settlement is ~~made~~completed on behalf of the client by a custodian other than the dealer that executed the trade;

"institutional investor" means a client of a dealer that has been granted DAP/RAP trading privileges by the dealer;

"marketplace" has the same meaning as in National Instrument 21-101 *Marketplace Operation*;

"matching service utility" means a person or company that provides centralized facilities for matching, but does not include a clearing agency;

~~"North American region" means Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean;~~

"registered firm" means a person or company registered under securities legislation as a dealer or adviser;

"trade-matching agreement" means, for trades executed with or on behalf of an institutional investor, a written agreement entered into among trade-matching parties setting out the roles and responsibilities of the trade-matching parties in matching those trades and including, without limitation, a term by which the trade-matching parties agree to establish, maintain and enforce policies and procedures designed to achieve matching as soon as practical after a trade is executed;

"trade-matching party" means, for a trade executed with or on behalf of an institutional investor,

(a) a registered adviser acting for the institutional investor in processing the trade,

(b) if a registered adviser is not acting for the institutional investor in processing the trade, the institutional investor unless the institutional investor is

(i) an individual, or

(ii) a person or company with total securities under administration or management not exceeding $10 million,

(c) a registered dealer executing or clearing the trade, or

(d) a custodian of the institutional investor settling the trade;

"trade-matching statement" means, for trades executed with or on behalf of an institutional investor, a signed written statement of a trade-matching party confirming that it has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after a trade is executed;

"T" means the day on which a trade is executed;

"T+1" means the next business day following T;

"T+2" means the second business day following T~~;"T+3" means the third business day following T~~.

1.2 Interpretation – trade matching and ~~Eastern Time –~~ clearing agency

(1) In this Instrument, matching is the process by which

(a) the details and settlement instructions of an executed DAP/RAP trade are reported, verified, confirmed and affirmed or otherwise agreed to among the trade-matching parties, and

(b) unless the process is effected through the facilities of a clearing agency, the matched details and settlement instructions are reported to a clearing agency.

(2) ~~Unless the context otherwise requires, a reference in this Instrument to~~For the purposes of this Instrument, in Québec, a clearing agency includes a clearing house and a settlement system within the meaning of the Québec *Securities Act*.

~~(a) a time is to Eastern Time, and~~

~~(b) a day is to a twenty four hour day from midnight to midnight Eastern Time.~~

PART 2 APPLICATION

2.1 This Instrument does not apply to

(a) a trade in a security of an issuer that has not been previously issued or for which a prospectus is required to be sent or delivered to the purchaser under securities legislation,

(b) a trade in a security to the issuer of the security,

(c) a trade made in connection with a take-over bid, issuer bid, amalgamation, merger, reorganization, arrangement or similar transaction,

(d) a trade made in accordance with the terms of conversion, exchange or exercise of a security previously issued by an issuer,

(e) a trade that is a securities lending, repurchase, reverse repurchase or similar financing transaction,

(f) a trade ~~in a security of a mutual fund~~ to which Part 9 or 10 of National Instrument 81-102 ~~*Mutual*~~ *Investment Funds* applies,

(g) a trade to be settled outside Canada,

(h) a trade in an option, futures contract or similar derivative, or

(i) a trade in a negotiable promissory note, commercial paper or similar short-term debt obligation that, in the normal course, would settle in Canada on T.

PART 3 TRADE MATCHING REQUIREMENTS

3.1 Matching deadlines for registered dealer –

(1) A registered dealer ~~shall~~must not execute a DAP/RAP trade with or on behalf of an institutional investor unless the dealer has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than 12 p.m. (noon) Eastern time on T+1.

(2) ~~Despite subsection (1), the dealer may adapt its policies and procedures to permit matching to occur no later than 12 p.m. (noon) on T+2 for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region.~~ **[REPEALED]**

3.2 Pre-DAP/RAP trade execution documentation requirement for dealers –

A registered dealer ~~shall~~must not open an account to execute a DAP/RAP trade for an institutional investor or accept an order to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

(a) enter into a trade-matching agreement with the dealer, or

(b) provide a trade-matching statement to the dealer.

3.3 Matching deadlines for registered adviser –

(1) A registered adviser ~~shall~~must not give an order to a dealer to execute a DAP/RAP trade on behalf of an institutional investor unless the adviser has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than 12 p.m. (noon) Eastern time on T+1.

(2) ~~Despite subsection (1), the adviser may adapt its policies and procedures to permit matching to occur no later than 12 p.m. (noon) on T+2 for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region.~~ **[REPEALED]**

3.4 Pre-DAP/RAP trade execution documentation requirement for advisers –

A registered adviser ~~shall~~must not open an account to execute a DAP/RAP trade for an institutional investor or give an order to a dealer to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

(a) enter into a trade-matching agreement with the adviser, or

(b) provide a trade-matching statement to the adviser.

PART 4 REPORTING BY REGISTERED FIRMS

4.1 Exception reporting requirement

A registered firm ~~shall~~must deliver Form 24-101F1 to the securities regulatory authority no later than 45 days after the end of a calendar quarter if

(a) less than 90 per cent of the DAP/RAP trades executed by or for the registered firm during the quarter matched within the time required in Part 3, or

(b) the DAP/RAP trades executed by or for the registered firm during the quarter that matched within the time required in Part 3 represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades.

PART 5 REPORTING REQUIREMENTS FOR CLEARING AGENCIES

5.1 A clearing agency ~~through which trades governed by this Instrument are cleared and settled shall~~must deliver Form 24-101F2 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

PART 6 REQUIREMENTS FOR MATCHING SERVICE UTILITIES

6.1 Initial information reporting –

(1) A person or company ~~shall~~must not carry on business as a matching service utility unless

(a) the person or company has delivered Form 24-101F3 to the securities regulatory authority, and

(b) at least 90 days have passed since the person or company delivered Form 24-101F3.

(2) During the 90 day period referred to in subsection (1), if there is a significant change to the information in the delivered Form 24-101F3, the person or company ~~shall~~must inform the securities regulatory authority in writing immediately of that significant change by delivering an amendment to Form 24-101F3 in the manner set out in Form 24-101F3.

6.2 Anticipated change to operations –

At least 45 days before implementing a significant change to any item set out in Form 24-101F3, a matching service utility ~~shall~~must deliver an amendment to the information in the manner set out in Form 24-101F3.

6.3 Ceasing to carry on business as a matching service utility –

(1) If a matching service utility intends to cease carrying on business as a matching service utility, it ~~shall~~must deliver a report on Form 24-101F4 to the securities regulatory authority at least 30 days before ceasing to carry on that business.

(2) If a matching service utility involuntarily ceases to carry on business as a matching service utility, it ~~shall~~must deliver a report on Form 24-101F4 as soon as practical after it ceases to carry on that business.

6.4 Ongoing information reporting and record keeping –

(1) A matching service utility ~~shall~~must deliver Form 24-101F5 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

(2) A matching service utility ~~shall~~must keep such books, records and other documents as are reasonably necessary to properly record its business.

6.5 System requirements –

For ~~all of its core systems supporting~~each system operated by a matching service utility that supports the matching service utility's trade matching function, a matching service utility ~~shall~~must

(a) develop and maintain

(i) an adequate system of internal controls over that system, and

(~~a) consistent~~ii) adequate information technology general controls, including, without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support,

(b) in accordance with prudent business practice, on a reasonably frequent basis, and, in any event, at least annually,

(i) make reasonable current and future capacity estimates, and

(ii) conduct capacity stress tests ~~of those systems~~ to determine the ability of ~~the systems~~that system to process transactions in an accurate, timely and efficient manner, and

(~~iii) implement reasonable procedures to review and keep current the testing methodology of those systems,~~c) promptly notify the regulator or, in Québec, the securities regulatory authority of any material systems failure, malfunction, delay or security breach, and provide timely updates on the status of the failure, malfunction, delay or security breach, the resumption of service, and the results of the matching service utility's internal review of the failure, malfunction, delay or security breach.

~~(iv) review the vulnerability of those systems and data centre computer operations to internal and external threats, including breaches of security, physical hazards and natural disasters, and~~

6.6 Systems reviews

(~~v) maintain adequate contingency and business continuity plans;(b) annually cause to be performed~~1) A matching service utility must annually engage a qualified party to conduct an independent systems review and ~~written~~vulnerability assessment and prepare a report~~,~~ in accordance with ~~generally accepted auditing standards, of the~~

~~stated internal control objectives of those systems; and~~established audit standards and best industry practices to ensure that the matching service utility is in compliance with paragraph 6.5(a) and paragraph 6.8(a).

(2) The matching service utility must provide the report resulting from the review conducted under subsection (1) to

(a) its board of directors, or audit committee, promptly upon the report's completion, and

(b) the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the calendar year end.

6.7 Matching service utility technology requirements and testing facilities

(1) A matching service utility must make available to its users, in their final form, all technology requirements regarding interfacing with or accessing the matching service utility

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by users, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by users.

(2) After complying with subsection (1), the matching service utility must make available testing facilities for interfacing with or accessing the matching service utility

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by users, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by users.

(3) The matching service utility must not begin operations before

(a) it has complied with paragraphs (1)(a) and (2)(a), and

(b) the chief information officer of the matching service utility, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that all information technology systems used by the matching service utility have been tested according to prudent business practices and are operating as designed.

(4) The matching service utility must not implement a material change to the systems referred to in section 6.5 before

(a) it has complied with paragraphs (1)(b) and (2)(b), and

(b) the chief information officer of the matching service utility, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that the change has been tested according to prudent business practices and is operating as designed.

(5) Subsection (4) does not apply to the matching service utility if the change must be made immediately to address a failure, malfunction or material delay of its systems or equipment and if

(a) the matching service utility immediately notifies the regulator or, in Québec, the securities regulatory authority, of its intention to make the change, and

(b) the matching service utility discloses to its users the changed technology requirements as soon as practicable.

6.8 Testing of business continuity plans

A matching service utility must

(a) develop and maintain reasonable business continuity plans, including disaster recovery plans, and

(~~c) promptly notify the securities regulatory authority of a material failure of those systems.~~b) test its business continuity plans, including its disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually.

PART 7 TRADE SETTLEMENT

7.1 Trade settlement by registered dealer –

(1) A registered dealer ~~shall~~must not execute a trade unless the dealer has established, maintains and enforces policies and procedures designed to facilitate settlement of the trade on a date that is no later than the standard settlement date for the type of security traded prescribed by an SRO or the marketplace on which the trade would be executed.

(2) Subsection (1) does not apply to a trade for which terms of settlement have been expressly agreed to by the counterparties to the trade at or before the trade was executed.

PART 8 REQUIREMENTS OF SELF-REGULATORY ORGANIZATIONS AND OTHERS

8.1 A clearing agency or matching service utility ~~shall~~must have rules or other instruments or procedures that are consistent with the requirements of Parts 3 and 7.

8.2 A requirement of this Instrument does not apply to a member of an SRO if the member complies with a rule or other instrument of the SRO that deals with the same subject matter as the requirement and that has been approved, non-disapproved, or non-objected to by the securities regulatory authority and published by the SRO.

PART 9 EXEMPTION

9.1 Exemption –

(1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

PART 10 EFFECTIVE DATES AND TRANSITION

10.1 Effective dates

[LAPSED]

10.2 Transition

[LAPSED]

FORM 24-101F1

REGISTERED FIRM
EXCEPTION REPORT OF
DAP/RAP TRADE REPORTING AND MATCHING

CALENDAR QUARTER PERIOD COVERED:

From: _____ to: _____

REGISTERED FIRM IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of registered firm (if sole proprietor, last, first and middle name):

2. Name(s) under which business is conducted, if different from item 1:

3a. Address of registered firm's principal place of business:

3b. Indicate below the jurisdiction of your principal regulator within the meaning of NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations:*

☐ Alberta
☐ British Columbia
☐ Manitoba
☐ New Brunswick
☐ Newfoundland & Labrador
☐ Northwest Territories
☐ Nova Scotia
☐ Nunavut
☐ Ontario
☐ Prince Edward Island
☐ Québec
☐ Saskatchewan
☐ Yukon

3c. Indicate below all jurisdictions in which you are registered:

☐ Alberta
☐ British Columbia
☐ Manitoba
☐ New Brunswick
☐ Newfoundland & Labrador
☐ Northwest Territories
☐ Nova Scotia
☐ Nunavut
☐ Ontario
☐ Prince Edward Island
☐ Québec
☐ Saskatchewan
☐ Yukon

4. Mailing address, if different from business address:

5. Type of business: O Dealer O Adviser

6. Category of registration:

7. (a) Registered Firm NRD number:

(b) If the registered firm is a participant of a clearing agency, the registered firm's CUID number:

8. Contact employee name:

Telephone number:

E-mail address:

INSTRUCTIONS:

Deliver this form for both equity and debt DAP/RAP trades together with Exhibits A, B and C pursuant to section 4.1 of the Instrument, covering the calendar quarter indicated above, within 45 days of the end of the calendar quarter if

(a) less than 90 per cent of the equity and/or debt DAP/RAP trades executed by or for you during the quarter matched within the time required in Part 3 of the Instrument, or

(b) the equity and/or debt DAP/RAP trades executed by or for you during the quarter that matched within the time required in Part 3 of the Instrument represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades.

Include DAP/RAP trades in an exchange-traded fund (ETF) security in the equity DAP/RAP trades statistics. Exhibit A(1) applies only to trades in equity and ETF securities. Exhibit A(2) applies only to trades in debt and other fixed-income securities.

EXHIBITS:

Exhibit A – DAP/RAP trade statistics for the quarter

~~Complete Tables 1 and 2~~Where applicable, complete Table 1 or 2, or both, below for each calendar quarter. Deadline means noon Eastern time on T+1.

(1) Equity DAP/RAP trades (includes ETF trades)

Entered into ~~CDS~~the clearing agency by deadline (to be completed by dealers only)				*Matched (to be completed by ~~deadline~~dealers and advisers)*							
# of ~~Trades~~ trades	**%**	**$ ~~Value~~value of ~~Trades~~ trades**	**%**	**# of ~~Trades~~ trades matched**	**%**	**$ ~~Value of Trades~~ value of trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	**%**

(2) Debt DAP/RAP trades

Entered into ~~CDS~~the clearing agency by deadline (to be completed by dealers only)				*Matched (to be completed by ~~deadline~~dealers and advisers)*							
# of ~~Trades~~ trades	**%**	**$ ~~Value of Trades~~ value of trades**	**%**	**# of ~~Trades~~ trades matched**	**%**	**$ ~~Value~~ value of ~~Trades~~ trades matched**	**%**	**# of trades matched by deadline**	**%**	**$ value of trades matched by deadline**	**%**

Legend

"# of Trades" is the total number of transactions in the calendar quarter;

"$ Value of Trades" is the total value of the transactions (purchases and sales) in the calendar quarter.

Exhibit B – Reasons for not meeting exception reporting thresholds

Describe the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument. Reasons given could be one or more matters within your control or due to another trade-matching party or service provider. If you have insufficient information to determine the percentages, the reason for this should be provided. See also Companion Policy 24-101~~CP~~ to the Instrument.

Exhibit C – Steps to address delays

Describe what specific steps you are taking to resolve delays in the equity and/or debt DAP/RAP trade reporting and matching process in the future. Indicate when each of these steps is expected to be implemented. The steps being taken could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. If you have insufficient information to determine the percentages, the steps being taken to obtain this information should be provided. See also Companion Policy 24-101~~CP~~ to the Instrument.

CERTIFICATE OF REGISTERED FIRM

The undersigned certifies that the information given in this report on behalf of the registered firm is true and correct.

DATED at _____ this ____ day of _____ 20___

_____
(Name of registered firm - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

FORM 24-101F2

CLEARING AGENCY
QUARTERLY OPERATIONS REPORT OF
INSTITUTIONAL TRADE REPORTING AND MATCHING

CALENDAR QUARTER PERIOD COVERED:

From: _____ to: _____

IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of clearing agency:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of clearing agency's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 5.1 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Include client trades in an exchange-traded fund (ETF) security in the equity trades statistics.

Exhibits ~~shall~~must be provided in an electronic file, in the following file format: "CSV" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

EXHIBITS:

1. DATA REPORTING

Exhibit A – Aggregate matched trade statistics

For client trades, provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report. Provide separate aggregate information for trades that have been reported or entered into your facilities as matched trades by a matching service utility.

Month/Year: _____ (MMM/YYYY)

Table 1 --- Equity trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
~~T+3~~								
>T+~~3~~2								
Total								

Table 2 – Debt trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
~~T+3~~								
>T+~~3~~2								
Total								

Legend

"# of Trades" is the total number of transactions in the month;

"$ Value of Trades" is the total value of the transactions (purchases and sales) in the month.

Exhibit B – Individual matched trade statistics

Using the same format as Exhibit A above, provide the relevant information for each participant of the clearing agency in respect of client trades during the quarter that have been entered by the participant and matched within the timelines indicated in Exhibit A.

CERTIFICATE OF CLEARING AGENCY

The undersigned certifies that the information given in this report on behalf of the clearing agency is true and correct.

DATED at _____ this ____ day of _____ 20___

_____
(Name of clearing agency - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

FORM 24-101F3

MATCHING SERVICE UTILITY
NOTICE OF OPERATIONS

DATE OF COMMENCEMENT INFORMATION:

Effective date of commencement of operations: _____ (DD/MMM/YYYY)

TYPE OF INFORMATION: O INITIAL SUBMISSION O AMENDMENT

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

6. Legal counsel:

   Firm name:

   Telephone number:

   E-mail address:

GENERAL INFORMATION:

7. Website address:

8. Date of financial year-end: _____ (DD/MMM/YYYY)

9. Indicate the form of your legal status (e.g., corporation, limited or general partnership), the date of formation, and the jurisdiction under which you were formed:

   Legal status: O CORPORATION O PARTNERSHIP
   O OTHER (SPECIFY):

   (a) Date of formation: _____ (DD/MMM/YYYY)

   (b) Jurisdiction and manner of formation:

10. Specify the general types of securities for which information is being or will be received and processed by you for transmission of matched trades to a clearing agency (e.g. exchange-traded domestic equity and debt securities, exchange-traded foreign equity and debt securities, equity and debt securities traded over-the-counter).

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.1~~ or 10.2(4)~~ of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable ~~shall~~must be furnished in lieu of the exhibit. To the extent information requested for an exhibit is identical to the

information requested in another form that you have filed or delivered under National Instrument 21-101 *Marketplace Operation*, simply attach a copy of that other form and indicate in this form where such information can be found in that other form.

If you are delivering an amendment to Form 24-101F3 pursuant to section 6.1(2) or 6.2 of the Instrument, and the amended information relates to an exhibit that was delivered with such form, provide a description of the change and complete and deliver an updated exhibit. ~~If you are delivering Form 24-101F3 pursuant to section 10.2(4) of the Instrument, simply indicate at the top of this form under "Date of Commencement Information" that you were already carrying on business as a matching service utility in the relevant jurisdiction on the date that Part 6 of the Instrument came into force.~~

EXHIBITS:

1. CORPORATE GOVERNANCE

Exhibit A – Constating documents

Provide a copy of your constating documents, including corporate by-laws and other similar documents, as amended from time to time.

Exhibit B – Ownership

List any person or company that owns 10 per cent or more of your voting securities or that, either directly or indirectly, through agreement or otherwise, may control your management. Provide the full name and address of each person or company and attach a copy of the agreement or, if there is no written agreement, briefly describe the agreement or basis through which the person or company exercises or may exercise control or direction.

Exhibit C – Officials

Provide a list of the partners, officers, directors or persons performing similar functions who presently hold or have held their offices or positions during the current and previous calendar year, indicating the following for each:

1. Name.
2. Title.
3. Dates of commencement and expiry of present term of office or position and length of time the office or position held.
4. Type of business in which each is primarily engaged and current employer.
5. Type of business in which each was primarily engaged in the preceding five years, if different from that set out in item 4.
6. Whether the person is considered to be an independent director.

Exhibit D – Organizational structure

Provide a narrative or graphic description of your organizational structure.

Exhibit E – Affiliated entities

For each person or company affiliated to you, provide the following information:

1. Name and address of affiliated entity.
2. Form of organization (e.g., association, corporation, partnership).
3. Name of jurisdiction and statute under which organized.
4. Date of incorporation in present form.
5. Brief description of nature and extent of affiliation or contractual or other agreement with you.
6. Brief description of business services or functions.

7. If a person or company has ceased to be affiliated with you during the previous year or ceased to have a contractual or other agreement relating to your operations during the previous year, provide a brief statement of the reasons for termination of the relationship.

2. FINANCIAL VIABILITY

Exhibit F – Audited financial statements

Provide your audited financial statements for the latest financial year and a report prepared by an independent auditor.

3. FEES

Exhibit G – Fee list, fee structure

Provide a complete list of all fees and other charges imposed, or to be imposed, by you for use of your services as a matching service utility, including the cost of establishing a connection to your systems.

4. ACCESS

Exhibit H – Users

Provide a list of all users or subscribers for which you provide or propose to provide the services of a matching service utility. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser or other party).

If applicable, for each instance during the past year in which any user or subscriber of your services has been prohibited or limited in respect of access to such services, indicate the name of each such user or subscriber and the reason for the prohibition or limitation.

Exhibit I – User contract

Provide a copy of each form of agreement governing the terms by which users or subscribers may subscribe to your services of a matching service utility.

5. SYSTEMS AND OPERATIONS

Exhibit J – System description

Describe the manner of operation of your systems for performing your services of a matching service utility (including, without limitation, systems that collect and process trade execution details and settlement instructions for matching of trades). This description should include the following:

1. The hours of operation of the systems, including communication with a clearing agency.

2. Locations of operations and systems (e.g., countries and cities where computers are operated, primary and backup).

3. A brief description in narrative form of each service or function performed by you.

6. SYSTEMS COMPLIANCE

Exhibit K – ~~Security~~General and security

Provide a ~~brief~~high level description of the systems used to perform your services of a matching service utility, including the processes and procedures implemented by you to provide for the security of ~~any system used to perform your services of a matching service utility~~the systems.

Exhibit L – Capacity planning and measurement

1. Provide a brief description of capacity planning/performance measurement techniques and system and stress testing methodologies.
2. Provide a brief description of testing methodologies with users or subscribers. For example, when are user/subscriber tests employed? How extensive are these tests?

Exhibit M – Business continuity

Provide a brief description of your ~~contingency and~~ business continuity ~~plans in the event of a catastrophe.~~ and disaster recovery plans that includes, but is not limited to, information regarding the following:

1. Where the primary processing site is located.

2. What the approximate percentage of hardware, software and network redundancy is at the primary site.

3. Any uninterruptible power source (UPS) at the primary site.

4. How frequently market data is stored off-site.

5. Any secondary processing site, the location of any such secondary processing site, and whether all of the matching service utility's critical business data is accessible through the secondary processing site.

6. The creation, management, and oversight of the plans, including a description of responsibility for the development of the plans and their ongoing review and updating.

7. Escalation procedures, including event identification, impact analysis, and activation of the plans in the event of a disaster or disruption.

8. Procedures for internal and external communications, including the distribution of information internally, to the securities regulatory authority, and, if appropriate, to the public, together with the roles and responsibilities of the matching service utility's staff for internal and external communications.

9. The scenarios that would trigger the activation of the plans.

10. How frequently the business continuity and disaster recovery plans are tested.

11. Procedures for record keeping in relation to the review and updating of the plans, including the logging of tests and deficiencies.

12. The targeted time to resume operations of critical information technology systems following the declaration of a disaster by the matching service utility and the service level to which such systems are to be restored.

13. Any single points of failure faced by the matching service utility.

Exhibit N – Material systems failures

Provide a brief description of policies and procedures in place for reporting to regulators material systems failures. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes during normal business hours.

Exhibit O – Independent systems audit

1. ~~Briefly describe your plans~~Provide high level information on the qualified party engaged to provide an annual independent ~~audit of your~~ systems review and vulnerability assessment.

2. If applicable, provide a copy of the last ~~external~~ systems operations audit report.

7. INTEROPERABILITY

Exhibit P – Interoperability agreements

List all other matching service utilities for which you have entered into an *interoperability* agreement. Provide a copy of all such agreements.

8. OUTSOURCING

Exhibit Q – Outsourcing firms

For each person or company (outsourcing firm) with whom or which you have an outsourcing agreement or arrangement relating to your services of a matching service utility, provide the following information:

1. Name and address of the outsourcing firm.

2. Brief description of business services or functions of the outsourcing firm.

3. Brief description of the outsourcing firm's contingency and business continuity plans in the event of a catastrophe.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this _____ day of _____ 20____

_____
(Name of matching service utility - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

FORM 24-101F4

MATCHING SERVICE UTILITY
NOTICE OF CESSATION OF OPERATIONS

DATE OF CESSATION INFORMATION:

Type of information: O VOLUNTARY CESSATION

O INVOLUNTARY CESSATION

Effective date of operations cessation: _____ (DD/MMM/YYYY)

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Legal counsel:

   Firm name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.3 of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable ~~shall~~must be furnished in lieu of the exhibit.

EXHIBITS:

Exhibit A

Provide the reasons for your cessation of business.

Exhibit B

Provide a list of all the users or subscribers for which you provided services during the last 30 days prior to you ceasing business. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser, or other party).

Exhibit C

List all other matching service utilities for which an *interoperability* agreement was in force immediately prior to cessation of business.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this_____ day of _____ 20____

_____
(Name of matching service utility - type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

FORM 24-101F5

MATCHING SERVICE UTILITY
QUARTERLY OPERATIONS REPORT OF
INSTITUTIONAL TRADE REPORTING AND MATCHING

CALENDAR QUARTER PERIOD COVERED:

From: _____ to: _____

MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of matching service utility:

2. Name(s) under which business is conducted, if different from item 1:

3. Address of matching service utility's principal place of business:

4. Mailing address, if different from business address:

5. Contact employee name:

   Telephone number:

   E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 6.4 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Include DAP/RAP trades in an exchange-traded fund (ETF) security in the equity DAP/RAP trades statistics.

Exhibits ~~shall~~must be reported in an electronic file, in the following format: "CSV" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

If any information specified is not available, a full statement describing why the information is not available ~~shall~~must be separately furnished.

EXHIBITS

1. SYSTEMS REPORTING

Exhibit A – External systems audit

If an external audit report on your core systems was prepared during the quarter, provide a copy of the report.

Exhibit B – Material systems failures reporting

Provide a brief summary of all material systems failures, malfunction, delay or security breach that occurred during the quarter and for which you were required to notify the securities regulatory authority under section 6.5(c) of the Instrument.

2. DATA REPORTING

Exhibit C – Aggregate matched trade statistics

Provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report.

Month/Year: _____ (MMM/YYYY)

Table 1 – Equity trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
~~T+3~~								
>T+~~3~~2								
Total								

Table 2 – Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	$ Value of Trades	% Industry	# of Trades	% Industry	$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
~~T+3~~								
>T+~~3~~2								
Total								

Legend

"# of Trades" is the total number of transactions in the month;

"$ Value of Trades" is the total value of the transactions (purchases and sales) in the month.

Exhibit D – Individual matched trade statistics

Using the same format as Exhibit C above, provide the relevant information for each user or subscriber in respect of trades during the quarter that have been entered by the user or subscriber and matched within the timelines indicated in Exhibit C.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at _____ this ____ day of _____ 20___

_____
(Name of matching service utility- type or print)

_____
(Name of director, officer or partner - type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity - type or print)

ANNEX D

BLACKLINE VERSION OF CP 24-101 REFLECTING PROPOSED CHANGES

CANADIAN SECURITIES ADMINISTRATORS

COMPANION POLICY 24-101~~CP~~
~~TO NATIONAL INSTRUMENT 24-101~~
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

TABLE OF CONTENTS

COMPANION POLICY 24-101~~CP~~
~~TO NATIONAL INSTRUMENT 24-101–~~

INSTITUTIONAL TRADE MATCHING AND SETTLEMENT

PART 1 INTRODUCTION, PURPOSE AND DEFINITIONS[1]

1.1 Purpose of Instrument – National Instrument 24-101 – *Institutional Trade Matching and Settlement* (Instrument) provides a framework in provincial securities regulation for more efficient and timely trade settlement processing, particularly institutional trades. The increasing volumes and dollar values of securities traded in Canada and globally by institutional investors mean existing back-office systems and procedures of market participants are challenged to meet post-execution processing demands. New requirements are needed to address the increasing risks. The Instrument is part of a broader initiative in the Canadian securities markets to implement straight-through processing (STP).[2]

1.2 General explanation of matching, clearing and settlement –

(1) *Parties to institutional trade* – A typical trade with or on behalf of an institutional investor might involve at least three parties:

- a registered adviser or other *buy-side* manager acting for an institutional investor in the trade–and often acting on behalf of more than one institutional investor in the trade (i.e., multiple underlying institutional client accounts)–who decides what securities to buy or sell and how the assets should be allocated among the client accounts;
- a registered dealer (including an Alternative Trading System registered as a dealer) responsible for executing or clearing the trade; and
- any financial institution or registered dealer (including under a *prime brokerage* arrangement) appointed to hold the institutional investor's assets and settle trades.

(2) *Matching* – A first step in settling a securities trade is to ensure that the buyer and the seller agree on the details of the transaction, a process referred to as trade confirmation and affirmation or trade *matching*.[3] A registered dealer who executes trades with or on behalf of others is required to report and confirm trade details, not only with the counterparty to the trade, but also with the client for whom it acted or the client with whom it traded (in which case, the client would be the counterparty). Similarly, a registered adviser or other buy-side manager is required to report trade details and provide settlement instructions to its custodian. The parties must agree on trade details–sometimes referred to as *trade data elements*– as soon as possible so that errors and discrepancies in the trades can be discovered early in the clearing and settlement process.

(3) *Matching process* – Verifying the trade data elements is necessary to *match* a trade executed on behalf of or with an institutional investor. Matching occurs when the relevant parties to the trade have, after verifying the trade data elements, reconciled or agreed to the details of the trade. Matching also requires that any custodian holding the institutional investor's assets be in a position to affirm the trade so that the trade can be ready for the clearing and settlement process through the facilities of the clearing agency. To illustrate, trade matching usually includes these following activities:

(a) The registered dealer notifies the buy-side manager that the trade was executed.

(b) The buy-side manager advises the dealer and any custodian(s) how the securities traded are to be allocated

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1 In this Companion Policy, the terms "CSA", "we", "our" or "us" are used interchangeably and generally mean the same thing as *Canadian securities regulatory authorities* defined in National Instrument 14-101 – *Definitions*.

2 For a discussion of Canadian STP initiatives, see Canadian Securities Administrators' (CSA) Discussion Paper 24-401 on *Straight-through Processing* and Request for Comments, April 16, 2004 (2004) 27 OSCB 3971 to 4031 (Discussion Paper 24-401); and CSA Notice 24-301–*Responses to Comments Received on Discussion Paper 24-401 on Straight-through Processing, Proposed National Instrument 24-101 Post-trade Matching and Settlement, and Proposed Companion Policy 24-101CP to National Instrument 24-101 Post-trade Matching and Settlement*, February 11, 2005 (2005) 28 OSCB 1509 to 1526.

3 The processes and systems for matching of "non-institutional trades" in Canada have evolved over time and become automated, such as retail trades on an exchange, which are matched or *locked-in* automatically at the exchange, or direct non-exchange trades between two participants of a clearing agency, which are generally matched through the facilities of the clearing agency. Dealer to dealer trades are subject to Investment Industry Regulatory Organization of Canada (IIROC) Member Rule 800.49, which provides that trades in non-exchange traded securities (including government debt securities) among dealers must be entered or accepted or rejected through the facilities of an "Acceptable Trade Matching Utility" ~~within one hour of~~by no later than 6 pm on the ~~execution~~day of the trade.

among the underlying institutional client accounts managed by the buy-side manager.[4] For so-called *block settlement trades*, the dealer sometimes receives allocation information from the buy-side manager based only on the number of custodians holding institutional investors' assets instead of on the actual underlying institutional client accounts managed by the buy-side manager.

(c) The dealer reports and confirms the trade details to the buy-side manager and clearing agency. The trade details required to be confirmed for matching, clearing and settlement purposes are generally similar to the information required in the customer trade confirmation delivered pursuant to securities legislation or self-regulatory organization (SRO) rules.[5]

(d) The custodian or custodians of the assets of the institutional investor verify the trade details and settlement instructions against available securities or funds held for the institutional investor. After trade details are agreed, the buy-side manager instructs the custodian(s) to release funds and/or securities to the dealer through the facilities of the clearing agency.

(4) *Clearing and settlement* – The *clearing* of a trade begins after the execution of the trade. After matching is completed, clearing will involve the calculation of the mutual obligations of participants for the exchange of securities and money–a process which generally occurs within the facilities of a clearing agency. The *settlement* of a trade is the moment when the securities are transferred finally and irrevocably from one participant to another in exchange for a corresponding transfer of money. In the context of settlement of a trade through the facilities of a clearing agency, often acting as central counterparty, settlement will be the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and its participants. Through the operation of novation and set-off in law or by contract, the clearing agency becomes a counterparty to each trade so that the mutual obligation to settle the trade is between the clearing agency and each participant.

1.3 Section 1.1 – Definitions and scope –

(1) *Clearing agency* – ~~Today, the definition of *clearing agency* applies only to The Canadian Depository for Securities Limited (CDS). The definition takes into account the fact that securities regulatory authorities in Ontario and Québec currently recognize or otherwise regulate clearing agencies in Canada under provincial securities legislation.[6] The functional meaning of *clearing agency* can be found in the securities legislation of certain jurisdictions.~~While the terms "clearing agency" and "recognized clearing agency" are generally defined in securities legislation,[~~7~~6] we have defined *clearing agency* for the purposes of the Instrument to narrow its scope to a recognized clearing agency that operates as a securities settlement system. The term *securities settlement system* is defined in National Instrument 24-102 *Clearing Agency Requirements* as a system that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Today, the definition of *clearing agency* in the Instrument applies to CDS Clearing and Depository Services Inc. (**CDS**). For the purposes of the Instrument, a clearing agency includes, in Quebec, a clearing house and settlement system within the meaning of the Québec *Securities Act*. See subsection 1.2(2).

(2) *Custodian* – While investment assets are sometimes held directly by investors, most are held on behalf of the investor by or through securities accounts maintained with a financial institution or dealer. The definition of *custodian* includes both a financial institution (non-dealer custodian) and a dealer acting as custodian (dealer custodian). Most institutional investors, such as pension and mutual funds, hold their assets through custodians that are prudentially-regulated financial institutions. However, others (like hedge funds) often maintain their investment assets with dealers under so-called *prime-brokerage* arrangements. A financial institution or dealer in Canada need not necessarily have a direct contractual relationship with an institutional investor to be considered a custodian of portfolio assets of the institutional

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[4] We remind registered advisers of their obligations to ensure fairness in allocating investment opportunities among their clients. An adviser must establish, maintain and apply policies and procedures that provide reasonable assurance that the firm and each individual acting on its behalf fairly allocates investment opportunities among its clients. If the adviser allocates investment opportunities among its clients, the firm's fairness policies should, at a minimum, indicate the method used to allocate the following: (i) price and commission among client orders when trades are bunched or blocked; (ii) block trades and initial public offerings (IPOs) among client accounts, and (iii) block trades and IPOs among client orders that are partially filled, such as on a pro-rata basis. The fairness policies should also address any other situation where investment opportunities must be allocated.

A summary of the fairness policies must be delivered to each client at the time the adviser opens an account for the client, and in a timely manner if there is a significant change to the summary last delivered to the client.

See sections 14.3 and 14.10 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and section 14.10 of the Companion Policy to NI 31-103.

[5] See, for example, section ~~36 of the *Securities Act* (Ontario), The Toronto Stock Exchange (TSX) Rule 2-405~~14.12 of NI 31-103 and IIROC Member Rule 200.1(h).

~~[6] CDS is also regulated by the Bank of Canada pursuant to the *Payment Clearing and Settlement Act* (Canada).~~

~~[7] See, for example, s. 1(1) of the *Securities Act* (Ontario).~~

[6.] See, for example, s. 1(1) of the *Securities Act* (Ontario).

investor for the purposes of the Instrument if it is acting as sub-custodian to a global custodian or international central securities depository.

(3) *Institutional investor* – A client of a dealer that has been granted DAP/RAP trading privileges is an institutional investor. This will likely be the case whenever a client's investment assets are held by or through securities accounts maintained with a custodian instead of the client's dealer that executes its trades. While the expression "institutional trade" is not defined in the Instrument, we use the expression in this Companion Policy to mean broadly any DAP/RAP trade.

(4) *DAP/RAP trade* – The concepts *delivery against payment* and *receipt against payment* are generally understood by the industry. They are also defined terms in the Notes and Instructions (Schedule 4) to ~~the *Joint Regulatory Financial Questionnaire and Report* of the Canadian SROs~~IIROC Form 1, Part II. All DAP/RAP trades, whether settled by a non-dealer custodian or a dealer custodian, are subject to the requirements of Part 3 of the Instrument. The definition of DAP/RAP trade excludes a trade for which settlement is made on behalf of a client by a custodian that is also the dealer that executed the trade.

(5) *Trade-matching party* – An institutional investor, whether Canadian or foreign-based, may be a trade-matching party. As such, it, or its adviser that is acting for it in processing a trade, should enter into a trade-matching agreement or provide a trade-matching statement under Part 3 of the Instrument. However, an institutional investor that is an individual or a person or company with total securities under administration or management not exceeding $10 million, is not a trade-matching party. A custodian that settles a trade on behalf of an institutional investor is also a trade-matching party and should enter into a trade-matching agreement or provide a trade-matching statement. However, a foreign global custodian or international central securities depository that holds Canadian portfolio assets through a local Canadian sub-custodian would not normally be considered a trade-matching party if it is not a clearing agency participant or otherwise directly involved in settling the trade in Canada.

(6) *Application of Instrument* – Part 2 of the Instrument enumerates certain types of trades that are not subject to the Instrument.

PART 2 TRADE MATCHING REQUIREMENTS

2.1 Trade data elements – Trade data elements that must be verified and agreed to are those identified by the SROs or the best practices and standards for institutional trade processing established and generally adopted by the industry. See section 2.4 of this Companion Policy. To illustrate, trade data elements that should be transmitted, compared and agreed to may include the following:

(a) *Security identification*: standard numeric identifier, currency, issuer, type/class/series, market ID; and

(b) *Order and trade information*: dealer ID, account ID, account type, buy/sell indicator, order status, order type, unit price/face amount, number of securities/quantity, message date/time, trade transaction type, commission, accrued interest (fixed income), broker settlement location, block reference, net amount, settlement type, allocation sender reference, custodian, payment indicator, IM portfolio/account ID, quantity allocated, and settlement conditions.

2.2 Trade matching deadlines for registered firms – The obligation of a registered dealer or registered adviser to establish, maintain and enforce policies and procedures, pursuant to sections 3.1 and 3.3 of the Instrument, will require the dealer or adviser to take reasonable steps to achieve matching as soon as practical after the DAP/RAP trade is executed and in any event no later than 12 p.m. (noon) Eastern time on T+1. ~~If the trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region, the deadline for matching is 12 p.m. (noon) on T+2 (subsections 3.1(2) and 3.3(2)). As defined, the North American region comprises Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean.~~The policies and procedures requirement of Part 3 of the Instrument is consistent with the overarching obligation of a registered firm to manage the risks associated with its business in accordance with prudent business practices.[7]

2.3 Choice of trade-matching agreement or trade-matching statement –

(1) *Establishing, maintaining and enforcing policies and procedures* –

(a) Under sections 3.2 and 3.4, a registered dealer's or registered adviser's policies and procedures must be designed to encourage trade-matching parties to (i) enter into a trade-matching agreement with the dealer or

[7] See s. 11.1 of NI 31-103, which requires registered firms to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices.

adviser or (ii) provide or make available a trade-matching statement to the dealer or adviser. The purpose of the trade-matching agreement or trade-matching statement is to ensure that all trade-matching parties have established, maintain, and enforce appropriate policies and procedures designed to achieve matching of a DAP/RAP trade as soon as practical after the trade is executed. If the dealer or adviser is unable to obtain a trade-matching agreement or statement from a trade-matching party, it should document its efforts in accordance with its policies and procedures.

(b) The parties described in paragraphs (a), (b), (c), and (d) of the definition "trade-matching party" in section 1.1 of the Instrument need not necessarily all be involved in a trade for the requirements of sections 3.2 and 3.4 of the Instrument to apply. There is no need for an adviser to be involved in the matching process of an institutional investor's trades for the requirement to apply. In this case, the trade-matching parties that should have appropriate policies and procedures in place would be the institutional investor, the dealer and the custodian.

(c) The Instrument does not provide the form of a trade-matching agreement or trade-matching statement other than it be in writing. Subsections (2) and (3) below provide some guidance on these documents. A trade-matching agreement or trade-matching statement should be signed by a senior executive officer of the entity to ensure its policies and procedures are given sufficient attention and priority within the entity's senior management. A senior executive officer would include any individual who is (a) the chair of the entity, if that individual performs the functions of the office on a full time basis, (b) a vice-chair of the entity, if that individual performs the functions of the office on a full time basis, (c) the president, chief executive officer or chief operating officer of the entity, and (d) a senior vice-president of the entity in charge of the entity's operations and back-office functions.

(2) *Trade-matching agreement* –

(a) A registered dealer or registered adviser need only enter into one trade-matching agreement with the other trade-matching parties for new or existing DAP/RAP trading accounts of an institutional investor for all future trades in relation to such account. The trade-matching agreement may be a single multi-party agreement among the trade-matching parties, or a network of bilateral agreements. A single trade-matching agreement is also sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. If the dealer or adviser uses a trade-matching agreement, the form of such agreement may be incorporated into the institutional account opening documentation and may be modified from time to time with the consent of the parties.

(b) The agreement must specify the roles and responsibilities of each of the trade-matching parties and should describe the minimum standards and best practices to be incorporated into the policies and procedures that each party has in place. This should include the timelines for accomplishing the various steps and tasks of each trade-matching party for timely matching. For example, the agreement may include, as applicable, provisions dealing with:

For the dealer executing and/or clearing the trade:

- how and when the notice of trade execution (NOE) is to be given to the institutional investor or its adviser, including the format and content of the NOE (e.g., electronic);
- how and when trade details are to be entered into the dealer's internal systems and the clearing agency's systems;
- how and when the dealer is to correct or adjust trade details entered into its internal systems or the clearing agency's systems as may be required to agree to trade details with the institutional investor or its adviser;
- general duties of the dealer to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

For the institutional investor or its adviser:

- how and when to review the NOE's trade details, including identifying any differences from its own records;
- how and when to notify the dealer of trade differences, if any, and resolve such differences;

- how and when to determine and communicate settlement details and account allocations to the dealer and/or custodian(s);

- general duties of the institutional investor or its adviser to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

For the custodian settling the trade at the clearing agency:

- how and when to receive trade details and settlement instructions from institutional investors or their advisers;

- how and when to review and monitor trade details submitted to the clearing agency on an ongoing basis for items entered and awaiting affirmation or challenge;

- how and when to report to institutional investors or their advisers on an ongoing basis changes to the status of a trade and the matching of a trade;

- general duties of the custodian to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

(3) *Trade-matching statement* – A single trade-matching statement is sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. A registered dealer or registered adviser may accept a trade-matching statement signed by a senior executive officer of a trade-matching party without further investigation and may continue to rely upon the statement for all future trades in an account, unless the dealer or adviser has knowledge that any statements or facts set out in the statement are incorrect. Mass mailings or emails of a trade-matching statement, or the posting of a single uniform trade-matching statement on a Website, would be acceptable ways of providing the statement to other trade-matching parties. A registered firm may rely on a trade-matching party's representations that the trade-matching statement was provided to the other trade-matching parties without further investigation.

(4) *Monitoring and enforcement of undertakings in trade-matching documentation* – Registered dealers and advisers should use reasonable efforts to monitor compliance with the terms or undertakings set out in the trade-matching agreements or trade-matching statements in accordance with their policies and procedures.

Registered dealers and advisers should also take active steps to address problems if the policies and procedures of other trade-matching parties appear to be inadequate and are causing delays in the matching process. Such steps might include imposing monetary incentives (e.g. penalty fees) or requesting a third party review or assessment of the party's policies and procedures. This approach could enhance cooperation among the trade-matching parties leading to the identification of the root causes of failures to match trades on time.

2.4 Determination of appropriate policies and procedures –

(1) *Best practices* – We are of the view that, when establishing appropriate policies and procedures, a party should consider the industry's generally adopted best practices and standards for institutional trade processing. It should also include those policies and procedures into its regulatory compliance and risk management programs.

(2) *Different policies and procedures* – We recognize that appropriate policies and procedures may not be the same for all registered dealers, registered advisers and other market participants because of the varying nature, scale and complexity of a market participant's business and risks in the trading process. For example, policies and procedures designed to achieve matching may differ among a registered dealer that acts as an "introducing broker" and one that acts as a "carrying broker".[8] In addition, if a dealer is not a clearing agency participant, the dealer's policies and procedures to expeditiously achieve matching should be integrated with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer. Establishing appropriate policies and procedures may require registered dealers, registered advisers and other market participants to upgrade their systems and enhance their interoperability with others.[9]

8. See IIROC Member Rule 35 – *Introducing Broker / Carrying Broker Arrangements*.

9. See Discussion Paper 24-401, at p. 3984, for a discussion of *interoperability*.

2.5 Use of matching service utility – The Instrument does not require the trade-matching parties to use the facilities or services of a matching service utility to accomplish matching of trades within the prescribed timelines. However, if such facilities or services are made available in Canada, the use of such facilities or services may help a trade-matching party's compliance with the Instrument's requirements.

PART 3 INFORMATION REPORTING REQUIREMENTS

3.1 Exception reporting for registered firms –

(a) Part 4 of the Instrument requires a registered firm to complete and deliver to the securities regulatory authority Form 24-101F1 and related exhibits. Form 24-101F1 need only be delivered if less than ~~a percentage target~~90 percent of the DAP/RAP trades (by volume and value) executed by or for the registered firm in any given calendar quarter have matched within the time required by the Instrument. Tracking of a registered firm's trade matching statistics may be outsourced to a third party service provider, including a clearing agency or custodian. However, despite the outsourcing arrangement, the registered firm retains full legal and regulatory liability and accountability to the Canadian securities regulatory authorities for its exception reporting requirements. If a registered firm has insufficient information to determine whether it has achieved the percentage target of matched DAP/RAP trades in any given calendar quarter, it must explain in Form 24-101F1 the reasons for this and the steps it is taking to obtain this information in the future.

(b) Form 24-101F1 requires registered firms to provide aggregate quantitative information on their equity and debt DAP/RAP trades. ~~They~~DAP/RAP trades in exchange-traded funds are reportable in the equities category of DAP/RAP trades.

Form 24-101F1 should only be submitted for DAP/RAP trades for the type of security (equity or debt) that did not meet the 90 percent threshold by the relevant timeline. If a registered firm does not meet the threshold for both equity and debt DAP/RAP trades, then it should submit the Form for both equity and debt DAP/RAP trades (i.e., by completing both tables in Exhibit A of Form 24-101F1). If the firm does not meet the threshold only for one type of security (i.e., for equity but not debt, or for debt but not equity), it should only submit the Form for the one type of security, by completing only one of the tables in Exhibit A of Form 24-101F1. A registered firm must also provide qualitative information on the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument and the specific steps they are taking to resolve delays in the trade reporting and matching process in the future. Registered firms should provide information that is relevant to their circumstances. For example, dealers should provide information demonstrating problems with NOEs or reporting of trade details to the clearing agency. Reasons given for the failure could be one or more matters within the registered firm's control or due to another trade-matching party or service provider.

(c) The steps being taken by a registered firm to resolve delays in the matching process could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. Dealers should confirm what steps they have taken to inform and encourage their clients to comply with the requirements or undertakings of the trade-matching agreement and/or trade-matching statement. They should confirm what problems, if any, they have encountered with their clients, other trade-matching parties or service providers. They should identify the trade-matching party or service provider that appears to be consistently not meeting matching deadlines or to have no reasonable policies and procedures in place. Advisers should provide similar information, including information demonstrating problems with communicating allocations or with service providers or custodians.

3.2 Regulatory reviews of registered firm exception reports –

(a) We will review the completed Forms 24-101F1 on an ongoing basis to monitor and assess compliance by registered firms with the Instrument's matching requirements. We will identify problem areas in matching, including identifying trade-matching parties that have no or weak policies and procedures in place to ensure matching of trades is accomplished within the time prescribed by Part 3 of the Instrument. Monitoring and assessment of registered firm matching activities may be undertaken by the SROs in addition to, or in lieu of, reviews undertaken by us.

(b) ~~Consistent~~The Canadian securities regulatory authorities may consider the consistent inability to meet the matching percentage target ~~will be considered~~ as evidence ~~by the Canadian securities regulatory authorities~~ that either the policies and procedures of one or more of the trade matching parties have not been properly designed or, if properly designed, have been inadequately complied with. Consistently poor qualitative

reporting ~~will~~may also be considered as evidence of poorly designed or implemented policies and procedures. See also section 2.3(4) of this Companion Policy for a further discussion of our approach to compliance and enforcement of the trade-matching requirements of the Instrument.

3.3 Other information reporting requirements – Clearing agencies and matching service utilities are required to include in Forms 24-101F2 and 24-101F5 certain trade-matching information in respect of their participants ~~or~~, users~~/~~ or subscribers. The purpose of this information is to facilitate monitoring and enforcement by the Canadian securities regulatory authorities or SROs of the Instrument's matching requirements.

3.4 Forms delivered in electronic form – Registered firms ~~may~~should complete their Form 24-101F1 on-line on the CSA's website at the following URL addresses:

In English: http://www.securities-administrators.ca/industry_resources.aspx?id=52

In French: http://www.autorites-valeurs-mobilieres.ca/ressources_professionnelles.aspx?id=52

3.5 Confidentiality of information – The forms delivered to the securities regulatory authority by a registered firm, clearing agency and matching service utility under the Instrument will be treated as confidential by us, subject to the applicable provisions of the freedom of information and protection of privacy legislation adopted by each province and territory. We are of the view that the forms contain intimate financial, commercial and technical information and that the interests of the providers of the information in non-disclosure outweigh the desirability of making such information publicly available. However, we may share the information with SROs and may publicly release aggregate industry-wide matching statistics on equity and debt DAP/RAP trading in the Canadian markets.

PART 4 REQUIREMENTS FOR MATCHING SERVICE UTILITIES

4.1 Matching service utility –

(1) Part 6 of the Instrument sets out reporting, systems capacity, and other requirements of a matching service utility. ~~The~~For the purposes of the Instrument, the term *matching service utility* expressly excludes a clearing agency. A matching service utility would be any entity that provides the services of a post-execution centralized matching facility for trade-matching parties. It may use technology to match in real-time trade data elements throughout a trade's processing lifecycle. A matching service utility would not include a registered dealer who offers "local" matching services to its institutional investor-clients. In Québec, a person or company that seeks to provide centralized facilities for matching must, in addition to the requirements of the Instrument, apply for recognition as a matching service utility or for an exemption from the requirement to be recognized as a matching service utility pursuant to the *Securities Act* (Québec, chapter V-1.1) or *Derivatives Act* (Québec, chapter I-14.01). In certain other jurisdictions, in addition to the requirements of the Instrument, such person or company may be required to apply either for recognition as a clearing agency or for an exemption from the requirement to be recognized as a clearing agency.[10]

(2) A matching service utility would be viewed by us as an important infrastructure system involved in the clearing and settlement of securities transactions. We believe that, while a matching service utility operating in Canada would largely enhance operational efficiency in the capital markets, it would raise certain regulatory concerns. Comparing and matching trade data are complex processes that are inextricably linked to the clearance and settlement process. A matching service utility concentrates processing risk in the entity that performs matching instead of dispersing that risk more to the dealers and their institutional investor-clients. Accordingly, we believe that the breakdown of a matching service utility's ability to accurately verify and match trade information from multiple market participants involving large numbers of securities transactions and sums of money could have adverse consequences for the efficiency of the Canadian securities clearing and settlement system. The requirements of the Instrument applicable to a matching service utility are intended to address these risks.

4.2 Initial information reporting requirements for a matching service utility – ~~Sections~~Subsection 6.1(1) ~~and 10.2(4)~~ of the Instrument ~~require~~requires any person or company that carries on or intends to carry on business as a matching service utility to deliver Form 24-101F3 to the securities regulatory authority. We will review Form 24-101F3 to determine whether the person or company that delivered the form is an appropriate person or company to act as a matching service utility for the Canadian capital markets. We will consider a number of factors when reviewing the form, including:

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10. See, for example, the scope of the definition of "clearing agency" in s. 1(1) of the *Securities Act* (Ontario), which includes providing centralized facilities "for comparing data respecting the terms of settlement of a trade or transaction".

(a) the performance capability, standards and procedures for the transmission, processing and distribution of details of trades executed on behalf of institutional investors;

(b) whether market participants generally may obtain access to the facilities and services of the matching service utility on fair and reasonable terms;

(c) personnel qualifications;

(d) whether the matching service utility has sufficient financial resources for the proper performance of its functions;

(e) the existence of, and interoperability arrangements with, another entity performing a similar function for the same type of security; and

(f) the systems report referred to in section 6.5(b) of the Instrument.

4.3 Change to significant information – Under section 6.2 of the Instrument, a matching service utility is required to deliver to the securities regulatory authority an amendment to the information provided in Form 24-101F3 at least 45 days before implementing a significant change involving a matter set out in Form 24-101F3. In our view, a significant change includes a change to the information contained in the General Information items 1-10 and Exhibits A, B, E, G, I, J, O, P and Q of Form 24-101F3.

4.4 Ongoing information reporting and other requirements applicable to a matching service utility –

(1) Ongoing quarterly information reporting requirements will allow us to monitor a matching service utility's operational performance and management of risk, the progress of interoperability in the market, and any negative impact on access to the markets. A matching service utility will also provide trade matching data and other information to us so that we can monitor industry compliance.

(2) Completed forms delivered by a matching service utility will provide useful information on whether it is:

(a) developing fair and reasonable linkages between its systems and the systems of any other matching service utility in Canada that, at a minimum, allow parties to executed trades that are processed through the systems of both matching service utilities to communicate through appropriate, effective interfaces;

(b) negotiating with other matching service utilities in Canada fair and reasonable charges and terms of payment for the use of interface services with respect to the sharing of trade and account information; and

(c) not unreasonably charging more for use of its facilities and services when one or more counterparties to trades are customers of other matching service utilities than the matching service utility would normally charge its customers for use of its facilities and services.

4.5 ~~Capacity, integrity and security system~~System requirements –

(1) The intent of these provisions is to ensure that controls are implemented to support information technology planning, acquisition, development and maintenance, computer operations, information systems support, and security. Recognized guides as to what constitutes adequate information technology controls include 'Information Technology Control Guidelines' from the Canadian Institute of Chartered Accountants (CICA) and 'COBIT' from the IT Governance Institute.

(2) Capacity management requires that the matching service utility monitor, review, and test (including stress test) the actual capacity and performance of the system on an ongoing basis. Accordingly, under paragraph 6.5(b), the matching service utility is required to meet certain standards for its estimates and for testing. These standards are consistent with prudent business practice. The activities and tests required in that paragraph are to be carried out at least once a year. In practice, continuing changes in technology, risk management requirements and competitive pressures will often result in these activities being carried out or tested more frequently.

(3) A failure, malfunction or delay or other incident is considered to be "material" if the matching service utility would, in the normal course of operations, escalate the matter to or inform its senior management ultimately accountable for technology. It is also expected that, as part of this notification, the matching service utility will provide updates on the status of the failure and the resumption of service. Further, the matching service utility should have comprehensive and well-documented procedures in place to record, report, analyze, and resolve all operational incidents. In this regard, the matching service utility should undertake a "post-incident" review to identify the causes and any required improvement

to the normal operations or business continuity arrangements. Such reviews should, where relevant, include the matching service utility's participants. The results of such internal reviews are required to be communicated to the securities regulatory authority as soon as practicable. Paragraph 6.5(c) also refers to a material security breach. A material security breach or systems intrusion is considered to be any unauthorized entry into any of the systems that support the functions of the matching service utility or any system that shares resources with one or more of these systems. Virtually any security breach would be considered material and thus reportable to the securities regulatory authority. The onus would be on the matching service utility to document the reasons for any security breach it did not consider material.

4.6 Systems reviews

(1) A qualified party is a person or a group of persons with relevant experience in both information technology and in the evaluation of related internal systems or controls in a complex information technology environment. Qualified persons may include external auditors or third party information system consultants, as well as employees of the matching service utility or an affiliated entity of the matching service utility, but may not be persons responsible for the development or operation of the systems or capabilities being tested. Before engaging a qualified party, a matching service utility should discuss its choice with the regulator or, in Québec, the securities regulatory authority.

4.7 Matching service utility technology requirements and testing facilities

(1) The technology requirements required to be disclosed under subsection 6.7(1) do not include detailed proprietary information.

(2) We expect the amended technology requirements to be disclosed as soon as practicable, either while the changes are being made or immediately after.

~~(1) The activities in section 6.5(a) of the Instrument must be carried out at least once a year. We would expect these activities to be carried out even more frequently if there is a significant change in trading volumes that necessitates that these functions be carried out more frequently in order to ensure that the matching service utility can appropriately service its clients.~~

4.8 Testing of business continuity plans

~~(2) The independent review contemplated by section 6.5(b) of the Instrument should be performed by competent and independent audit personnel, in accordance with generally accepted auditing standards. Depending on the circumstances, we would consider accepting a review performed and written report delivered pursuant to similar requirements of a foreign regulator to satisfy the requirements of this section. A matching service utility that wants to advocate for that result must submit a request for discretionary relief.~~

(1) Paragraph 6.8 (a) of the Instrument requires that matching service utility develop and maintain reasonable business continuity plans, including disaster recovery plans. Business continuity planning should encompass all policies and procedures to ensure uninterrupted provision of key services regardless of the cause of potential disruption. In fulfilling the requirement to develop and maintain reasonable business continuity plans, the Canadian securities regulatory authorities expect that matching service utilities are to remain current with best practices for business continuity planning and to adopt them to the extent that they address their critical business needs.

(2) ~~(3) The notification of a material systems failure under section 6.5(c) of the Instrument should be provided promptly from the time the incident was identified as being material and should include the date, cause and duration of the interruption and its general impact on users or subscribers. We consider promptly to mean within one hour from the time the incident was identified as being material. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes during normal business hours.~~A matching service utility's business continuity plan and its associated arrangements should be subject to frequent review and testing. At a minimum, under paragraph 6.8(b), such tests must be conducted annually. Tests should address various scenarios that simulate wide-scale disasters and inter-site switchovers. The matching service utility's employees should be thoroughly trained to execute the business continuity plan and participants, critical service providers, and linked clearing agencies should be regularly involved in the testing and be provided with a general summary of the testing results. The CSA expects that the matching service utility will also facilitate and participate in industry-wide testing of the business continuity plan. The matching service utility should make appropriate adjustments to its business continuity plan and associated arrangements based on the results of the testing exercises.

PART 5 TRADE SETTLEMENT

5.1 Trade settlement by dealer – Section 7.1 of the Instrument is intended to support and strengthen the general settlement cycle rules of the SROs and marketplaces. Current SRO and marketplace rules mandate a standard T+~~3~~2 settlement cycle period for most transactions in equity and long term debt securities.[~~10~~11] If a dealer is not a participant of a clearing agency, the dealer's policies and procedures to facilitate the settlement of a trade should be combined with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer.

PART 6 REQUIREMENTS OF SELF-REGULATORY ORGANIZATIONS AND OTHERS

6.1 Standardized documentation – Without limiting the generality of section 8.2 of the Instrument, an SRO may require its members to use, or recommend that they use, a standardized form of trade-matching agreement or trade-matching statement prepared or approved by the SRO, and may negotiate on behalf of its members with other trade-matching parties and industry associations to agree on the standardized form of trade-matching agreement or trade-matching statement to be used by all relevant sectors in the industry (dealers, buy-side managers and custodians).

[~~10~~11] See, for example, IIROC Member Rule 800.27 and TSX Rule 5-103(1).

ANNEX E

CANADIAN SECURITIES ADMINISTRATORS

CSA CONSULTATION PAPER 24-402
POLICY CONSIDERATIONS FOR ENHANCING SETTLEMENT DISCIPLINE IN A T+2 SETTLEMENT CYCLE ENVIRONMENT

August 18, 2016

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Executive summary

The securities industry in Canada is preparing to shorten the standard settlement cycle for equity and long-term debt market trades from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**). As part of the transition to a standard T+2 settlement cycle, there has been a focus by industry on operational improvements that will be needed to manage any risk that the move to T+2 may cause an increase in settlement failures.

In parallel with the industry's efforts, the Canadian Securities Administrators (**CSA** or **we**) believe that it is prudent to solicit stakeholder views on settlement failures in Canada. Market participants and regulators alike must manage the risk that the transition to T+2 might increase settlement failure rates in normal market conditions. We wish to understand whether stakeholders consider current regulatory and other mechanisms adequate to promote and encourage timely settlement of trades in a T+2 settlement environment.

This Consultation Paper provides an overview of existing settlement discipline measures in the Canadian equity and debt markets and raises policy considerations for addressing the risk that the transition to a standard T+2 settlement cycle might increase settlement failures in our markets. We seek comments on whether

1. additional settlement discipline measures might be required, including additional amendments to National Instrument 24-101 — *Institutional Trade Matching and Settlement* (**Instrument**) and Companion Policy 24-101 *Institutional Trade Matching and Settlement* (**Companion Policy**) (the Instrument and Companion Policy collectively, **NI 24-101**); and

2. other settlement discipline mechanisms for the Canadian equity and debt markets would deter settlement failures, such as a settlement-fail "penalty" mechanism or a close-out or forced buy-in requirement.

Any proposal to adopt measures arising from this consultation on policy considerations for enhancing settlement discipline, including proposing any further amendments to NI 24-101, would require a further public comment process.

1. Introduction

The securities industry in Canada is preparing to shorten the standard settlement cycle for equity and long-term debt market trades from three days after the date of a trade (**T+3**) to two days after the date of a trade (**T+2**). The move to a T+2 settlement cycle is expected to occur on September 5, 2017, at the same time as the markets in the United States move to a T+2 settlement cycle.

Efficient clearing and settlement arrangements are critical to successful securities markets. They lie at the core of a securities market and determine, to a large extent, its efficiency and effectiveness.[1] Shortening the settlement cycle to T+2 is intended to mitigate risk in securities clearing and settlement by reducing counterparty exposure between the parties to a trade. However, if the move to T+2 is not properly managed and implemented, it could instead increase settlement fails.

Currently, various regulations and industry rules and standards promote and encourage timely trade settlement. This Consultation Paper refers to them collectively as the **settlement discipline regime**. This regime should help to support a smooth transition to T+2. It includes NI 24-101, which contains principle-based requirements to promote efficient and timely processes for institutional trades occurring after trade execution and prior to settlement (trade confirmation, affirmation, allocations and settlement instructions). We describe these processes as **institutional trade matching** or **ITM**.

1.1 Purpose of consultation

The Canadian securities industry's T+2 initiatives are anticipated to consider operational improvements and identify possible rule changes to manage the risk that the move to T+2 might increase settlement failures. We believe it is also prudent for the CSA to consider whether the current settlement discipline regime for the Canadian equity and debt markets is adequate for a standard T+2 settlement cycle.[2]

This Consultation Paper is intended to solicit for regulatory consideration views about today's settlement discipline regime as well as enhancements or alternatives to that regime, encompassing not only firms' operations but also broader industry processes. This includes whether amendments to NI 24-101, in addition to the proposed amendments described in the Request for Comment Notice (see below), may be necessary to enhance settlement discipline measures. For example, we are asking questions about whether it would be desirable to modify the ITM requirements of NI 24-101 to facilitate higher rates of "same day affirmation" or other improvements to matching and settlement efficiency. We are also seeking feedback on whether

[1] See *Towards a Legal Framework for Clearing and Settlement in Emerging Markets*, Emerging Markets of the International Organization of Securities Commissions; IOSCO paper November 1997, at 1; available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD74.pdf.

[2] In this Consultation Paper, a reference to the equity markets includes the markets for exchange-traded funds (**ETFs**).

additional settlement discipline measures in the Canadian equity and debt markets should be considered to address settlement failures, such as a settlement-fail "penalty"[3] mechanism or a close-out or forced buy-in requirement.

In this Consultation Paper we are not seeking views on whether stakeholders agree or disagree with the move to a T+2 settlement cycle, or on what the expected costs and benefits to the equity and debt markets in Canada may be from shortening the settlement cycle from T+3 to T+2. As we stated in CSA Staff Notice 24-312 – *Preparing for the Implementation of T+2 Settlement* dated April 2, 2015 (**Notice 24-312**), it is important that the Canadian industry move to T+2 at the same time as the U.S. markets. Failure to do so would be detrimental to the Canadian capital markets due to the interconnectedness of our markets.[4]

1.2 Simultaneous Request for Comment Notice on proposed amendments to NI 24-101

This Consultation Paper is being published together with CSA Notice and Request for Comment – "Proposed Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* and Proposed Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement*" (the **Request for Comment Notice**). The Request for Comment Notice seeks comments on proposed amendments to NI 24-101, some of which are in anticipation of the shortening of the settlement cycle. However, while we are not proposing at this time any amendments to NI 24-101's current ITM deadline of noon on T+1, nor to its ITM threshold of 90 percent, we discuss in this Consultation Paper potential additional changes to NI 24-101 that we might consider, and we ask specific questions on such potential changes.

1.3 Overview of Consultation Paper

Part 2 of this Consultation Paper provides a high-level overview of the recommendations of international standard-setting bodies on settlement cycles, post-trade matching, and the monitoring of failed trades. It summarizes global developments in shortening the standard settlement cycle from T+3 to T+2, and describes the Canadian securities industry's T+2 initiatives. Part 3 and Appendix A discuss information from CDS Clearing and Depository Services Inc. (**CDS**) on average settlement failure rates of equity trades in Canada. Part 4 summarizes our current settlement discipline regime in general terms, and Part 5 focuses on an important part of such regime: NI 24-101. Part 5 describes the history and policy objective of NI 24-101 and discusses a range of factors that should be considered in improving trade-matching performance by market participants, especially as we move to a T+2 settlement cycle. It also incorporates by reference Appendix B to this Consultation Paper, which contains an analysis of aggregate industry ITM rates. Finally, Part 6 discusses potential new settlement discipline measures that regulators or market infrastructures might want to consider implementing to manage settlement risk in moving to T+2.

2. Shortening settlement cycle from T+3 to T+2

2.1 Background

During the last 30 years, policy makers and industry groups have sought to reduce risk (credit, market, and liquidity risk) by shortening the settlement cycle. In 1989, the Group of Thirty (G30) recommended that final settlement of cash transactions should occur on T+3.[5] In 1995, the markets in Canada and the United States successfully shortened the standard settlement cycle to T+3 from five days after the date of trade (T+5), and other markets followed suit. In the early 2000s, the securities industries in both Canada and the U.S. had considered further shortening the settlement cycle from T+3 to one day after the date of trade (T+1). While the industries subsequently abandoned their plans to move to T+1, they actively pursued straight-through processing (**STP**) and other industry-wide initiatives to improve clearing and settlement processes and systems. At the same time, international standard-setting bodies released a number of reports on clearing and settlement arrangements in an effort to reduce systemic risk in the financial system and improve the overall soundness of such arrangements. We discussed these international reports in CSA Discussion Paper 24-401 *Straight-through Processing* published in 2004,[6] and briefly highlight their relevant recommendations below.

The Committee on Payments and Market Infrastructures (**CPMI**)[7] and the International Organization of Securities Commissions (**IOSCO**) released a report in 2001 that made recommendations on, among other things, trade confirmation and settlement cycle.[8]

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3 In this Consultation Paper, we use the expression "penalty" in a broad, colloquial sense only, and not as a formal securities law term. See discussion in Part 6 of this Consultation Paper. For certain CSA jurisdictions, a securities regulatory authority's power to impose fines or penalties for failure to settle a trade on time would have to be explicitly authorized by securities legislation.

4 See: http://www.osc.gov.on.ca/en/SecuritiesLaw_sn_20150402_24-312_t2-settlement.htm.

5 Group of Thirty, *Clearance and Settlement Systems in the World's Securities Markets* (New York: Group of Thirty, March 1989). The G30 is a private organization sponsored by central banks and major commercial and investment banks that, over the years, has assembled a number of international task forces to study and report on the state of global clearing and settlement. See www.group30.org.

6 CSA Request for Comment – Discussion Paper 24-401 on Straight-through Processing, April 16, 2004, (2004) 27 OSCB 3977 (**DP 24-401**).

7 Prior to September 2014, the CPMI was known as the Committee on Payment and Settlement Systems or "CPSS".

8 *Recommendations for securities settlement systems* - Report of the Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, dated November 2001 (**RSSS report**); available at: http://www.bis.org/cpmi/publ/d46.pdf. In 2012, CPMI and IOSCO reaffirmed the market-wide recommendations in the RSSS report. See

In particular, the RSSS report recommended the following:

- Final settlement of a securities trade should occur no later than T+3, and the benefits and costs of a settlement cycle shorter than T+3 should be evaluated.[9] The report notes that, the longer the period from trade execution to settlement, the greater the risk that one of the parties may become insolvent or default on the trade, the larger the number of unsettled trades, and the greater the opportunity for the prices of the securities to move away from the contract prices – thereby increasing the risk that non-defaulting parties will incur a loss when replacing the unsettled contracts.

- Confirmation of trades between direct market participants should occur as soon as possible after trade execution, but no later than trade date (**T**). Where confirmation of trades by indirect market participants (such as institutional investors) is required, it should occur as soon as possible after trade execution, preferably on T, but no later than T+1.[10]

The CPMI and IOSCO further note that, regardless of the settlement cycle, the frequency and duration of settlement failures should be monitored closely. They suggest that in some markets, the benefits of T+3 settlement are currently not being fully realized because the rate of settlement on the contractual date falls significantly short of 100%. In such circumstances, they note that the risk implications of the fail rates should be analyzed and actions identified that could reduce the rates or mitigate the associated risks.[11]

Building on the recommendations of the RSSS report, the G30 released a report in 2003 that recommended wide-ranging reform of the clearing and settlement process, including creation and implementation of global standards in technological and operational areas and improvements in risk management practices.[12] In particular, the G30 recommended that market participants should collectively develop and use fully compatible and industry-accepted technical and market-practice standards for the automated confirmation and agreement of institutional trade details on T.[13]

2.2 Global T+2 initiatives

The 2007-2008 global financial crisis had highlighted the need to improve risk management and efficiency in clearing and settlement processing. In particular, there has been a sharper focus by industry, regulators and policy makers alike on mitigating counterparty risk exposure for market participants. Various measures have been taken to mitigate such risks in capital markets, including a move to settle trades more quickly.

Many countries already operate under a shortened settlement cycle, or are moving towards it. Most European markets successfully shifted to a T+2 settlement cycle in 2014.[14] Other major markets in the Asia-Pacific region are already on T+2 or T+1. Australia and New Zealand moved to T+2 for their equity markets in March 2016, while Singapore is planning to reduce its settlement cycle to T+2 from T+3 this year.[15] The U.S. markets have committed to moving to a T+2 settlement cycle on September 5, 2017.[16] The Canadian securities industry has also stated its intention of meeting the same target and timelines as the U.S. markets.[17]

There is wide-spread agreement that shortening the settlement cycle by a business day to T+2 should deliver significant benefits, such as reducing counterparty risk for individual investors, market participants and central counterparties. In 1989, the G30 recognized that "to minimize counterparty risk and market exposure associated with securities transactions, same day

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Annex C of the April 2012 CPSS-IOSCO report, *Principles for financial market infrastructures* (**PFMI report**); available at: http://www.bis.org/cpmi/publ/d101a.pdf.

9 Recommendation 3: Settlement cycles.

10 Recommendation 2: Trade confirmation.

11 See RSSS report, at para. 3.16. The CPMI and IOSCO suggest that monetary penalties for failing to settle could be imposed contractually or by market authorities; alternatively, failed trades could be marked to market and, if not resolved within a specified timeframe, closed out at market prices.

12 See *Global Clearing and Settlement: A Plan of Action,* report of the G30 released on January 23, 2003.

13 Recommendation 5: Automate and standardize institutional trade matching.

14 See Notice 24-312. The migration to a T+2 settlement period in Europe is an important contributory factor in achieving the wider ambitions of "Target2-Securities" (T2S), the European Central Bank initiative to streamline Europe's securities settlement structure.

15 See ASX, "Shortening the Settlement Cycle in Australia: Transitioning to T+2 for Cash Equities", Consultation Paper, 25 February 2014 (**ASX Paper**); available at: http://www.asx.com.au/documents/public-consultations/T2_consultation_paper.PDF.

16 For information on the initiatives of the securities industry in the United States to shorten the settlement cycle to T+2 from the current T+3, see the following website : http://www.ust2.com/. The transition date of September 5, 2017 to move from a T+3 to a T+2 settlement cycle was announced by the U.S. industry on March 7, 2016. See T2 Settlement Media Alert, March 7, 2016 "US T+2 ISC recommends move to shorter settlement cycle on September 5, 2017"; available at: http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf.

17 See "CCMA announces T+2 Steering Committee", September 11, 2015 (**CCMA Release**); available at: http://ccma-acmc.ca/en/ccma-announces-t2-steering-committee-t2sc/.

settlement is the final goal" when it recommended that final settlement of cash transactions should occur on T+3. Shortening the settlement cycle could also help to reduce margin and liquidity needs during times of economic volatility and drive greater post-trade operational process efficiencies and cost savings.[18]

However, shortening the settlement cycle requires a compression of timeframes, which in turn may require a reconfiguration of the trade settlement process and an upgrade of existing systems. CPMI and IOSCO note that, for "markets with a significant share of cross-border trades, substantial system improvements may be essential for shortening settlement cycles". Canada is such a market because of its extensive cross-border securities trading with the United States. "Without such investments, a move to a shorter cycle could generate increased settlement fails, with a higher proportion of participants unable to agree and exchange settlement data or to acquire the necessary resources for settlement in the time available."[19]

During the Fall of 2014, in anticipation of the U.S. move to a shorter settlement cycle, staff from the Ontario Securities Commission (**OSC**) conducted a sample of industry interviews to gain a sense of the readiness of the Canadian industry to make the move to T+2. All the industry participants interviewed expressed the view that the Canadian industry must make the move to T+2 at the same time as the U.S. markets. Failure to do so would be detrimental to the Canadian capital markets due to the interconnectedness of our markets (i.e., the large volumes and value of cross-border trades and the large number of inter-listed securities). At the same time, there would appear to be little, or no, benefit to be gained by moving prior to the U.S.[20]

The move to T+2 with the U.S. markets is consistent with previous efforts by the Canadian securities industry to align trade settlement timelines and processes with those of the Unites States.[21] Previous Canadian industry settlement and STP initiatives have attempted to be consistent with U.S. industry efforts because market practices in both countries are generally the same, and the securities clearing and settlement systems in both countries are closely integrated.[22]

The Canadian Capital Markets Association (**CCMA**)[23] is leading the efforts of the securities industry in Canada to prepare for the migration to a T+2 settlement cycle on September 5, 2017. It has been mandated by industry stakeholders to lead and coordinate the Canadian industry's preparations for the T+2 migration, by ensuring that a cross-section of sell side, buy side, custodial, market infrastructure and back-office vendor representatives are participating on various CCMA sub-committees and working groups. A CCMA T+2 Steering Committee (the **T2SC**) and various working groups are coordinating activities in Canada, including identifying operational improvements (system development, procedures and processes), gaining industry agreement on minimum standards, identifying rule changes, agreeing on timelines, coordinating the completion of tasks, and planning an industry-wide testing that will be needed to ensure overall industry readiness for the migration to T+2.[24]

Among the rules that the CCMA has identified will require amendment are the rules of the Investment Industry Regulatory Organization of Canada (**IIROC**) and the exchanges that specifically mandate a three day settlement cycle or that are keyed to the settlement date and require pre-settlement actions.[25] Timely changes to such rules will be crucial for the industry to accomplish a migration to T+2 and meet the targeted implementation of September 5, 2017. The CCMA has also recommended amending NI 24-101 to remove an extended ITM deadline that accommodates cross-border trades from distant geographical zones. See Part 6 below.

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18 See White Paper "Cost benefit analysis of shortening the settlement cycle," prepared by The Boston Consulting Group – Commissioned by The Depository Trust and Clearing Corporation, October 2012; available at: http://www.ust2.com/industry-action/.

19 See RSSS report, at para. 3.15.

20 See Notice 24-312.

21 See DP 24-401, at p. 3984. We had noted then a 2000 economic analysis conducted by Charles River Associates of the consequences for Canada of not moving to a T+1 settlement cycle in a coordinated manner with the United States. The analysis demonstrated that, if Canada were to remain at T+3 while the U.S. moves to T+1, our markets would become uncompetitive vis-à-vis the U.S. markets and would suffer harm.

22 See DP 24-401, at p. 3985. The connection between the CDS and The Depository Trust & Clearing Corporation (**DTCC**) is the most active and sophisticated inter-depository linkage globally. About 40% of trades on Canadian stock exchanges are in inter-listed securities, and Canada-U.S. cross-border transactions make up nearly 25% of the millions of trades processed annually through CDS. See: http://www.ust2.com/news/t2-too-update-from-canada/.

23 The CCMA is a federally incorporated, not-for-profit organization, launched to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. See: http://www.ccma-acmc.ca/.

24 See CCMA Release. The T2SC has mandated four working groups to focus on specific areas of expertise. An Operational Working Group is responsible for identifying processes, procedures, and conflicted areas that may prevent T+2 from being successful. A Communication and Education Working Group is tasked with ensuring that T+2 information reaches all areas of the industry and public. A Mutual Fund Working Group is tasked with identifying issues regarding investment funds and similar products (such as segregated funds). A Legal and Regulatory Working Group is tasked with identifying all relevant rules (including the rules of SROs, marketplaces, and clearing agencies) that will need to be investigated for possible change.

25 On July 28, 2016, IIROC published for comment proposed amendments to IIROC's Universal Market Integrity Rules, Dealer Member Rules, and Form 1 to facilitate the investment industry's move to T+2 settlement. See IIROC Notice 16-0177 *Amendments to facilitate the investment industry's move to T+2*, at: http://www.osc.gov.on.ca/documents/en/Marketplaces/iiroc_20160728_iiroc-notice-16-0177.pdf.

While NI 24-101 neither expressly mandates a T+3 settlement cycle, nor would prevent the T+2 migration, it has a number of provisions that require adjustment to facilitate the move to a T+2 settlement cycle. These are discussed in the Request for Comment Notice.

3. Monitoring failed trades

As noted above, the frequency and duration of settlement failures should be monitored closely, and the risk implications of the fail rates should be analysed and actions identified that could reduce the rates or mitigate the associated risks.

3.1 What is a failed trade?

The term "failed trade" is not defined in securities legislation.[26] However, a failed trade is generally considered to occur when the seller (whether short or long) fails to deliver securities to the buyer when delivery is due (usually on T+3) or the buyer fails to pay the funds when payment is due (usually T+3).[27] In the context of this policy consultation, we refer to failed trades, or settlement fails or failures, as usually meaning a failure to deliver securities, or "fail to deliver". The failure to pay for securities, or "cash fail", is more easily resolvable, as cash is fungible and the party failing to pay may rely on credit facilities.[28] In a fail to deliver, on the other hand, securities need to be delivered in the specific agreed-upon type (ISIN code), which in some cases may not be easily available in the market for purchase or borrowing.[29] Moreover, a fail to deliver may expose a counterparty to replacement cost risk if the value of the securities fluctuates while the transaction remains unsettled.[30] In the context of a clearing agency's operations, a fail to deliver means the non-delivery of securities on "value date" (again, generally on T+3) in a delivery-versus-payment (**DVP**) mechanism. The CPMI and IOSCO suggest that markets should take steps to mitigate both the risks and the implications of failures to deliver securities.[31]

3.2 CNS fails in Canada

Currently, CDS provides data to the OSC on daily cumulative fails to deliver in its continuous net settlement (**CNS**) service. CNS is a central counterparty (**CCP**) service that nets and novates most trades that are executed on marketplaces in Canada, primarily in equity and ETF securities. CNS fails data can be used as a fair proxy for monitoring the settlement efficiency of the Canadian equity markets because they reflect the cumulative number and value of failed equity trades at CDS on any given date. Appendix A to this Consultation Paper contains a brief description and analysis of aggregate CNS fails rates in Canada.

It is important to emphasize that no specific conclusions can be drawn from the CNS fails data about overall settlement failures in all our cash markets. Daily cumulative CNS fail rates are not a reflection of all settlement fails at CDS, especially fixed income trades, which are mostly processed for settlement through CDS' trade-for-trade service, and not through CNS; nor do they represent aggregate settlement fails at the "account level" in the multitude of securities accounts maintained by dealers, custodians and other securities intermediaries for their customers.[32]

4. Settlement discipline regime

There are a number of rules and industry standards and practices that, together, can be considered to comprise the *settlement discipline* regime in Canada. In addition to basic contractual obligations, most requirements regarding settlement obligations

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[26] The term "failed trade" is defined in IIROC's Universal Market Integrity Rules (UMIR). UMIR Rule 1.1 defines "failed trade" as a trade resulting from the execution of an order entered on a marketplace on behalf of an "account" and (a) in the case of a sale, other than a short sale, the account failed to make available securities in such number and form; (b) in the case of a short sale, the account failed to make: (i) available securities in such number and form, or (ii) arrangements with the Participant or Access Person to borrow securities in such number and form; and (c) in the case of a purchase, the account failed to make available monies in such amount, as to permit the settlement of the trade at the time on the date contemplated on the execution of the trade. The provision further provides that a trade shall be considered a "failed trade" irrespective of whether the trade has been settled in accordance with the rules or requirements of the clearing agency.

[27] See also March 2, 2012, Notice of Request for Comment: CSA/IIROC Joint Notice 23-312 - *Transparency of Short Selling and Failed Trades*, (2012) 35 OSCB 2099 (**Notice 23-312**); available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20120302_23-312_rfc-trans-short-selling.pdf.

[28] Also, in most markets, cash settlements are greatly facilitated by CCP services and delivery-versus-payment (DVP) securities settlement mechanisms.

[29] See European Central Bank, *Settlement Fails – Report on Securities Settlement Systems (SSS) Measures to Ensure Timely Settlement*, April 1, 2011, at p. 1; available at: ttps://www.ecb.europa.eu/pub/pdf/other/settlementfails042011en.pdf.

[30] See PFMI report, at para. 2.5.

[31] See PFMI report, at para. 3.8.2. CPMI and IOSCO had noted in 2002 that, in assessing whether fails are a significant source of risk, fails should not exceed 5% by value. See November 2002, CPSS and IOSCO, *Assessment methodology for "Recommendations for Securities Settlement Systems"*, at p. 8; available at: http://www.bis.org/cpmi/publ/d51.pdf. However, because CPMI and IOSCO may conduct a full review of the market-wide standards in the RSSS report in the future, it is unclear whether such a percentage would still be viewed today as an appropriate measure. See the PFMI report, at para. 1.7.

[32] See the UMIR definition of "failed trade", *supra*, footnote 26.

arise from rules imposed by the CSA, self-regulatory organizations (**SROs**), exchanges and clearing agencies. The measures vary and are directly designed to either (i) encourage the timely settlement of a trade by the standard settlement date, or (ii) incentivize or force the timely resolution of a failure to deliver securities on time.[33] While we discuss some of these settlement discipline measures below, we focus in particular on NI 24-101 in Part 5 of this Consultation Paper. We anticipate that industry, through the SROs, clearing agencies and marketplaces, will work to revise a number of these measures to be aligned with a T+2 settlement cycle or otherwise support the transition to T+2.

The CSA are seeking feedback on whether existing arrangements in place for the management of settlement risk, including the settlement discipline regime discussed below, will continue to provide appropriate incentives to promote timely settlement and support market efficiency in a T+2 settlement cycle environment.

4.1 CSA instruments and companion policies

A number of CSA instruments and companion policies directly address post-trade execution processing. NI 24-101 requires registered firms trading for or with an institutional investor to have policies and procedures designed to match an institutional trade (in the Instrument, described as a **DAP/RAP trade**) as soon as practical after the trade is executed, but no later than noon on T+1. NI 24-101 also requires registered dealers to have policies and procedures designed to facilitate settlement no later than the standard settlement date prescribed by SROs and relevant marketplaces. We discuss NI 24-101 in more detail in Part 5 below.

Also, Companion Policy 23-101CP (**CP 23-101**) to National Instrument 23-101 – *Trading Rules* (**NI 23-101**) states that a person who enters an order to either purchase or sell a security without having the *ability and intention* to settle the trade would be considered to be violating express anti-manipulation/anti-fraud rules in NI 23-101.[34] In addition, under National Instrument 81-102 *Investment Funds* (**NI 81-102**), the payment obligations for mutual fund purchases or redemptions are required to be met within three business days.[35]

Other CSA rules and policies indirectly support the settlement discipline regime. For example, National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* contains a principle-based rule that requires registered firms to manage the risks associated with their business in accordance with prudent business practices. Implementation of this obligation by registered firms puts in place effective systems and controls to properly manage their risks, including those in relation to settlement of trades. Moreover, National Instrument 24-102 *Clearing Agency Requirements* requires recognized clearing agencies to meet or exceed a number of international risk-management standards associated with the clearing and settlement process.

4.2 Requirements of IIROC

IIROC's dealer member *trading and delivery* rules impose a number of requirements designed to enhance settlement discipline.[36] For example, a rule requires a trade to be settled within a specified settlement cycle, unless alternative terms of settlement are agreed upon in writing.[37] Settlement cycles tend to be shorter for money market instruments and short term government securities (between T and T+2) than for equities and long-term fixed-income securities (normally T+3). Another IIROC rule requires trades among dealer members in non-exchange traded securities (including government debt securities) to be entered or accepted or rejected through the facilities of an "Acceptable Trade Matching Utility" by no later than 6 pm on the day of the trade.[38] In addition, IIROC's "uniform settlement" rule prohibits a dealer member from accepting a trade order from a customer pursuant to an arrangement whereby payment of securities purchased or delivery of securities sold is to be made to or by a settlement agent of the customer (generally, a custodian) unless certain procedures have been followed to facilitate prompt affirmation and settlement of the trade by the settlement agent.[39]

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[33] In addition to these measures, the ability to transfer ownership of securities efficiently and in a timely manner is critical to a firm in the securities industry and to its clients. Since it is in this firm's own interest to avoid settlement fails, commercial pressures impose a certain degree of discipline on the settlement process.

[34] See Section 3.1(3)(f) of Companion Policy 23-101CP. Certain provinces have inserted similar general anti-fraud and market manipulation provisions into their securities laws (e.g., OSA s. 126.1), which generally override the anti-manipulation/anti-fraud rules in NI 23-101.

[35] Payment of the issue price of securities of a mutual fund must be made to the mutual fund on or before the third business day after the pricing date (see section 9.4 of NI 81-102). Also, a mutual fund must pay the redemption proceeds for securities that are the subject of a redemption order within three business days after the date of calculation of the net asset value per security used in establishing the redemption price (see section 10.4 of NI 81-102). These requirements do not prevent a mutual fund from paying the issue price or the redemption proceeds of securities on a shorter period than a T+3 timeframe (e.g. T+2).

[36] IIROC Dealer Member Rule 800: *Trading and Delivery*. IIROC is proposing to amend some of these requirements to facilitate the investment industry's move to T+2 settlement. See, *supra*, footnote 25.

[37] See Rule 800.27. Despite these settlement cycle rules, market practice appears to allow some degree of failures to deliver on time, particularly if caused by "administrative delays or errors"; e.g., improperly endorsed certificates received from a client, back-office glitches or human error. In essence, it seems the SRO/marketplace rules will tolerate the occasional failure by market participants to settle on time, so long as they settle reasonably quickly after T+3.

[38] See Rule 800.49.

[39] See Rule 800.31. Among other things, the dealer must have obtained an agreement from the customer that the customer will furnish its settlement agent with instructions with respect to the receipt or delivery of the securities involved in the transaction promptly upon receipt

IIROC's Universal Market Integrity Rules (UMIR) and related policies are also relevant. Clause (h) of Part 2 of UMIR Policy 2.2, which interprets the anti-manipulative and deceptive trading provisions of Rule 2.2 of UMIR, provides that entering an order on a marketplace for the sale of a security without, at the time of entering the order, having the *reasonable expectation* of settling any trade that would result from the execution of the order would constitute a manipulative and deceptive trading activity. In addition, Rule 7.10 of UMIR requires "Participants" to report a trade (an "Extended Failed Trade") that has failed to settle on the settlement date if the trade remains unresolved ten trading days following the settlement date.[40] The report must give the reason for the settlement failure. The Participant is also required to update the report once the problem has been rectified.[41]

4.3 Exchanges' T+3 settlement cycle rules

Except for trades with special terms settlement, the exchanges require trades to be settled within T+3.[42]

4.4 Clearing agency and exchange optional buy-in processes

CDS and certain exchanges have "buy-in" rules to enforce settlement, which allow a purchaser, at its discretion, to require the purchase of securities in the market for delivery to the purchaser, with the seller obliged to pay for the costs of the purchase and thereby forcing the settlement obligation of the seller.[43]

Question 1: In your opinion, is the existing settlement discipline regime adequate to promote timely settlement and support market efficiency in a T+2 settlement cycle environment? Please provide reasons for your response, including, if available, any quantitative analysis to support your reasons.

5. National Instrument 24-101 – *Institutional Trade Matching and Settlement*

5.1 Background to, and Purpose of, NI 24-101

NI 24-101 came into force in 2007 and was developed largely to encourage more efficient and timely post-trade execution and pre-settlement ITM processes (trade confirmation, affirmation, allocations and settlement instructions). Under NI 24-101, registered dealers and advisers trading for or with an institutional investor must have ITM policies and procedures designed to match a *DAP/RAP trade* as soon as practical after the trade is executed, but no later than noon on T+1 (**ITM deadline**).[44] The Instrument currently defers the matching deadline to noon on T+2 if the DAP/RAP trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region (**non-North American trades**).[45] We are proposing to repeal the provision that defers the ITM deadline to noon on T+2 for non-North American trades (see the Request for Comment Notice, and Part 6 below).

Originally, NI 24-101 contained transition provisions that would have eventually imposed, after several years, a requirement to match DAP/RAP trades by no later than midnight on trade date (**midnight on T**). However, in 2010 we amended NI 24-101 to, among other things, halt the transition to midnight on T. In our notice of amendments, we had said that we are maintaining the ITM noon on T+1 deadline in NI 24-101 because, at that time, there were no plans to shorten the T+3 settlement cycle in global markets, and therefore moving to midnight on T would no longer be appropriate. However, we had also noted that we might re-introduce the midnight on T matching deadline into the Instrument through subsequent amendments if circumstances changed, such as from a global shortening of the standard T+3 settlement cycles.[46]

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by the customer of a trade confirmation from the dealer, or the relevant date and information as to each execution, relating to such order (even though such execution represents the purchase or sale of only a part of the order), and that in any event the customer will ensure that its settlement agent affirms the transaction no later than the next business day after the date of execution of the trade to which the confirmation relates. See subpara. (a)(iv).

40 An Extended Failed Trade is a "failed trade" within the meaning of the UMIR that was not rectified within ten trading days following the date for settlement contemplated on the execution of that trade. See, *supra*, footnote 26 for the UMIR definition of "failed trade".

41 There are also UMIR requirements that are designed to prevent abusive short selling practices, which can be characterized as settlement discipline measures (such as the UMIR "pre-borrow requirement" in limited circumstances). However, they are generally specific to short sale trades, and since a short sale is not likely to fail to settle any more than a long sale would be likely to fail to settle, we do not discuss these measures in this Consultation Paper. See the "IIROC Trends Study" described in Appendix A to this paper, which confirms at page 32 previous IIROC studies that "a short sale was less likely to fail in settlement than a trade generally".

42 See, for example, TSX rule 5-103(1) and Aequitas NEO Exchange Rule 12.03(1).

43 See, for example, CDS Rules 7.3.8(b) and 7.4.8(b) and TSX Rule 5-301. Generally, where a party to a trade fails to deliver within the usual settlement time, the counterparty may issue a buy-in notice to the defaulting party and request the marketplace to execute the buy-in.

44 See subsections 3.1(1) and 3.3(1) of the Instrument. A DAP/RAP trade is a trade executed for a client account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade. See, among other terms, the definitions of "DAP/RAP trade", "T", "T+1" and "T+2" in section 1.1 of the Instrument.

45 See subsections 3.1(2) and 3.3(2). "North American region" means Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean. See section 1.1.

46 CSA Notice of Amendments to NI 24-101 Institutional Trade Matching and Settlement and Companion Policy 24-101CP Institutional Trade Matching and Settlement, dated April 16, 2010, (2010) 33 OSCB 3379 (**2010 Notice**), at p. 3380; available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20100416_24-101_notice-amd.pdf. See also: (i) CSA Notice 24-307 –

In addition, under the Instrument registered firms are required to complete and file exception reports on Form 24-101F1 if they did not meet, with respect to their institutional trades, the ITM matching threshold of 90% (**ITM threshold**) of trades by value and volume matched by noon on T+1 during a calendar quarter.[47] Also, clearing agencies (in particular, CDS) and matching service utilities (**MSUs**) are required to submit quarterly data on the matching of institutional equity and debt trades of their participants. Appendix B to this Consultation Paper contains a brief analysis of aggregate CDS ITM rates.

Finally, NI 24-101 contains a principles-based settlement rule (**settlement rule**) that requires registered dealers to establish, maintain and enforce policies and procedures designed to facilitate settlement of trades by no later than the "standard settlement date" prescribed by SROs and marketplaces.[48]

5.2 ITM processes

The post-trade execution and pre-settlement processes and systems for comparing and matching institutional trade data are complex, and inextricably linked to clearance and settlement. Most ITM in Canada involves many sequential steps after a trade is executed (referred to as "local" matching, which includes: a notice of execution; verification of trade details; confirmation and affirmation of trade; allocation of trade; and settlement instructions to custodian).[49] All the relevant parties[50] in ITM must agree on trade details as soon as possible so that errors and discrepancies in the trades can be discovered early in the clearing and settlement process.[51] Speedy and accurate ITM is an essential pre-condition to avoiding settlement failures in a shortened settlement cycle environment.[52]

Instead of local ITM, some market participants will use the services of a MSU to perform a "centralized" ITM process that is non-sequential. Either party can submit their trade details at any time, and in any order, into the MSU, which would automatically match the trades based on specific criteria and tolerances set up by the investment manager.[53] There are currently two MSUs in Canada that are authorized to provide such services.

5.3 Factors to improve ITM performance and generally to facilitate the move to a T+2 settlement cycle

Despite our decision in 2010 not to transition the ITM deadline to midnight on T, we encouraged the industry to work towards ITM goals that are earlier than noon on T+1.[54] We suggested tools to further improve ITM rates, such as the adoption of order management systems or the use of MSUs, together with moving from end-of-day batch processing to more frequent intra-day or real-time processing.

We strongly encouraged market participants to pursue further technology and processing improvements. Specifically, we encouraged:

- the buy-side to augment their use of front-office automation to enable more timely post-execution operations;
- dealers to continue their efforts to shift from end-of-day batch processing to more frequent intra-day or real time processing;
- custodians to support their clients in greater use of technology and other alternatives to improve ITM, including dissuading clients from manual post-execution activities (e.g., using telephones, fax machines or e-mails to communicate trade details and settlement instructions); and
- CDS and other back-office service providers to consider modifying their systems to expand their processing schedules and accept matched trades on T later in the processing day to facilitate compressed timelines and accurate measurement of a firm's ITM and settlement performance.

Exemption from Transitional Rule: Extension of Transitional Phase-In Period in NI 24-101, dated April 4, 2008, (2008) 31 OSCB 3721 (**2008 Notice**); available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20080404_24-307_phase-in-24-101.pdf; and (ii) CSA Notice and Request for Comment – *Proposed Amendments to NI 24-101 Institutional Trade Matching and Settlement and Companion Policy 24-101CP Institutional Trade Matching and Settlement*, dated October 30, 2009, (2009) 32 OSCB 9059 (**2009 Notice**); available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/rule_20091030_24-101_pro-amd.pdf.

47 See Part 4 of the Instrument.

48 The settlement rule applies to all trades, not just DAP/RAP trades. It does not specifically reference "T+3", but instead incorporates the settlement period norms established by the SROs or marketplaces.

49 See Companion Policy, ss. 1.2(2) and (3).

50 In NI 24-101, referred to as the "trade-matching parties". See definitions in s. 1 of the Instrument.

51 See Companion Policy, ss. 1.2(2).

52 See the RSSS report, at para. 3.10. See also DP 24-401, at p. 3995; and more recently Notice 24-312.

53 See Omgeo, "Mitigating Operational Risk and Increasing Settlement Efficiency through Same Day Affirmation (SDA)", Industry Discussion Paper, October 2010 (**Omgeo paper**), at p. 16 (footnote 13).

54 See 2010 Notice, at p. 3380.

In addition, we noted our view that MSUs could play an important role in bringing all trade-matching parties together to expedite ITM processes. Industry-wide automation and *interoperability* would strengthen the efficiency and integrity of the securities clearing and settlement process and ultimately improve investor protection and the global competitiveness of the markets in Canada.[55]

The actions described above are more important than ever as we move to T+2. Market participants will need to implement improvements to accelerate their ITM timelines and enhance their operational efficiency in post-trade execution processing.

5.3.1 Same day affirmation or "SDA"

Same day affirmation (**SDA**) is achieved when an institutional trade is confirmed and affirmed on the day of the trade. Certain foreign markets and international post-trade execution service providers have identified the importance of achieving higher rates of SDA as a necessary pre-condition to ensure settlement failures do not increase with the introduction of a T+2 settlement cycle.[56] SDA helps speed up the post-trade ITM and settlement processes, by compressing the confirmation-affirmation steps, allowing for more time to complete trade allocations and settlement instructions and address errors and mismatches before trades are due to settle. By agreeing on the details of a trade more quickly, operational risk, costs and inefficiencies can be reduced. Automated trade verification, using electronic systems to match the trade details either locally or centrally, enables timely trade confirmation-affirmation and facilitate higher rates of SDA.[57]

Question 2: Given that international research suggests that achieving SDA rates of over 90 percent may be important in delivering greater settlement efficiency and lower rates of settlement failures,[58] is increasing SDA rates in the Canadian markets an important pre-condition to transitioning to T+2?

Question 3: Is a higher degree of automation in the trade confirmation-affirmation processes the key to delivering higher SDA rates? Please provide reasons for your answer.

5.3.2 Faster allocations and settlement instructions matching

The introduction of a T+2 settlement cycle will require a more rigorous and timely release of the allocations and settlement instructions. Generally, we would expect that higher levels of ITM rates by noon on T+1 should be achieved. See Appendix B for more information on current aggregate ITM rates.

Question 4: What actions could trade-matching parties take to accelerate the timing of the release of allocations and settlement instructions in a T+2 settlement environment?

6. Possible new measures to manage settlement risk

As we move to a T+2 settlement cycle, the CSA believes that it may be appropriate to examine at this time whether new settlement discipline measures may be warranted to help mitigate the risk that settlement failures may increase. We discuss below a number of additional measures to prevent or address settlement fails. Some of the measures also exist in other jurisdictions, such as in the United States, Europe and Australia.

We emphasize that we are not proposing to adopt or mandate the adoption of any of the measures at this time. However, we might consider adopting, or mandate the adoption of, some of them in the future after this consultation process. Commenters who believe that the existing settlement discipline regime is not adequate to promote timely settlement and support market efficiency in a T+2 settlement cycle environment should identify a particular measure that would, in the commenter's view, benefit our markets. In assessing the appropriateness of any of the measures, we ask stakeholders to provide reasons and describe potential benefits and costs to the markets.

6.1 Possible ITM rule amendments

Ensuring STP at all levels of the transaction processing chain will help accelerate ITM and improve accuracy, which will be essential pre-conditions to avoiding settlement failures in a T+2 settlement cycle environment. Amending NI 24-101 in one or more ways might help to achieve this goal. For example, the Instrument could require registered dealers and advisers to have ITM policies and procedures designed to match a *DAP/RAP trade* no later than midnight on T instead of noon on T+1, thereby

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55 See 2009 Notice, at p. 9064. See also DP 24-401, at p. 3984, for a discussion of *interoperability*.

56 ASX Paper, at p. 10, citing the Omgeo paper. The Omgeo study found that there was a direct correlation between SDA and shortening settlement cycles, and that SDA leads to greater settlement efficiency.

57 Ibid. The centralized trade verification and matching facility offered by an MSU enables trades to be automatically matched within compressed time frames, without the usual dependency on sequential steps among the trade-matching parties in a local matching trade-verification process.

58 See ASX paper, at p. 10, which cites the Omgeo paper.

returning the Instrument to its original target deadline. Alternatively, the ITM threshold could be amended to require a registered firm to complete and file an exception report if it fails to meet a threshold of 95 percent (instead of 90 percent) of trades, measured by both value and volume, matched by noon on T+1 during a calendar quarter.

Question 5: Should the ITM deadline be amended, such that the ITM policies and procedures of a registered dealer or adviser would have to be designed to match a *DAP/RAP trade* no later than midnight on T instead of noon on T+1? Please provide reasons for your answer. If you believe the ITM deadline should be amended, but not to a midnight on T deadline, then please give your views on how the Instrument should be amended.

Question 6: Alternatively, should the ITM threshold be amended, such that a registered firm would be required to complete and file an exception report if it fails to meet a threshold of 95% (instead of 90%) of trades, measured by both value and volume, matched by noon on T+1 during a calendar quarter? Please provide reasons for your answer. If you believe the ITM threshold should be amended, but not to a 95% threshold, then please give your views on how the Instrument should be amended.

Question 7: Are there other pre-settlement measures that could be taken to encourage prompt confirmation and affirmation of a trade and communication of allocations and settlement instructions by trade-matching parties? If so, please describe such measures in reasonable detail.

As we mentioned in the Request for Comment Notice, we are proposing to repeal the provisions in NI 24-101 that extend the ITM deadline to noon on T+2 for non-North American trades. Given the move to a standard T+2 settlement cycle, we believe these provisions are no longer useful. The extended deadline of noon on T+2 for non-North American trades leaves insufficient time to solve problems and avoid failed trades; instead, parties need to match earlier on T+1 regardless of the cross-border nature of the trade, so that they have time to address issues and avoid failed trades. We appreciate the fact that transacting globally is complicated due to communication lags, structural challenges, currency differences, mismatches in global settlement cycles, and time zone issues. However, the move to T+2 will align the securities settlement cycle in Canada with the settlement cycles of most of the major foreign markets, including the U.S. and Europe. While several of the complexities with foreign investment and cross-border transactions will continue to exist, market participants will need to review their internal operations and adapt their ITM policies and procedures accordingly to meet the current ITM deadline of noon on T+1. This is consistent with the need for market participants to align their policies and procedures to meet the standard settlement cycle in the U.S., Europe and other T+2 jurisdictions.

6.2 Possible settlement rule amendment

In 2004, the CSA had asked whether it should mandate a T+3 settlement cycle.[59] The initial proposed NI 24-101 contained a rule that required a dealer who executes a trade in depository eligible securities "to take all necessary steps to settle the trade no later than the end of T+3".[60] We had expressed the view that, although current rules of the SROs and exchanges had already mandated a standard T+3 settlement cycle period for equity and long term debt securities, a general T+3 settlement cycle rule enshrined in provincial securities legislation would strengthen the clearing and settlement system in Canada.

However, a majority of commenters were of the view that the CSA should not mandate a T+3 settlement cycle.[61] Instead, we included in the final version of NI 24-101 the current principles-based settlement rule that requires a registered dealer to establish, maintain and enforce policies and procedures designed to facilitate settlement of trades by no later than the "standard settlement date", as prescribed by the rules of the SROs and marketplaces.

A prescriptive T+2 rule would be consistent with the U.S. Securities and Exchange Commission's (**SEC**) Rule 15c6-1[62] and the European Union's "CSDR regulation" that mandates a T+2 settlement cycle.[63]

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59 See DP 24-401, at p. 3998.

60 See Part 5 of the Instrument, as first published on April 16, 2004, in *Proposed National Instrument 24-101 Post-trade Matching and Settlement*, (2004) 27 OSCB 4010; available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/rule_20040416_24-101_ni-roc.pdf.

61 See CSA Staff Notice 24-301 - *Responses to Comments Received on Discussion Paper 24-401 on Straight-through Processing, Proposed National Instrument 24-101 Post-trade Matching and Settlement, and Proposed Companion Policy 24-101CP to National Instrument 24-101 Post-trade Matching and Settlement*; February 11, 2005, (2005) 28 OSCB 1509; available at: http://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20050211_24-301_not-resp-comments.pdf.

62 17 CFR 240.15c6-1 - Settlement cycle. The rule requires a broker or dealer not to effect or enter into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction. The SEC is intending to amend its rule to require settlement no later than T+2. See letter from the Chair of the SEC to the U.S. industry, dated September 16, 2015, available at: http://www.ust2.com/news/sec-endorsements/.

63 Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (**CSDR regulation**).

Question 8: Should NI-24-101's current principles-based settlement rule be amended to incorporate a prescriptive T+2 rule? Please provide reasons for your answer.

6.3 Possible mechanisms to address settlement fails

A number of foreign jurisdictions have put in place "penalties" associated with settlement failures, or have proposed such penalties, to serve as an incentive for participants that cause settlement fails to resolve them expeditiously. Such penalties operate as monetary incentives (or disincentives) to settle on time, or to resolve fails quickly (e.g., fines or interest charges). They can be explicit (e.g., imposed by an SRO or clearing agency rule) or implicit (e.g., adopted as market practice by industry). The international experience indicates that introducing a minimum penalty discourages settlement fails.[64]

For example, under its CSDR regulation, European Union (EU) authorities are proposing to require central securities depositories (**CSDs**) to establish procedures that impose a cash penalty for participants that cause fails.[65] The cash penalties are to be calculated on a daily basis for each business day that a transaction fails to be settled after its "intended settlement date" (usually, T+2) until the moment of the actual settlement date or until the end of a mandatory buy-in process required to be initiated pursuant to the same regulation. Details of the implementation of the CSDR penalty regime and related operational processing have not yet been finalized.

In Australia, under the settlement disciplinary regime established by the securities exchange ASX, participants that fail to deliver securities on the scheduled settlement date are levied a daily fine.[66] The current fine is 0.1% of the trade value outstanding, with a floor of AU$100 and a cap of AU$5,000. ASX did not propose to increase the financial penalties with the introduction of a T+2 settlement cycle.

To encourage prompt delivery of U.S. government and agency securities in a trade, the CCP for fixed income trades in the U.S. collects interest at an annual rate of 3% on the settlement value of the trade that has failed to deliver in the CCP (minus the "Target Fed" funds rate in effect the day before the settlement day).[67]

In addition, a number of foreign jurisdictions have close-out (or forced buy-in) procedures that require the failing participant to remedy a failed trade as quickly as possible.

In Australia, the ASX Settlement Operating Rules require a settlement participant to close out settlement shortfalls that remain after batch settlement on T+5 by purchasing or borrowing securities needed to complete settlement.[68] With the introduction of a T+2 settlement cycle, ASX is proposing to change its settlement operating rules so that settlement disciplinary milestones are also reduced by one business day (that is, financial penalties will be levied for settlement fails on T+2, and the automatic close-out requirement would apply for settlement shortfalls that remain after batch settlement on T+4).

In the U.S., SEC Rule 204 requires brokers and dealers that are participants of a registered clearing agency to take action to close out failure to deliver positions.[69] Closing out under Rule 204 requires the broker or dealer to purchase or borrow securities of like kind and quantity. The participant must close out a failure to deliver for a short sale transaction by no later than the beginning of regular trading hours on the settlement day following the settlement date (currently T+4, but will become T+3 in a T+2 settlement cycle environment). A failure to deliver for a long sale transaction, or for a trade that is attributable to bona fide market making activities, must be closed out by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date (currently T+6, but will become T+5 in a T+2 settlement cycle environment).[70]

In Europe, under the CSDR regulation EU authorities are proposing to require CCPs, CSDs or trading venues to put in place a forced "buy-in" process for fails in many types of securities transactions that would be triggered generally within a certain period

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64 See Bank of Canada, "Securities Financing and Bond Market Liquidity", *Financial System Review,* June 2016, at p. 44; available at: http://www.bankofcanada.ca/2016/06/fsr-june-2016/.

65 See CSDR regulation, Article 7 – Measures to address settlement fails.

66 See ASX paper, at p. 13.

67 See the following documents published by The Treasury Market Practices Group (TMPG), revised February 2016: *U.S. Treasury Securities Fails Charge Trading Practice* and *Agency Debt and Agency Mortgage-Backed Securities Fails Charge Trading Practice*; both available on the Website of the Federal Reserve Bank of New York, at: https://www.newyorkfed.org/tmpg/about.html. The TMPG is composed of senior business managers and legal and compliance professionals from a variety of institutions – including securities dealers, banks, buy-side firms, market utilities and others – and is sponsored by the Federal Reserve Bank of New York. The U.S. CCP for fixed income trades is Fixed Income Clearing Corporation, a wholly owned subsidiary of DTCC.

68 ASX paper, at p. 13.

69 17 CFR 242.204 – Close-out requirement.

70 If the position is not closed out, the broker or dealer and any broker or dealer for which it clears transactions (for example, an introducing broker) may not effect further short sales in that security without borrowing or entering into a bona fide agreement to borrow the security (known as the "pre-borrowing" requirement) until the broker or dealer purchases shares to close out the position and the purchase clears and settles.

after the intended settlement date.[71] This period would be dependent on the asset type and liquidity of the relevant security; for example, up to four days for liquid securities, seven days for illiquid securities, and 15 days for transactions on SME growth markets.

Question 9: Is the current settlement discipline regime in Canada sufficient to resolve settlement failures expeditiously or are other mechanisms needed?

- **If other mechanisms should be imposed, what should those mechanisms be?**
- **To which types of trades, securities or markets should such mechanisms apply?**
- **How would a settlement failure be determined or defined for the purposes of such mechanisms?**
- **Who should establish and administer such mechanisms (for example, an SRO, clearing agency or CSA regulator)?**

6.4 Other potential impediments to ensuring timely settlement of trades

We seek stakeholder views on whether any other aspect of the securities clearing and settlement processing chain not discussed above may be a source of delay in meeting a T+2 settlement timeline. It is important that stakeholders identify the weak links in the processing chain so that regulators can consider whether additional settlement discipline measures may be needed to address such weak links.[72] For example, we are interested in knowing whether any services or systems currently used by investors, issuers or other market participants for the clearance and settlement of securities transactions, the maintenance of securities accounts, and the safeguarding of securities may not be able to support a shorter T+2 settlement environment. The reasons for this could be varied, including because the service or system is too dependent on manual processes and is not sufficiently automated.

Question 10: Are there other aspects of the securities transaction processing chain that may be a source of delay in meeting a T+2 settlement timeline? If so, please describe them and identify any additional settlement discipline measures that could be taken to address such delays. Please describe such measures in reasonable detail.

Conclusion

In this Consultation Paper, we briefly describe the Canadian securities industry's efforts to prepare for shortening the standard settlement cycle from T+3 to T+2. The move to T+2 is expected to occur on September 5, 2017, at the same time as the markets in the United States move to T+2. We provide an overview of existing settlement discipline measures in the Canadian equity and debt markets.

The Consultation Paper raises certain policy considerations for addressing the risk that the transition to a standard T+2 settlement cycle may increase settlement failures in our markets. We are seeking feedback on whether existing arrangements in place for the management of settlement risk will continue to provide appropriate incentives to promote timely settlement and support market efficiency in a T+2 settlement cycle environment. As we move to a T+2 settlement cycle, to help mitigate the risk that settlement failures may increase, it might be prudent to consider adopting, or mandate the adoption of, new measures to enhance the settlement discipline regime in a T+2 settlement environment.

We seek feedback on any aspect of this Consultation Paper and, in particular, on the following specific questions:

Question 1: In your opinion, is the existing settlement discipline regime adequate to promote timely settlement and support market efficiency in a T+2 settlement cycle environment? Please provide reasons for your response, including, if available, any quantitative analysis to support your reasons.

Question 2: Given that international research suggests that achieving SDA rates of over 90 percent may be important in delivering greater settlement efficiency and lower rates of settlement failures, is increasing SDA rates in the Canadian markets an important pre-condition to transitioning to T+2?

Question 3: Is a higher degree of automation in the trade confirmation-affirmation processes the key to delivering higher SDA rates? Please provide reasons for your answer.

Question 4: What actions could trade-matching parties take to accelerate the timing of the release of allocations and

[71] See CSDR regulation, Article 7 – Measures to address settlement fails.

[72] A discussion of the potential for emerging technologies, such as the blockchain concept and distributed ledgers, to radically transform current clearing and settlement processes and systems is beyond the scope of this policy consultation.

settlement instructions in a T+2 settlement environment?

Question 5: Should the ITM deadline be amended, such that the ITM policies and procedures of a registered dealer or adviser would have to be designed to match a *DAP/RAP trade* no later than midnight on T instead of noon on T+1? Please provide reasons for your answer. If you believe the ITM deadline should be amended, but not to a midnight on T deadline, then please give your views on how the Instrument should be amended.

Question 6: Alternatively, should the ITM threshold be amended, such that a registered firm would be required to complete and file an exception report if it fails to meet a threshold of 95% (instead of 90%) of trades, measured by both value and volume, matched by noon on T+1 during a calendar quarter? Please provide reasons for your answer. If you believe the ITM threshold should be amended, but not to a 95% threshold, then please give your views on how the Instrument should be amended.

Question 7: Are there other pre-settlement measures that could be taken to encourage prompt confirmation and affirmation of a trade and communication of allocations and settlement instructions by trade-matching parties? If so, please describe such measures in reasonable detail.

Question 8: Should NI-24-101's current principles-based settlement rule be amended to incorporate a prescriptive T+2 rule? Please provide reasons for your answer.

Question 9: Is the current settlement discipline regime in Canada sufficient to resolve settlement failures expeditiously or are other mechanisms needed?

- **If other mechanisms should be imposed, what should those mechanisms be?**
- **To which types of trades, securities or markets should such mechanisms apply?**
- **How would a settlement failure be determined or defined for the purposes of such mechanisms?**
- **Who should establish and administer such mechanisms (for example, an SRO, clearing agency or CSA regulator)?**

Question 10: Are there other aspects of the securities transaction processing chain that may be a source of delay in meeting a T+2 settlement timeline? If so, please describe them and identify any additional settlement discipline measures that could be taken to address such delays. Please describe such measures in reasonable detail.

APPENDIX A
Aggregate CNS Fails Rates

CDS measures aggregate fails to deliver in its CNS system based on the aggregate value of securities that fail to settle on T+3. CDS acts as central counterparty to each trade processed through the CNS system (generally, most equity trades on marketplaces). In the CNS system, each CNS participant's daily purchases and sales of a security, based on trade date, are automatically netted into one long position (right to receive securities from CDS) or one short position (obligation to deliver securities to CDS) for each issue purchased and sold.

Where a CNS participant fails to deliver securities to CDS on T+3, a fail to deliver occurs. A number of CNS participants could be in a short position at any one time, and fail to deliver on T+3. All fails to deliver in a particular issue of securities on a given day are a cumulative number of all fails outstanding until that day, plus new fails that occur that day, less fails that settle that day. The figure is not a daily amount of fails, but a combined figure that includes both new fails on the reporting day as well as existing fails. In other words, these numbers reflect aggregate fails as of a specific point in time (the CNS system does not track the length of time that a fail to deliver remains outstanding or "age" of a fail).

The aggregate value of accumulated fails to deliver on a particular day in the CNS system is then compared to the aggregate value of all trades that settle on "value date" in CNS on that day. The value of trades eligible for CNS is lagged by three days such that the trade-date data are matched to the failures associated with that trade date on a T+3 basis. In order to "smooth" out the effects of the failure of an individual large block trade or of unusual levels of trading activity (such as trading days on Canadian marketplaces when markets in the United States are closed), CDS calculates 20-day rolling averages for both measures.

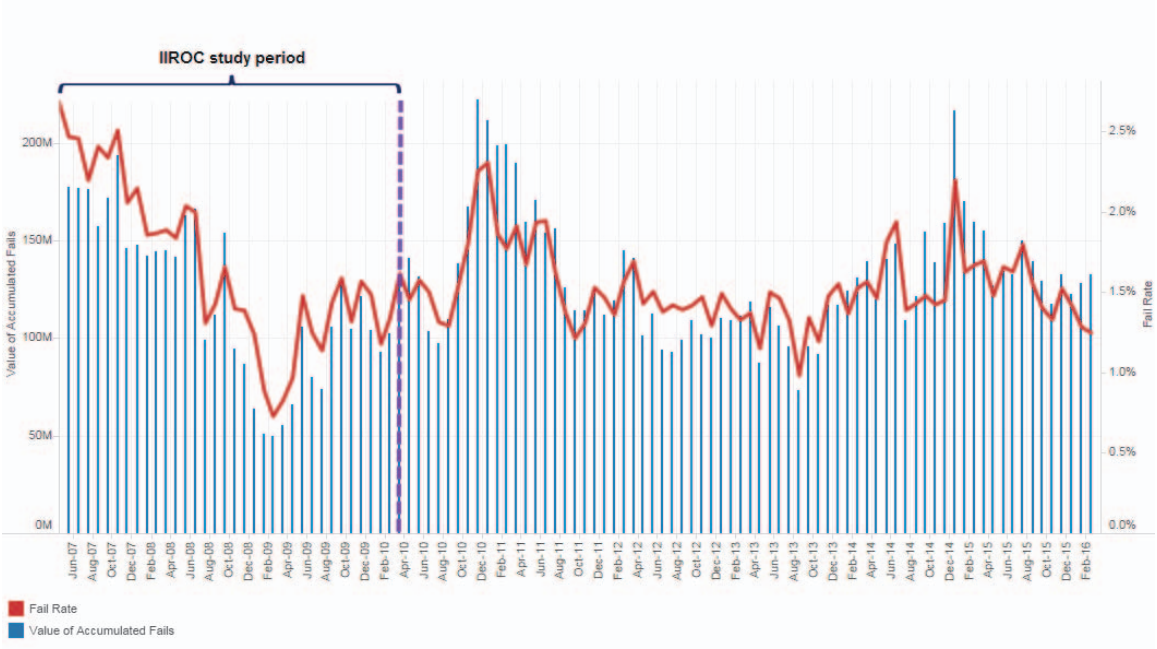
Using the CNS fails data received from CDS, OSC staff have compiled the information to create Chart A-1, as well as set out the data in Table A-1 below. Table A-1 and the chart reflect daily aggregate CNS fails from May 1, 2007 to March 31, 2016. A part of this period, i.e., from May 2007 to April 2010 (**IIROC study period**) was analyzed by IIROC in a February 2011 report entitled *Trends in Trading Activity, Short Sales and Failed Trades – For the period May 1, 2007 to April 30, 2010* (**IIROC Trends Study**).[73] IIROC concluded that, overall during the IIROC study period, there was a general downward trend in the value of accumulated fails as a percentage of the aggregate value of trades processed in CNS, with the exception of a "spike" in trade failures that occurred in September 2008 during the financial crisis.[74] According to IIROC, the decline may have been attributable to two factors:

- general decline in the length of time that a "failed" trade remains outstanding; or
- a general decline in the rate of trade failures.

[73] The IIROC Trends Study is available at: http://www.iiroc.ca/Documents/2011/cee8bc8c-a639-44de-bcfc-f2e499676f43_en.pdf.

[74] See the IIROC Trends Study, at p. 27-28. According to IIROC, this spike was "due to the bankruptcy of a major U.S. investment dealer that was the ultimate counter-party to a significant volume of trades".

Chart A-1 – Daily CNS fails rate



From May 1, 2010 onwards (i.e., after the end of the IIROC study period) the declining trend in CNS fail rates appears to have abated, with cumulative CNS fails remaining relatively stable and generally below 2% of the aggregate value of trades processed through CNS.[75] The average of aggregate CNS fails during the entire period May 1, 2007 to March 31, 2016 is 1.58%. See Table A-1 below.

While the CNS fails data does not provide information on the causes of fails, previous IIROC studies have found that the "predominant cause of failed trades is administrative delay or error".[76] Even if the data is unable to tell us whether a fail at the clearing agency level (i.e, a delivery failure caused by a direct participant of the clearing agency) is caused by a corresponding fail at a dealer's or custodian's client-account level, it is probable that many fails to settle trades at the clearing agency are the direct or indirect result of fails in such underlying accounts maintained at one or more tiers of such intermediaries.

With respect to average fail rates in markets outside of Canada, different markets apply different methodologies for calculating fail rates, so it is also difficult to draw comparisons with foreign markets. The IIROC Trends Study contains a brief comparative analysis with fails in the United States. Based on information from the SEC's Office of Economic Analysis,[77] IIROC suggested that "fail rates in the United States may be somewhat higher than in Canada after taking into account differences in the size of the respective markets".[78]

[75] However, there are some exceptions to this general observation: it also appears that certain unexplained, but temporary, increases or spikes in fails to deliver occurred in late 2010/early 2011 and early 2015 when the fail rate increased above the 2% mark.

[76] See the IIROC Trends Study, at p. 5-6.

[77] See Office of Economic Analysis, *Impact of recent SHO Rule Changes on Fails to Deliver* (April 16, 2009). A revised version of this document dated November 4, 2009 is available at: https://www.sec.gov/spotlight/shortsales/oeamemo110409.pdf.

[78] It is interesting to note that, in Australia, the settlement failure rate for cash equities is extremely low, with an average daily settlement failure rate of 0.339% over the December 2013 quarter. See ASX Paper, at p. 13. It is unclear whether this percentage is based on number of securities or the value of the securities that fail to settle on time. The ASX says that the high level of settlement efficiency in Australia is demonstrated by both average daily settlement completion rate of 99.7% and the fact that 77.8% of settlements which failed on T+3 were completed by T+4. Ninety three percent of the settlements that failed on T+3 over Q4 2013 involved securities outside the top 50 ASX-listed securities.

Table A-1 – Value of Accumulated Fails in CNS

Table A-1 – Value of Accumulated Fails			
Month	20-Day Rolling Average of		Value of Accumulated Fails as % of Trade Value
	Continuous Net Settlement Trade Value	Value of Accumulated Fails	
May-07	$ 7,072,864,788	$ 190,530,817	2.69%
Jun-07	$ 7,175,899,218	$ 177,079,299	2.47%
Jul-07	$ 7,186,423,091	$ 176,816,985	2.46%
Aug-07	$ 8,016,228,401	$ 176,485,419	2.20%
Sep-07	$ 6,523,189,147	$ 157,141,611	2.41%
Oct-07	$ 7,349,209,434	$ 171,706,634	2.34%
Nov-07	$ 7,714,020,926	$ 193,563,475	2.51%
Dec-07	$ 7,063,445,146	$ 145,759,967	2.06%
Jan-08	$ 6,884,294,114	$ 147,751,865	2.15%
Feb-08	$ 7,629,710,520	$ 141,827,181	1.86%
Mar-08	$ 7,723,931,327	$ 144,401,989	1.87%
Apr-08	$ 7,683,901,472	$ 144,996,218	1.89%
May-08	$ 7,695,119,932	$ 141,500,208	1.84%
Jun-08	$ 7,990,506,163	$ 163,049,106	2.04%
Jul-08	$ 8,300,632,652	$ 165,949,115	2.00%
Aug-08	$ 7,566,027,689	$ 98,967,891	1.31%
Sep-08	$ 7,765,134,588	$ 111,699,872	1.43%
Oct-08	$ 9,265,502,773	$ 153,736,905	1.66%
Nov-08	$ 6,730,676,331	$ 94,520,509	1.40%
Dec-08	$ 6,242,704,936	$ 86,917,132	1.39%
Jan-09	$ 5,140,145,092	$ 63,994,026	1.24%
Feb-09	$ 5,712,182,858	$ 50,783,628	0.89%
Mar-09	$ 6,637,664,169	$ 50,053,832	0.73%
Apr-09	$ 6,690,814,518	$ 55,662,309	0.83%
May-09	$ 6,866,748,063	$ 66,107,911	0.97%
Jun-09	$ 7,140,039,142	$ 105,592,566	1.48%
Jul-09	$ 6,330,705,081	$ 80,248,484	1.25%
Aug-09	$ 6,524,151,799	$ 73,859,488	1.14%
Sep-09	$ 7,499,492,432	$ 105,980,101	1.44%
Oct-09	$ 8,010,051,153	$ 128,256,855	1.59%
Nov-09	$ 7,867,282,950	$ 104,376,622	1.32%
Dec-09	$ 7,755,872,818	$ 121,610,483	1.57%
Jan-10	$ 7,015,269,830	$ 104,335,029	1.49%
Feb-10	$ 7,854,569,053	$ 92,934,069	1.18%
Mar-10	$ 7,673,630,354	$ 102,195,128	1.34%
Apr-10	$ 8,228,071,445	$ 133,018,447	1.62%
May-10	$ 9,680,483,463	$ 141,053,179	1.46%
Jun-10	$ 8,332,890,633	$ 131,457,722	1.58%
Jul-10	$ 6,863,386,601	$ 103,316,906	1.51%
Aug-10	$ 7,400,363,281	$ 97,441,461	1.32%
Sep-10	$ 8,486,406,274	$ 109,836,461	1.29%
Oct-10	$ 8,942,465,332	$ 138,031,677	1.54%
Nov-10	$ 9,216,966,639	$ 167,228,840	1.81%
Dec-10	$ 9,847,801,045	$ 222,187,757	2.26%
Jan-11	$ 9,161,265,959	$ 211,598,802	2.31%
Feb-11	$ 10,649,798,759	$ 198,685,634	1.87%
Mar-11	$ 11,221,033,494	$ 199,034,117	1.77%
Apr-11	$ 9,905,815,097	$ 189,657,100	1.91%
May-11	$ 9,504,509,917	$ 159,198,189	1.67%
Jun-11	$ 8,814,514,979	$ 170,858,690	1.94%

Table A-1 – Value of Accumulated Fails			
Month	20-Day Rolling Average of		Value of Accumulated Fails as % of Trade Value
	Continuous Net Settlement Trade Value	Value of Accumulated Fails	
Jul-11	$ 7,906,422,785	$ 153,942,946	1.95%
Aug-11	$ 9,645,711,225	$ 156,234,934	1.62%
Sep-11	$ 9,136,409,948	$ 125,736,996	1.38%
Oct-11	$ 9,379,516,927	$ 114,059,066	1.22%
Nov-11	$ 8,731,360,061	$ 114,310,999	1.31%
Dec-11	$ 8,209,229,504	$ 125,748,021	1.53%
Jan-12	$ 7,627,146,676	$ 112,114,440	1.47%
Feb-12	$ 8,752,801,479	$ 119,229,480	1.36%
Mar-12	$ 9,254,526,183	$ 145,092,895	1.57%
Apr-12	$ 8,326,839,455	$ 141,150,535	1.70%
May-12	$ 7,060,215,801	$ 101,068,837	1.43%
Jun-12	$ 7,472,308,216	$ 112,567,935	1.51%
Jul-12	$ 6,793,008,979	$ 93,821,758	1.38%
Aug-12	$ 6,537,526,483	$ 92,989,892	1.42%
Sep-12	$ 7,114,775,151	$ 99,175,350	1.39%
Oct-12	$ 7,664,088,294	$ 108,878,215	1.42%
Nov-12	$ 6,903,115,514	$ 101,685,366	1.47%
Dec-12	$ 7,754,502,011	$ 100,380,386	1.29%
Jan-13	$ 7,361,459,898	$ 110,013,649	1.49%
Feb-13	$ 7,825,580,622	$ 109,151,397	1.39%
Mar-13	$ 8,369,051,413	$ 111,398,558	1.33%
Apr-13	$ 8,626,141,145	$ 118,459,809	1.37%
May-13	$ 7,549,909,603	$ 87,034,523	1.15%
Jun-13	$ 7,708,191,934	$ 115,808,064	1.50%
Jul-13	$ 7,249,298,529	$ 106,239,613	1.47%
Aug-13	$ 7,222,839,903	$ 95,762,354	1.33%
Sep-13	$ 7,467,273,049	$ 73,458,972	0.98%
Oct-13	$ 7,134,066,435	$ 95,895,171	1.34%
Nov-13	$ 7,647,258,002	$ 91,523,310	1.20%
Dec-13	$ 7,899,019,895	$ 116,860,952	1.48%
Jan-14	$ 7,520,037,956	$ 116,866,404	1.55%
Feb-14	$ 9,068,268,939	$ 124,202,397	1.37%
Mar-14	$ 8,584,955,918	$ 131,110,465	1.53%
Apr-14	$ 8,883,557,953	$ 139,317,479	1.57%
May-14	$ 8,164,086,538	$ 119,730,161	1.47%
Jun-14	$ 7,722,030,302	$ 140,318,789	1.82%
Jul-14	$ 7,657,546,131	$ 148,530,599	1.94%
Aug-14	$ 7,852,382,868	$ 109,286,911	1.39%
Sep-14	$ 8,464,405,954	$ 121,268,376	1.43%
Oct-14	$ 10,437,412,125	$ 154,583,284	1.48%
Nov-14	$ 9,730,735,609	$ 138,721,246	1.43%
Dec-14	$ 10,928,812,528	$ 159,046,647	1.46%
Jan-15	$ 9,851,185,673	$ 216,597,828	2.20%
Feb-15	$ 10,443,117,192	$ 170,100,474	1.63%
Mar-15	$ 9,539,542,128	$ 159,427,943	1.67%
Apr-15	$ 9,139,613,831	$ 155,047,935	1.70%
May-15	$ 8,594,193,281	$ 127,206,751	1.48%
Jun-15	$ 8,093,983,952	$ 134,392,981	1.66%
Jul-15	$ 8,128,056,379	$ 132,644,452	1.63%
Aug-15	$ 8,339,300,943	$ 150,044,043	1.80%
Sep-15	$ 8,960,875,588	$ 139,050,902	1.55%
Oct-15	$ 9,226,858,931	$ 129,445,026	1.40%

Table A-1 – Value of Accumulated Fails			
Month	20-Day Rolling Average of		Value of Accumulated Fails as % of Trade Value
	Continuous Net Settlement Trade Value	Value of Accumulated Fails	
Nov-15	$ 8,798,002,637	$ 117,217,762	1.33%
Dec-15	$ 8,687,635,347	$ 132,572,379	1.53%
Jan-16	$ 8,611,974,623	$ 122,258,166	1.42%
Feb-16	$ 9,970,479,116	$ 128,119,896	1.28%
Mar-16	$ 10,618,968,915	$ 132,864,132	1.25%
Period Average	**$ 8,120,574,125**	**$ 128,623,977**	**1.58%**

Source: CDS

APPENDIX B
Aggregate ITM Rates

As we had stated in previous CSA notices in 2008, 2009 and 2010,[79] during the period from 2004 to 2009, we believe NI 24-101 had successfully encouraged market participants to address ITM middle and back-office problems and generally improve their clearing and settlement processes and systems. Many processes were re-engineered and became automated, resulting in efficiency gains and STP. Overall ITM rates at T and at T+1 had improved significantly from April 2004 to June 2009.[80] Specifically, the combined equity and debt industry ITM rate at midnight on T improved from 2.98% in April 2004 to 48.24% in June 2009, representing an increase of over 45 percentage points. The ITM rate at midnight on T+1 also improved significantly, from 47.14% in April 2004 to 90.85% in June 2009, representing an increase of almost 44 percentage points. Moreover, the industry ITM rate at noon on T+1 increased from 61.89% in June 2007 (when CDS first began measuring ITM rates at noon on T+1) to 85.18% in June 2009, representing an increase of over 23 percentage points during this two-year period. We also noted that NI 24-101 may have contributed to the overall decline of the fails-to-deliver rates in Canada since April 2007, when the Instrument came into force.[81]

With the 2010 Notice, we published a report entitled *CSA Staff Report on Industry Compliance with the Institutional Trade Matching Requirements of National Instrument 24-101* (**2010 Analysis**).[82] The 2010 Analysis summarized our review of the ITM data from April 2007 to December 2009 (**initial analysis period**). Our findings showed that, while the industry had made steady progress in meeting the ITM target during the initial analysis period, many market participants had reached a "significant ceiling" in their ability to meet the ITM deadline in mid-2009. The increasing trend in ITM rates at noon on T+1 appeared to have flattened for the last two quarters of 2009. The average percentage of trades entered (submitted) by noon on T+1 into CDS had remained around 90%, and the average percentage of matched trades had fluctuated from 80% to 86%. This indicated that market participants had stopped investing in or improving their ITM policies and procedures, or that reaching the ITM target had become less of a focus for market participants. The 2010 Analysis had set forth in table format the industry aggregate ITM rates (quarterly),[83] and included charts[84] and data tables showing the industry trends in equity and debt ITM rates.

OSC staff have continued to examine this data, and have updated the charts and tables to extend the initial analysis period to the end of December 2015. Charts B-1 and B-2 and the data in Tables B-1 to B-3 below reflect aggregate ITM rates from April 2007 to December 2015. Based on OSC staff's observations, the trend in industry aggregate ITM rates increased at a much slower pace between January 2010 and December 2015, when compared to the initial analysis period. Specifically, the aggregate industry ITM rate increased by approximately 5 percentage points at noon on T+1 during this period.

Based on the data in Tables B-2 and B-3, the aggregate ITM rates for debt trades seem to lag the ITM rates for equity trades at noon on T+1. Currently, debt trades appear to be consistently matched below the 90% threshold, while equity trades are matched at, or slightly above, the 90% threshold. This may be due to the differences in how these transactions are processed. While equity transactions are processed on a more straight-through processing basis, the processing of trades in fixed-income securities tends to rely more on manual intervention. Specifically, certain details on debt transactions are not always readily available (e.g., CUSIP numbers for new issues) and, therefore, the parties to the trade have to manually input these details, which results in additional processing time.

79 See the 2008 Notice, 2009 Notice and 2010 Notice.

80 NI 24-101 was first published for comment on April 16, 2004, together with DP 24-401. While NI 24-101 only came in force in April 2007, market participants were likely influenced or encouraged to upgrade systems, improve processes, and change behaviours since April 2004 by the prospect of NI 24-101 coming into force.

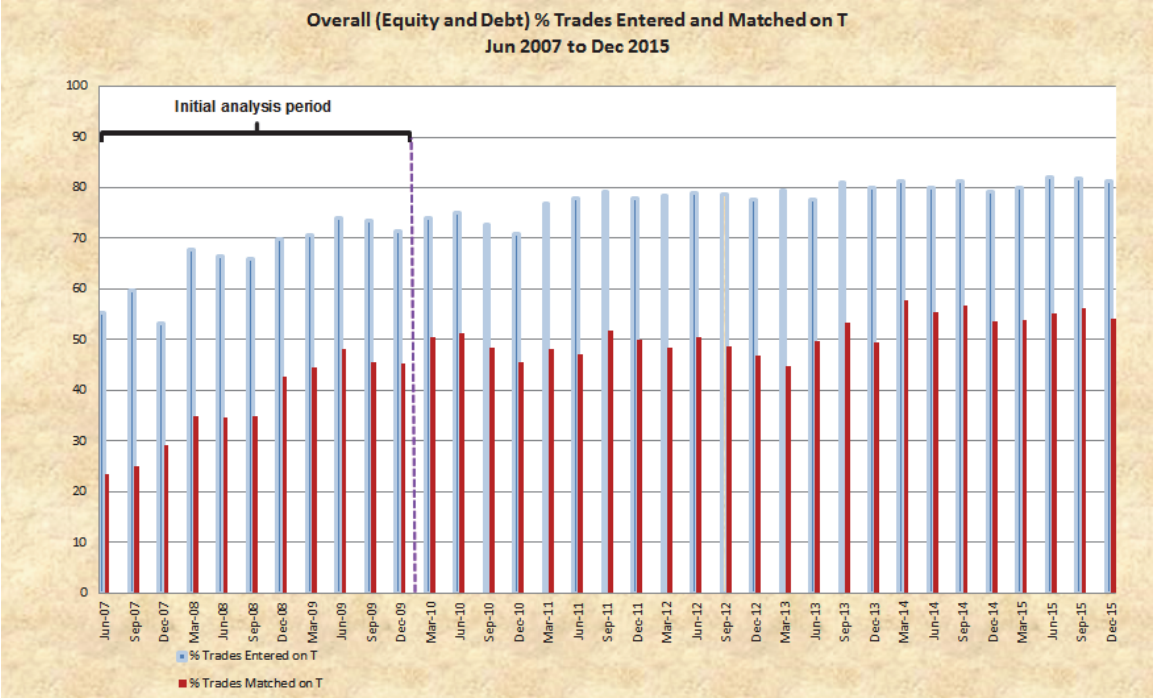
81 See the 2009 Notice, at p. 9065. This view was expressed by IIROC as well.

82 See the 2010 Notice, at p. 3396.

83 See Tables A-1 to A-3 in the Appendix to the 2010 Analysis.

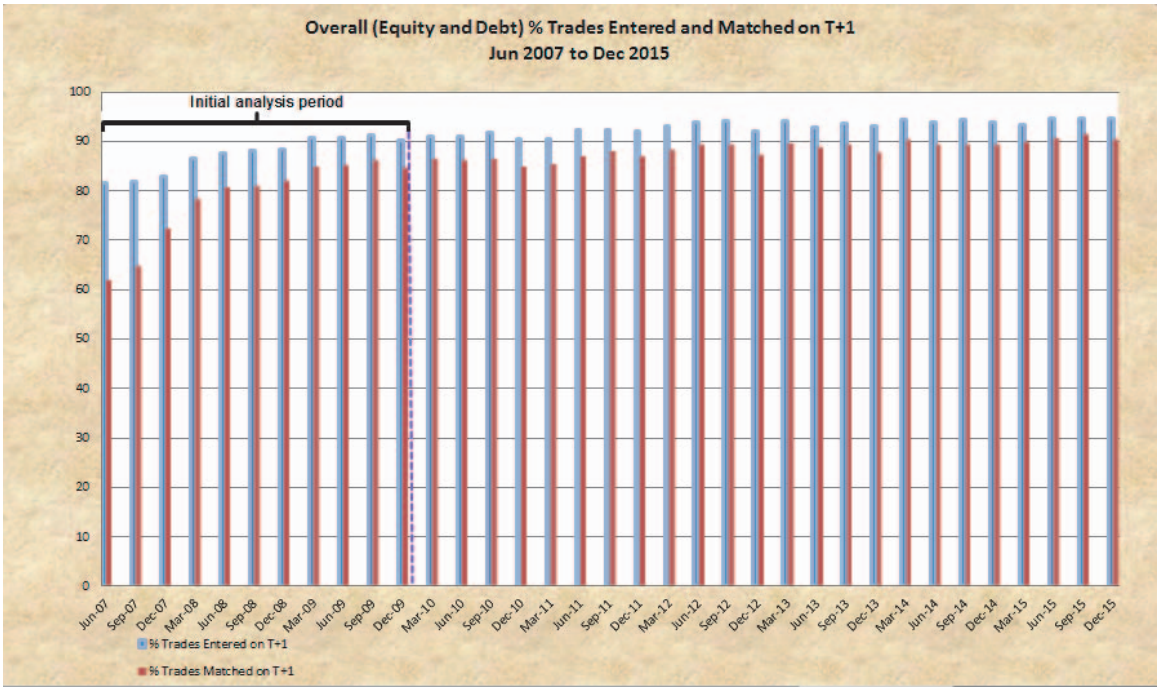
84 See Charts 1 and 2 of the 2010 Analysis.

Chart B-1. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched midnight on T



Source: CDS

Chart B-2. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched noon on T+1



Source: CDS

Table B-1 – Overall ITM Rates (combined equity and debt) from CDS data based on volume – percentage entered into CDS during the quarter

Quarter Ending	Entered Midnight on T	Matched Midnight on T	Entered Noon T+1	Matched Noon T+1
Dec-15	81.27	54.17	94.56	90.36
Sep-15	81.85	56.20	94.70	91.32
Jun-15	81.99	55.19	94.75	90.62
Mar-15	79.95	53.88	93.48	89.86
Dec-14	79.35	53.51	93.83	89.40
Sep-14	81.20	56.79	94.37	89.32
Jun-14	79.96	55.52	93.90	89.45
Mar-14	81.24	57.83	94.45	90.32
Dec-13	79.93	49.56	93.02	87.75
Sep-13	80.91	53.43	93.63	89.33
Jun-13	77.76	49.85	92.97	88.80
Mar-13	79.37	44.72	94.24	89.65
Dec-12	77.75	46.78	92.18	87.25
Sep-12	78.96	48.75	94.09	89.37
Jun-12	78.97	50.48	93.82	89.20
Mar-12	78.40	48.41	93.04	88.31
Dec-11	78.03	50.09	91.98	86.87
Sep-11	79.12	51.74	92.44	88.13
Jun-11	77.81	47.09	92.37	86.86
Mar-11	76.94	48.10	90.61	85.45
Dec-10	70.79	45.47	90.44	84.82
Sep-10	72.70	48.34	91.78	86.55
Jun-10	74.94	51.25	91.00	86.17
Mar-10	74.07	50.54	90.89	86.34
Dec-09	71.43	45.24	90.20	84.70
Sep-09	73.45	45.47	91.40	86.30
Jun-09	73.96	48.24	90.70	85.20
Mar-09	70.55	44.59	90.80	84.80
Dec-08	69.78	42.72	88.30	82.00
Sep-08	65.97	34.96	88.10	80.90
Jun-08	66.48	34.62	87.50	80.60
Mar-08	67.69	34.84	86.70	78.40
Dec-07	53.34	29.28	82.90	72.30
Sep-07	59.74	25.18	81.80	64.80
Jun-07	55.32	23.48	81.70	61.90
Apr-07	39.72	14.30		

Table B-2 – Overall ITM Rates (equity only) from CDS data based on volume – percentage entered into CDS during the quarter

Quarter Ending	Entered Midnight on T	Matched Midnight on T	Entered Noon T+1	Matched Noon T+1
Dec-15	81.72	53.34	94.84	90.73
Sep-15	82.42	55.09	95.21	92.16
Jun-15	82.60	53.89	95.27	91.32
Mar-15	80.40	52.98	93.73	90.55
Dec-14	79.71	52.55	94.31	90.21
Sep-14	81.39	55.57	94.78	89.81
Jun-14	80.48	54.61	94.59	90.46
Mar-14	81.63	56.86	94.96	91.02
Dec-13	80.24	47.24	93.43	88.30
Sep-13	81.30	50.43	94.25	90.26
Jun-13	78.01	46.51	93.44	89.63
Mar-13	79.37	44.72	94.24	89.65
Dec-12	78.24	44.60	92.52	87.95
Sep-12	78.96	45.72	94.57	90.03
Jun-12	78.84	46.94	94.12	89.63
Mar-12	78.03	45.04	93.10	88.41
Dec-11	78.22	48.35	92.20	87.40
Sep-11	79.14	50.09	92.56	88.56
Jun-11	77.25	44.12	92.33	87.10
Mar-11	76.59	45.85	90.48	85.61
Dec-10	70.36	43.77	90.53	85.19
Sep-10	71.90	46.33	91.93	86.93
Jun-10	74.44	50.35	67.79	44.59
Mar-10	73.70	49.33	91.10	86.87
Dec-09	70.06	43.40	90.30	85.20
Sep-09	73.00	43.50	91.60	86.80
Jun-09	73.70	46.60	90.90	85.90
Mar-09	69.60	42.50	90.90	85.40
Dec-08	69.20	41.30	88.10	82.20
Sep-08	64.10	32.00	87.80	80.10
Jun-08	65.50	32.70	87.50	81.10
Mar-08	66.50	32.30	86.40	78.40
Dec-07	54.40	27.20	82.90	73.00
Sep-07	58.20	22.40	81.20	65.10
Jun-07	53.50	21.70	81.20	62.90
Apr-07	39.50	13.10		

Table B-3 – Overall ITM Rates (debt only) from CDS data based on volume – percentage entered into CDS during the quarter

Quarter Ending	Entered Midnight on T	Matched Midnight on T	Entered Noon T+1	Matched Noon T+1
Dec-15	78.56	59.09	92.92	88.14
Sep-15	79.09	61.55	92.25	87.36
Jun-15	79.21	61.05	92.40	87.46
Mar-15	77.44	58.61	92.11	86.18
Dec-14	77.11	59.21	90.83	84.62
Sep-14	80.31	62.52	92.41	87.07
Jun-14	77.56	59.60	90.69	84.97
Mar-14	79.36	62.59	92.01	86.96
Dec-13	78.32	61.11	90.88	84.98
Sep-13	79.42	64.38	91.26	85.92
Jun-13	76.76	63.04	91.08	85.52
Mar-13	79.18	64.95	92.75	87.12
Dec-12	75.25	57.68	90.44	83.78
Sep-12	77.96	62.92	91.67	86.25
Jun-12	79.59	64.99	92.53	87.45
Mar-12	80.38	64.87	92.73	87.79
Dec-11	76.90	59.53	90.69	83.98
Sep-11	79.00	60.87	91.76	85.68
Jun-11	80.61	60.98	92.57	85.71
Mar-11	79.09	61.70	91.40	84.48
Dec-10	73.34	55.47	89.85	82.57
Sep-10	76.95	58.92	90.94	84.58
Jun-10	77.33	55.68	90.30	83.33
Mar-10	75.92	56.79	89.85	83.63
Dec-09	75.70	55.50	89.30	81.70
Sep-09	78.90	56.30	90.80	83.20
Jun-09	75.50	55.90	90.00	82.10
Mar-09	75.42	55.36	90.06	81.76
Dec-08	73.33	50.95	89.32	80.60
Sep-08	76.52	51.79	90.09	82.98
Jun-08	71.74	45.61	87.21	77.86
Mar-08	74.10	49.13	88.36	78.09
Dec-07	66.00	39.60	82.60	68.80
Sep-07	67.00	38.60	84.80	63.50
Jun-07	63.20	31.40	63.50	57.50
Apr-07	41.00	20.90		

Source: CDS

ANNEX F

LOCAL MATTERS

ONTARIO SECURITIES COMMISSION
NOTICE

1. Introduction

The CSA have proposed revisions to NI 24-101. The Proposed Revisions are described in the related CSA Notice and Request for Comments – "Proposed Amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* and Proposed Changes to Companion Policy 24-101 *Institutional Trade Matching and Settlement*" (**CSA Notice**) that precedes this notice.

Unless otherwise defined in this notice, defined terms or expressions used in this notice share the meanings provided in the CSA Notice.

The Ontario Securities Commission (**Commission**) is publishing this notice to supplement the CSA Notice.

2. Substance and purpose of the Proposed Revisions

Please see the CSA Notice.

3. Summary of the Proposed Revisions

Please see the CSA Notice.

4. Authority for the proposed amendments to the Instrument

The proposed amendments to the Instrument described in the CSA Notice will be made under the following provisions of the *Securities Act* (Ontario) (**Act**):

- Paragraph 11 of subsection 143(1) of the Act authorizes the Commission to make rules regulating the listing or trading of publicly traded securities or the trading of derivatives, including rules relating to clearing and settling trades.

- Subparagraph 2(i) of subsection 143(1) of the Act authorizes the Commission to make rules in respect of standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients.

- Paragraph 12 of subsection 143(1) of the Act authorizes the Commission to make rules regulating recognized clearing agencies, including prescribing requirements in respect of the review or approval by the Commission of any by-law, rule, procedure, interpretation or practice and prescribing restrictions on its ownership, control and direction.

Chapter 7

Insider Reporting

This chapter is available in the print version of the OSC Bulletin, as well as as in Carswell's internet service SecuritiesSource (see www.carswell.com).

This chapter contains a weekly summary of insider transactions of Ontario reporting issuers in the System for Electronic Disclosure by Insiders (SEDI). The weekly summary contains insider transactions reported during the seven days ending Sunday at 11:59 pm.

To obtain Insider Reporting information, please visit the SEDI website (www.sedi.ca).

Chapter 11

IPOs, New Issues and Secondary Financings

Issuer Name:
Canopy Growth Corporation
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 10, 2016
NP 11-202 Receipt dated August 10, 2016
Offering Price and Description:
$30,003,000.00 - 8,220,000 Common Shares
Price: $3.65 per Share
Underwriter(s) or Distributor(s):
GMP SECURITIES L.P.
DUNDEE SECURITIES LTD.
INFOR FINANCIAL INC.
PI FINANCIAL CORP.
Promoter(s):
Bruce Linton
Project #2515873

Issuer Name:
Donnelley Financial Solutions, Inc.
Principal Regulator - Ontario
Type and Date:
Amended and Restated Preliminary Long Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 15, 2016
Offering Price and Description:
US$ * - * Shares of Common Stock
Price: US$ * per Share
Underwriter(s) or Distributor(s):
-
Promoter(s):
R. R. Donnelley & Sons Company
Project #2504610

Issuer Name:
Enbridge Inc.
Principal Regulator - Alberta
Type and Date:
Preliminary Base Shelf Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 12, 2016
Offering Price and Description:
US$7,000,000,000.00
DEBT SECURITIES
COMMON SHARES
PREFERENCE SHARES
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2518746

Issuer Name:
Greystone Canadian Equity Income & Growth Fund
Morningstar Strategic Canadian Equity Fund
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectus, Annual Information Form dated August 11, 2016
NP 11-202 Receipt dated August 12, 2016
Offering Price and Description:
Series A, Series D, Series F, Series K, Series M and Series I Securities
Underwriter(s) or Distributor(s):
-
Promoter(s):
Brandes Investment Partners & Co.
Project #2517821

Issuer Name:
INFOR Acquisition Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Long Form Non-Offering Prospectus dated August 8, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
-
Promoter(s):
Infor Financial Group Inc.
Project #2515839

Issuer Name:
LSC Communications, Inc.
Principal Regulator - Ontario
Type and Date:
Amended and Restated Preliminary Long Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 15, 2016
Offering Price and Description:
US$ * - * Shares of Common Stock
Price: US$ * per Share
Underwriter(s) or Distributor(s):
-
Promoter(s):
R. R. Donnelley & Sons Company
Project #2504612

Issuer Name:
Marquest 2016-II Mining Super Flow-Through Limited Partnership - National Class
Marquest 2016-II Mining Super Flow-Through Limited Partnership - Québec Class
Principal Regulator - Ontario
Type and Date:
Preliminary Long Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 15, 2016
Offering Price and Description:
Maximum Offering: $20,000,000 - 2,000,000 Marquest 2016-II National Class Units
Minimum Offering: $2,500,000 - 250,000 Marquest 2016-II National Class Units (subject to a minimum of 250,000 Québec Class Units being sold)
Price: #10.00 per Marquest 2016-II National Class Unit
Minimum Subscription: $2,500 - 250 National Class Units
Underwriter(s) or Distributor(s):
National Bank Financial Inc.
CIBC World Markets Inc.
Scotia Capital Inc.
BMO Nesbitt Burns Inc.
RBC Dominion Securities Inc.
TD Securities Inc.
Desjardins Securities Inc.
Canaccord Genuity Corp.
GMP Securities L.P.
Industrial Alliance Securities Inc.
Raymond James Ltd.
Manulife Securities Incorporated
Echelon Wealth Partners Inc.
Laurentian Bank Securities Inc.
Promoter(s):
Marquest Asset Management Inc.
Project #2519036; 2519034

Issuer Name:
Mettrum Health Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 12, 2016
Offering Price and Description:
$15,001,650.00 - 5,661,000 Common Shares
Price: $2.65 per Common Share
Underwriter(s) or Distributor(s):
Cormark Securities Inc.
Mackie Research Capital Corporation
GMP Securities L.P.
Clarus Securities Inc.
Dundee Securities Ltd.
Echelon Wealth Partners Inc.
PI Financial Corp.
Promoter(s):
-
Project #2515576

Issuer Name:
OrganiGram Holdings Inc.
Principal Regulator - New Brunswick
Type and Date:
Preliminary Short Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
$20,020,000.00 - 15,400,000 Common Shares
Price: $1.30 per Share
Underwriter(s) or Distributor(s):
DUNDEE SECURITIES LTD.
GMP SECURITIES L.P.
MACKIE RESEARCH CAPITAL CORPORATION
PI FINANCIAL CORP.
CORMARK SECURITIES INC.
Promoter(s):
-
Project #2514108

Issuer Name:
Orletto Capital Inc.
Principal Regulator - Quebec
Type and Date:
Preliminary Long Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 15, 2016
Offering Price and Description:
Minimum Offering: $6,000,000 - 8,000,000 Units
Maximum Offering: $10,000,000 -13,333,333 Units
Price: $0.75 per Unit
Underwriter(s) or Distributor(s):
Richardson GMP Limited
Promoter(s):
Andre P. Boulet
Project #2519014

Issuer Name:
Spartan Energy Corp.
Principal Regulator - Alberta
Type and Date:
Preliminary Short Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
$70,278,000.00 - 22,100,000 Common Shares
$3.18 per Common Share
Underwriter(s) or Distributor(s):
PETERS& CO. LIMITED
GMP SECURITIES L.P.
TD SECURITIES INC.
DESJARDINS SECURITIES INC.
DUNDEE SECURITIES LTD.
NATIONAL BANK FINANCIAL INC.
SCOTIA CAPITAL INC.
CLARUS SECURITIES INC.
CORMARK SECURITIES INC.
ALTACORP CAPITAL INC.
BMO NESBITT BURNS INC.
CIBC WORLD MARKETS INC.
PARADIGM CAPITAL INC.
Promoter(s):
-
Project #2514136

Issuer Name:
UIT Energy Producers Class
UIT Global REIT Fund
UIT Gold Developers & Producers Class
Principal Regulator - Ontario
Type and Date:
Preliminary Simplified Prospectuses dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
Series A Securities
Underwriter(s) or Distributor(s):
-
Promoter(s):
Faircourt Asset Management Inc.
Project #2516030

Issuer Name:
Victoria Gold Corp.
Principal Regulator - Ontario
Type and Date:
Preliminary Short Form Prospectus dated August 12, 2016
NP 11-202 Receipt dated August 12, 2016
Offering Price and Description:
$25,025,000.00 - 38,500,000 Common Shares
Price: $0.65 per Offered Share
Underwriter(s) or Distributor(s):
Raymond James Ltd.
National Bank Financial Inc.
Cormark Securities Inc.
Echelon Wealth Partners Inc.
Paradigm Capital Inc.
BMO Nesbitt Burns Inc.
Promoter(s):
-
Project #2518456

Issuer Name:
Aphria Inc.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated August 11, 2016
NP 11-202 Receipt dated August 11, 2016
Offering Price and Description:
$30,000,000.00 - 15,000,000 Common Shares, at a price of $2.00 per Offered Share
Underwriter(s) or Distributor(s):
CLARUS SECURITIES INC.
SPROTT PRIVATE WEALTH LP
CORMARK SECURITIES INC.
MACKIE RESEARCH CAPITAL CORPORATION
Promoter(s):
Cole Cacciavillani
John Cervini
Project #2512046

Issuer Name:
Franklin Bissett Monthly Income and Growth Fund (Series A, F, I, M, O and T units)
Franklin Bissett Strategic Income Fund (Series A, F, I, M and O units)
Templeton BRIC Corporate Class* (Series A, F, I and O shares)
Franklin Bissett Strategic Income Corporate Class* (Series A, F, I, O, R, S and T shares)
*Class of Franklin Templeton Corporate Class Ltd.
Principal Regulator - Ontario
Type and Date:
Amendment No. 1 dated August 9, 2016 to the Simplified Prospectuses of the above Issuers dated May 27, 2016 and Amendment No. 3 dated August 9, 2016 to the Annual Information Form dated May 27, 2016
NP 11-202 Receipt dated August 15, 2016
Offering Price and Description:
Series A, F, I, M, O and T Units;
Series A, F, I, O R, S and T shares
Underwriter(s) or Distributor(s):
Franklin Templeton Investments Corp.
Franklin Templeton Investments Corp.
Bissett Investment Management, a division of Franklin Templeton Investments Corp.
Franklin Templeton Investmetns Corp.
Promoter(s):
Franklin Templeton Investments Corp.
Project #2469490

Issuer Name:
Genworth MI Canada Inc.
Principal Regulator - Ontario
Type and Date:
Final Base Shelf Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
$2,500,000,000.00 - Debt Securities, Preferred Shares, Common Shares, Subscription Receipts, Warrants, Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2513882

Issuer Name:
Heritage Plans (formerly Heritage Scholarship Trust Plans)
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 10, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2504332

Issuer Name:
Impression Plan
Principal Regulator - Ontario
Type and Date:
Final Long Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 10, 2016
Offering Price and Description:
-
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2504336

Issuer Name:
Pure Industrial Real Estate Trust
Principal Regulator - British Columbia
Type and Date:
Final Base Shelf Prospectus dated August 10, 2016
NP 11-202 Receipt dated August 11, 2016
Offering Price and Description:
$750,000,000.00 - Units, Debt Securities, Warrants, Subscription Receipts
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2513973

Issuer Name:
RIOCAN REAL ESTATE INVESTMENT TRUST
Principal Regulator - Ontario
Type and Date:
Final Base Shelf Prospectus dated August 10, 2016
NP 11-202 Receipt dated August 10, 2016
Offering Price and Description:
$3,000,000,000.00 Debt Securities Units, (Senior Unsecured) Preferred Units
Underwriter(s) or Distributor(s):
-
Promoter(s):
-
Project #2513893

Issuer Name:
StorageVault Canada Inc.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated August 11, 2016
NP 11-202 Receipt dated August 11, 2016
Offering Price and Description:
$50,000,400.00 - 58,824,000 Common Shares
Price: $0.85 per Common Share
Underwriter(s) or Distributor(s):
NATIONAL BANK FINANCIAL INC.
GMP SECURITIES L.P.
CANACCORD GENUITY CORP.
INDUSTRIAL ALLIANCE SECURITIES INC.
RAYMOND JAMES LTD.
Promoter(s):
-
Project #2511092

Issuer Name:
Student Transportation Inc.
Principal Regulator - Ontario
Type and Date:
Final Short Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
$85,000,000.00 - 5.25% Convertible Unsecured Subordinated Debentures, Price: $1,000 per Debenture
Underwriter(s) or Distributor(s):
National Bank Financial Inc.
BMO Nesbitt Burns Inc.
Scotia Capital Inc.
Raymond James Ltd.
TD Securities Inc.
Promoter(s):
-
Project #2510961

Issuer Name:
TORC Oil & Gas Ltd.
Principal Regulator - Alberta
Type and Date:
Final Short Form Prospectus dated August 9, 2016
NP 11-202 Receipt dated August 9, 2016
Offering Price and Description:
$75,012,000.00 - 10,640,000 Common Shares
Price: $7.05 per Common Shares
Underwriter(s) or Distributor(s):
MACQUARIE CAPITAL MARKETS CANADA LTD.
TD SECURITIES INC.
BMO NESBITT BURNS INC.
CIBC WORLD MARKETS INC.
NATIONAL BANK FINANCIAL INC.
RBC DOMINION SECURITIES INC.
CANACCORD GENUITY CORP.
DESJARDINS SECURITIES INC.
PETERS & CO. LIMITED
FIRSTENERGY CAPITAL CORP.
CORMARK SECURITIES INC.
GMP SECURITIES L.P.
SCOTIA CAPITAL INC.
Promoter(s):
-
Project #2510215

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
New Registration	TenSquared Investments Inc.	Portfolio Manager	August 9, 2016
Change in Registration Category	Aligned Capital Partners Inc.	From: Investment Dealer To: Investment Dealer and Investment Fund Manager	August 12, 2016

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Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 OneChicago, LLC – Application for Exemption from Recognition and Registration as an Exchange and Related Registration Relief – Notice and Request for Comment

NOTICE AND REQUEST FOR COMMENT

APPLICATION BY ONECHICAGO, LLC FOR EXEMPTION FROM RECOGNITION AND REGISTRATION AS AN EXCHANGE AND RELATED REGISTRATION RELIEF

A. Background

OneChicago, LLC (**OneChicago Exchange**) has applied to the Commission for an exemption from the requirement to be registered as an exchange pursuant to section 15 of the *Commodity Futures Act* (Ontario) (**CFA**), and the requirement to be recognized as an exchange pursuant to section 21 of the *Securities Act* (Ontario) (**OSA**).

OneChicago Exchange is regulated as a designated contract market (**DCM**) by the United States Commodity Futures Trading Commission (**CFTC**), pursuant to the U.S. Commodity Exchange Act. As a DCM, OneChicago Exchange operates an electronic trading system (**Trading System**) that offers single-stock futures products (**OneChicago Exchange Contracts**).

OneChicago Exchange proposes to offer direct access in Ontario to its Trading System and facilities to prospective participants in Ontario (**Ontario Participants**).

As OneChicago Exchange will be carrying on business in Ontario, it is required to be recognized as an exchange under the OSA and registered as a commodity futures exchange under the CFA or apply for exemptions from both requirements. OneChicago Exchange has applied for an exemption from the registration and recognition requirements on the basis that it is already subject to regulatory oversight by the CFTC.

B. Related Relief

OneChicago Exchange intends to provide direct access to the Trading System to Ontario Participants who will be certain Canadian financial institutions and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading futures contracts in Ontario; (ii) institutional investors and proprietary trading firms; and (iii) Banks listed in Schedule I of the *Bank Act* (Canada) (**Banks**). In each case, OneChicago Exchange expects that Ontario Participants will be (i) dealers that are engaged in the business of trading commodity futures contracts and commodity futures options in Ontario, (ii) Hedgers, as defined in subsection 1(1) of the CFA, or (iii) Banks.

OneChicago Exchange is requesting exemptive relief from the registration requirements under section 22 of the CFA for trades in OneChicago Exchange Contracts by Hedgers, in order for Hedgers to be able to access trading on OneChicago Exchange directly and not “through a dealer” as otherwise required under the existing CFA exemption.

OneChicago Exchange is also requesting exemptive relief for its participants from the registration requirement in section 22 of the CFA with respect to trades in OneChicago Exchange Contracts by a Bank entering orders as principal and only for its own account.

C. Application and Draft Exemption Order

In the application, OneChicago Exchange has outlined how it meets the criteria for exemption from recognition and from registration. The specific criteria can be found in Appendix 1 of the draft exemption order. Subject to comments received, staff intend to recommend that the Commission grant an exemption order with terms and conditions based on the draft exemption order. The application and draft exemption order are attached as Exhibits A and B, respectively, to this Notice.

D. Comment Process

The Commission is publishing for public comment OneChicago Exchange's application and the draft exemption order. We are seeking comment on all aspects of the application and draft exemption order.

Please provide your comments in writing, via e-mail, on or before September 19, 2016, to the attention of:

Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

The confidentiality of submissions cannot be maintained as the comment letters and a summary of written comments received during the comment period will be published.

Questions may be referred to:

Timothy Baikie
Senior Legal Counsel, Market Regulation
email: tbaikie@osc.gov.on.ca

Louis-Philippe Pellegrini
Legal Counsel, Market Regulation
email: lpellegrini@osc.gov.on.ca

Alex Petro
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email: bsargent@osc.gov.on.ca

Paul Hayward
Senior Legal Counsel, Compliance and Registrant Regulation
email: phayward@osc.gov.on.ca

EXHIBIT "A"

July 22, 2016

Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON
Canada M5H 3S8
Attention: Secretary

Secretary of the Ontario Securities Commission

OneChicago, LLC – Application for Exemption from Recognition as an Exchange and Registration as a Commodity Futures Exchange

We are filing this application with the Ontario Securities Commission ("**OSC**") for the following decisions (collectively, the "**Requested Relief**"):

1. A decision under Section 147 of the *Securities Act* (*Ontario*) ("**OSA**") exempting OneChicago, LLC from the requirement to be recognized as an exchange under Section 21(1) of the OSA;

2. A decision under Section 80 of the *Commodity Futures Act (Ontario)* ("**CFA**") exempting OneChicago, LLC from the requirement to be registered as a commodity futures exchange under Section 15(1) of the CFA;

3. A decision under Section 38 of the CFA exempting trades in contracts on OneChicago, LLC by a hedger (as defined in subsection 1(1) of the CFA) ("**Hedger**") from the registration requirement under Section 22 of the CFA (the "**Hedger Relief**"); and

4. A decision under Section 38 of the CFA exempting trades in contracts on OneChicago, LLC by a bank listed in Schedule 1 to the *Bank Act* (Canada) ("**Bank**") that enters orders only for its own account from the registration requirement under Section 22 of the CFA ("**Bank Relief**" and, together with the Hedger Relief, "**Registration Relief**").

OSC Staff has prescribed criteria that it will apply when considering applications by foreign-based commodity futures exchanges for registration (or exemption from registration) under Section 15 of the CFA. These criteria are prescribed in OSC Staff Notice 21-702 *Regulatory Approach for Foreign Based Stock Exchanges*, as updated, ("**Staff Notice 21-702**") in relation to applications for recognition (or exemption from recognition) by foreign exchanges under Section 21 of the OSA.

For convenience, this Application is divided into the following listed Parts consistent with the criteria in Staff Notice 21-702.

Part I Background

Part II Application of Exemption Criteria to OneChicago, LLC

1. Regulation of the Exchange
2. Governance
3. Regulation of Products
4. Access
5. Regulation of Participants on the Exchange
6. Rulemaking
7. Due Process
8. Clearing and Settlement
9. Systems and Technology
10. Financial Viability
11. Transparency
12. Record Keeping
13. Outsourcing
14. Fees
15. Information Sharing and Oversight Arrangements
16. IOSCO Principles

Part III Submissions

Part IV Other Matters

Part I Background

1. OneChicago, LLC ("**OneChicago**," "**OCX**," or the "**Exchange**") is a privately held company organized as a limited liability company under the laws of the State of Delaware in the United States. On June 11, 2002, the Commodity Futures Trading Commission ("**CFTC**") designated OneChicago as a Designated Contract Market ("**DCM**"), pursuant to Sections 5 and 6(a) of the Commodity Exchange Act, 7 U.S.C. §§7 and 8(a).

2. OneChicago is also notice-registered with the Securities and Exchange Commission ("**SEC**") as a security futures product exchange, pursuant to Section 6(g) of the Securities Exchange Act of 1934, 15 U.S.C. § 78f(g).

3. OneChicago operates the DCM from its headquarters in Chicago, Illinois in the United States. The Exchange receives a majority of its revenue from execution fees when market participants execute trades on the Exchange's trading platform (the "**OneChicago System**"), as well as carry fees, which are assessed daily based on the size of a market participant's position carried overnight.[1] Both of these fees are assessed on a notional value basis.[2] OneChicago lists for trading security futures ("**SFs**") as defined in 7 U.S.C § 1a(44).[3] Currently, OneChicago lists SFs overlaying individual equity securities on common stock, exchange traded funds, real estate investment trusts, American depositary receipts, and master limited partnerships (futures listed on OneChicago and overlaying such securities collectively referred to herein as "**OneChicago Contracts**").

4. OneChicago provides an electronic trading system to its market participants. Pursuant to the Rules of the Exchange ("**Rules of the Exchange**"), which include OneChicago's Rulebook (the "**OCX Rulebook**") and Notices to Members ("**NTMs**"), market participants may fall under one of three enumerated classes: **Clearing Members**, **Exchange Members**, and **Access Persons** (collectively, "**OneChicago Participants**").[4]

   Clearing Member means each Person from time to time found eligible and authorized, either individually or as part of a group or category, by the Board of Directors of OneChicago (the "**Board**") to clear trades in any or all OneChicago products. The Board has adopted an interpretation to the definition of Clearing Member to include any security futures eligible member of the Options Clearing Corporation ("**OCC**"), the clearing house for OneChicago products. OneChicago Participants that wish to access the Exchange as Clearing Members must execute (i) a Clearing Firm Registration Form, and (ii) a Responsible Administrator Designation Form. If the Clearing Firm wishes to trade, not just clear, OneChicago products, it must execute (i) an Authorized Trade Reporter Registration Form, (ii) an Access Authorization Form, and (iii) an OCXdelta1 User Agreement.[5] All trades that occur on OneChicago must be executed through and cleared by an OCC Clearing Member.

   Exchange Member means, subject to certain limitations, any Person with member trading privileges on the CME, the Chicago Board Options Exchange ("**CBOE**") or the Chicago Board of Trade ("**CBOT**"). OneChicago Participants that wish to access the Exchange as Exchange Members must execute (i) an Exchange Member Registration Form, (ii) a Responsible Administrator Designation Form, (iii) an Authorized Trade Reporter Registration Form, (iv) an Access Authorization Form, and (v) an OCXdelta1 User Agreement. Exchange Members must be authorized by a Clearing Member to access the Exchange.

   Access Person means any Person, other than a Clearing Member or Exchange Member, or related party of either, who has been given access to OneChicago by a Clearing Member. Access Persons that wish to access the Exchange via direct market access (*i.e.*, to trade directly on the Exchange and not submit orders through a third-party broker), must complete (i) an Authorized Trade Reporter Registration Form, (ii) an Access Authorization Form, and (iii) an OCXdelta1 User Agreement. Access Persons must be authorized by a Clearing Member to access the Exchange. The term Access Person would typically include a retail investor who accesses the exchange through a Clearing Member or Exchange Member.[6]

5. OneChicago Contracts overlay U.S. equity securities, including common stock, exchange traded funds, real estate investment trusts, master limited partnerships, and American depositary receipts. OneChicago lists for trading two different types of OneChicago Contracts, differentiated based on how the dividend is priced and handled. OneChicago Contracts are listed as either traditional ("1C") or dividend-protected ("1D") contracts. Dividend-protected futures

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1 OneChicago does not hold or custody customer positions. The carry fees are charged to replicate the fees associated with economically equivalent financing transactions, which OneChicago Contracts provide an alternative to.

2 OneChicago's fees are available on its public website www.onechicago.com.

3 SFs are a subtype of Security Futures Products ("SFPs"). SFPs include SFs or any put, call, straddle, option, or privilege on any SF. 7 U.S.C. § 1a(45).

4 The OCX Rulebook is available at on OneChicago's website at http://www.onechicago.com/wp-content/uploads/content/OneChicago_Current_Rulebook.pdf. NTMs are available at http://www.onechicago.com/?page_id=2207.

5 OCXdelta1 is OneChicago's current trading platform.

6 The documents referenced in this section are available on OneChicago's public website at https://www.onechicago.com/?page_id=1266.

remove dividend risk from the product by adjusting the price of the future downward on the morning of ex-date by the then known dividend amount. However, the adjustment does not trigger a pay/collect cycle at the clearing house, ensuring that neither side to futures contract is harmed by the dividend payment. The traditional 1C futures do not adjust this way, and therefore market participants transacting these futures must price the present value of any expected future dividend payments into the trade price of the futures contract. There is a risk that the market participants' estimate regarding the amount and timing of any expected dividend might be incorrect. The 1D product eliminates this risk.[7]

OneChicago Contracts may be listed as either monthly or weekly expiry contracts. In the future, OneChicago may also determine to list futures products overlaying a narrow-based security index, as that term is defined in 7 U.S.C. § 1a(35). A securities index is classified as a narrow-based security index if it meets any one of the following criteria: (1) the index has nine or fewer component securities; (2) any one of the component securities comprises more than 30 percent of the index's weighting; (3) the five highest weighted component securities together comprise more than 60 percent of the index's weighting; or (4) the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume (ADTV) of less than $50 million (or $30 million in the case of an index with 15 or more component securities).

Currently, all of OneChicago's futures products are physically-settled. In other words, a party holding a long futures contract that does not offset the contract before expiry becomes obligated to purchase the securities underlying the particular futures contract. Conversely, a party holding a short futures contract that does not offset the contract before expiry becomes obligated to deliver the securities underlying the particular futures contract.

6. The OneChicago System is a Central Limit Order Book ("**CLOB**") open during trading hours. The OneChicago System supports the matching of outright trades and calendar spread trades, as well as the reporting of bilateral Exchange of Future for Physical ("**EFP**") and bilateral Block ("**Block**") trades. Bilateral EFP and bilateral Block trades are off-exchange, privately negotiated transactions that are reported to the Exchange by the transacting parties. EFP and Block trades are required to conform to specific Rules of the Exchange that permit bilateral transactions, and may be reported in any futures product listed by the Exchange.

7. All OneChicago Contracts are cleared through the OCC. Founded in 1973, the OCC is the world's largest equity derivatives clearing organization. OCC operates under the jurisdiction of both the SEC and the CFTC. As a registered clearing agency under SEC jurisdiction, OCC clears transactions for exchange-listed options, SFs and OTC options. As a derivatives clearing organization under CFTC jurisdiction, OCC offers clearing and settlement services for transactions in futures and options on futures.

8. OneChicago proposes to offer direct access to the OneChicago System to prospective participants in Ontario ("**Ontario Participants**"). To obtain direct access to OneChicago, a prospective participant in Ontario must complete the agreements described above. The agreements required to be completed by the prospective Ontario Participant depend on whether the prospective Ontario Participant will access the Exchange as a Clearing Member, Exchange Member, or Access Person. Market participants accessing the Exchange through direct access must still be approved by an OCC Clearing Member. OneChicago anticipates that prospective Ontario Participants will be certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 Definitions) and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading futures contracts in Ontario; and (ii) institutional investors and proprietary trading firms.

[7] For further explanation of how the OCX.NoDivRisk works, please see http://www.onechicago.com/wp-content/uploads/rules/OCX.NoDivRisk%20Overview.pdf and Appendices A and B to Chapter 9 of the OCX Rulebook.

Part II Application of Exemption Criteria to OneChicago

1 REGULATION OF THE EXCHANGE

1.1 Regulation of the Exchange – The exchange is regulated in an appropriate manner in another jurisdiction by a foreign regulation (Foreign Regulator)

1.1.1 OneChicago is a DCM within the meaning of that term under the U.S. *Commodity Exchange Act* ("**CEA**"), as amended. OneChicago is also a Security Futures Product Exchange within the meaning of that term under the U.S. *Securities Exchange Act of 1934* ("**SEA**"), as amended. The Exchange is subject to regulatory supervision by the CFTC and the SEC, each a U.S. federal regulatory agency.[8] The Exchange is obligated under the CEA to give the CFTC access to all records. The CFTC reviews, assesses and enforces the Exchange's adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM core principles ("**DCM Core Principles**") relating to the operation and oversight of the Exchange's markets, including financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection.

1.1.2 OneChicago is a DCM that operates a futures exchange providing an electronic trading system where OneChicago Participants trade and execute futures contracts overlaying individual equity securities. A list of the OneChicago Contracts traded on OneChicago is available on OneChicago's website at www.onechicago.com and is also included in Appendix "B" attached hereto.

1.1.3 The regulatory scheme by the CFTC for DCMs, such as OneChicago, is generally comparable to the regulatory scheme in Ontario for comparable transactions. OneChicago is obligated under the CEA to give the CFTC access to all records. The CFTC reviews, assesses, and enforces the Exchange's adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM Core Principles relating to financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection. The CFTC's Division of Market Oversight conducts a regular, in-depth review of every DCM known as a rule enforcement review that assesses the exchange's ongoing compliance with its regulations in order to enforce its rules, prevent market manipulation and customer and market abuses, and to ensure the recording and safe storage of trade information.

1.1.4 To be designated and maintain a designation as a contract market, OneChicago must comply with the DCM Core Principles for operation of section 5(d) of the CEA, and the provisions of Part 38.

1.2 Authority of the Foreign Regulator – The Foreign Regulator has the appropriate authority and procedures for oversight of the Exchange. This includes regular, periodic oversight reviews of the Exchange by the foreign regulator.

1.2.1 The CFTC carries out the regulation of the futures markets in accordance with the provisions of the CEA and the U.S. *Commodity Futures Modernization Act of 2000* ("**CFMA**"). The CFTC is subject to reauthorization by the U.S. Congress every five years.

1.2.2 The CFTC has been charged with administering and enforcing the CEA. Accordingly, the CFTC is the U.S. government agency that has direct regulatory oversight responsibility over DCMs. To implement the CEA, the CFTC has promulgated regulations and guidelines ("**CFTC Regulations**") that further interpret the DCM Core Principles described above and govern the conduct of U.S. DCMs such as OneChicago. The CFTC reviews, assesses, and enforces the Exchange's adherence to the CEA and the regulations thereunder on an ongoing basis, including the DCM Core Principles relating to financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection. The CFTC's Division of Market Oversight conducts a regular in-depth review of every DCM known as a rule enforcement review that assesses the exchange's ongoing compliance with CFTC regulations in order to enforce its rules, prevent market manipulation and customer and market abuses, and to ensure the recording and safe storage of trade information.

1.2.3 OneChicago is required to demonstrate its compliance with the DCM Core Principles applicable to all U.S. DCMs. Upon request a DCM must file information related to its business as a DCM, provide written documentation demonstrating the DCM's compliance with one or more DCM Core Principles, and information related to its participants or related positions. A DCM is required to make available to the CFTC information regarding its activities including information regarding risk assessments, internal governance, and legal proceedings.

[8] OneChicago is notice-registered with the SEC as a security futures product exchange pursuant to Section 6(g) of the SEA, 15 U.S.C. § 78f(g). Section 6(g) exempts notice-registered exchanges like OneChicago from various specified provisions of the SEA, but requires that rule changes be filed with the SEC if they relate to higher margin levels, fraud or manipulation, recordkeeping, reporting, listing standards, or decimal pricing for security futures products, sales practices for security futures products for persons who effect transactions in security futures products, or rules effectuating such exchange's obligation to enforce the securities laws pursuant to section 78s(b)(7).

1.2.4 To enforce the CEA and the CFTC's authority, OneChicago may suspend any OneChicago Participant without notice in compliance with the OCXdelta1 User Agreement and the OCX Rulebook. All OneChicago Participants are subject to the provisions of the OCX Rulebook, which includes rules governing trading, business conduct, and disciplinary procedure.

1.2.5 The CEA, the CFTC Regulations, and the DCM Core Principles, reflect standards set by the International Organization of Securities Commissions ("**IOSCO**"), such as "Objectives and Principles of Securities Regulation" (1998, 2002, and 2003) and "Report on Co-operation between Market Authorities and Default Procedures" as well as the "Standards for Regulated Markets" published by the Forum of European Securities Commissions in December 1999.

2 GOVERNANCE

2.1 Governance – The governance structure and governance arrangements of the Exchange ensure:

(a) effective oversight of OneChicago

2.1.1 The Board consists of eight individuals and is responsible for the oversight of the Exchange. The Board is comprised of representatives of the owners of the Exchange, as well as three public directors, which are directors having the qualifications set out in OCX Rule 207(n) ("**Public Directors**"). OCX Rule 207(n) requires that to qualify as a Public Director, a person must be found to have no relationship with the Exchange that reasonably could affect his or her independent judgment or decision making. Further, a person shall not be considered a Public Director if any of the following circumstances exist: (A) within the last year the person was an officer or employee of the Exchange or an affiliate of the Exchange; (B) within the last year, the person was a member of the Exchange or an officer or director of a member; or (C) within the last year the person or the person's employer received more than $100,000 in combined annual payments from the Exchange. These restrictions also apply to a member of the director's immediate family, such as spouse, parents, children, and siblings.

2.1.2 The Board is authorized to manage the business and affairs of the Exchange in accordance with the OneChicago Limited Liability Company Agreement ("**LLC Agreement**"). Further, pursuant to the OCX Rulebook, the Board has the power and authority to call for review, and to affirm, modify, suspend or overrule any and all decisions of officers of the Exchange, except for any action of the Regulatory Oversight Committee ("**ROC**").

2.1.3 OneChicago was initially formed as a joint venture between the CME, CBOT, and CBOE. In 2006, Interactive Brokers Group, Inc. ("**IBG**") became a part owner of the Exchange. These four entities are each represented on the Board.[9]

2.1.4 The OneChicago management team has day-to-day management authority, such as determining which OneChicago Contracts are available from time to time for trading subject to the Rules, and will approve Rules containing contract specifications of such OneChicago Contracts. The Board has delegated authority to the Chief Executive Officer ("**CEO**") who may approve rule changes, new products, and other Exchange matters on behalf of the Board, provided that changes with respect to rules and OneChicago Contracts will be submitted to the CFTC as required by applicable law.

2.1.5 The Board has the authority to manage the business and affairs of OneChicago, with all rights and powers generally conferred by law or necessary, advisable, or consistent in connection with such management of the Exchange. This authority includes the designation of officers and agents of OneChicago as well as their compensation. The Board has the power to call for review, and to affirm, modify, suspend or overrule, any and all decisions and actions of any committees of the Board or any panel of the Exchange's officers related to the day-to-day business operations of the Exchange, except for any action of the ROC that is not directly related to the Exchange's budget. The Board meets a minimum of six times per year. At these meetings, the Board reviews the performance of the Exchange's operations, and through the ROC review's the Exchange's compliance program, and provides guidance related to the future direction of the Exchange.

2.1.6 Sound corporate governance is of utmost importance to the Exchange, and is reflected in the high standards set by the Board for the Exchange. OneChicago is committed to providing OneChicago Participants with a fair, efficient, and transparent market for the trading of OneChicago Contracts. OneChicago's governance structure supports the Exchange's critical role as a self-regulatory organization subject to oversight by the CFTC and the SEC.

2.1.7 Three of the voting owners of the Exchange appoint directors to the Board. Consistent with DCM Core Principle 15, persons involved in the governance of, and members trading on, the Exchange are subject to fitness and eligibility criteria under the Rules of the Exchange. As described in the OCX Rulebook, the eligibility/fitness criteria to serve as a director on the Board or any committee established by OneChicago would disqualify any individual who has committed a disciplinary offense or subject to a disqualification from any registration with the CFTC.

[9] In 2007, CME acquired the CBOT.

2.1.8 The Board has two currently standing committees: the ROC and the Compensation Committee.

2.1.9 The ROC consists of only Public Directors, and is tasked with overseeing the Exchange's regulatory program and assisting the Board in minimizing actual and potential conflicts of interest. The ROC has the authority to:

(a) Monitor the Exchange's regulatory program for sufficiency, effectiveness, and independence;

(b) Oversee all facets of the program, including trade practice and market surveillance; audits, examinations, and other regulatory responsibilities with respect to member firms (including ensuring compliance with financial integrity, financial reporting, sales practice, recordkeeping, and other requirements); and the conduct of investigations;

(c) Review the size and allocation of the regulatory budget and resources; and the number, hiring and termination, and compensation of regulatory personnel;

(d) Supervise the Chief Regulatory Officer ("**CRO**"), who will report jointly to the ROC for all regulatory, compliance, supervisory, and surveillance matters and to the CEO for all others matters that are not related to regulation and supervision;

(e) Prepare an annual report assessing the Exchange's self-regulatory program for the Board and the CFTC, which sets forth the regulatory program's expenses, describes its staffing and structure, catalogues disciplinary actions taken during the year, and reviews the performance of disciplinary committees and panels;

(f) Recommend changes that would ensure fair, vigorous, and effective regulation;

(g) Review regulatory proposals and advise the Board as to whether and how such changes may impact regulation, and

(h) Exercise any other functions expressly assigned to it in the Rules of the Exchange.

2.1.10 The Compensation Committee is empowered to make decisions regarding the compensation and benefits programs for the Exchange and to determine the annual compensation for the Exchange's Officers and employees, subject to approval of the Board. The Compensation Committee is comprised of one director from each of CME, CBOE, and IBG.

(b) OneChicago's business and regulatory decisions are in keeping with its public interest mandate.

2.1.11 OneChicago is committed to ensuring the integrity of the contracts it submits for clearing and the stability of the financial system, in which market infrastructure plays an important role. OneChicago must ensure the integrity of contracts on the exchange and the protection of customer funds held by Clearing Members under Core Principle 11 – *Financial Integrity* ("**Core Principle 11**"). OneChicago fulfills this requirement in part through compliance with other DCM Core Principles, such as Core Principle 3 – Contracts Not Readily Subject to Manipulation ("**Core Principle 3**"), Core Principle 8 – Daily Publication of Trading Information ("**Core Principle 8**"), Core Principle 9 – Execution of Transactions ("**Core Principle 9**"), and Core Principle 12 – Protection of Markets and Market Participants ("**Core Principle 12**").

OneChicago also has rules in the OCX Rulebook intended to ensure the financial integrity of transactions and OneChicago Participants. Specifically, Chapter 5 of the OCX Rulebook establishes minimum financial and related reporting and recordkeeping requirements. Chapter 5 also contains rules relating to the treatment of customer funds and securities. Additionally, OneChicago has entered into an agreement with its clearing house requiring the clearing house to conduct financial surveillance of OneChicago Clearing Members.

Stability of the market infrastructure is enhanced through compliance with Core Principle 21 – Financial Resources ("**Core Principle 21**"). Core Principle 21 requires a DCM to maintain adequate financial resources to discharge its responsibilities and ensure orderly operation of the market. OneChicago maintains financial resources sufficient to cover its operating costs for one-year, calculated on a rolling basis. The rules, policies and activities of OneChicago are designed and focused on ensuring it fulfils its public interest mandate. OneChicago operates on a basis consistent with applicable laws and regulations, and practices of other DCMs.

Although the OCX Rulebook allows for Exchange Members, OneChicago does not independently conduct financial surveillance of any OneChicago Participants, regardless of status as an Exchange Member or otherwise. Financial surveillance of OneChicago Participants that conduct futures business with the public is undertaken by the Joint Audit Committee ("**JAC**"). The JAC was formed by the National Futures Association ("**NFA**") and the U.S. futures exchanges to monitor and enforce CFTC Regulations and exchange rules covering minimum financial, segregation/secured funds,

recordkeeping, and reporting requirements. Because many Clearing Members are members of other exchanges, the JAC assigns a "lead regulator" to common members to reduce regulatory duplication. The lead regulator, or Designated-Self Regulatory Organization ("**DSRO**"), is primarily responsible for the financial surveillance of its allocated members. OneChicago Participants that conduct securities business with the public are subject to audits and examinations by a Designated Examining Authority ("**DEA**"), which may be the Financial Industry Regulatory Authority ("**FINRA**") or a national securities exchange. OneChicago has also entered into an agreement with the OCC, whereby the OCC performs financial surveillance of Clearing Members pursuant to Part 38 of the CFTC Regulations.

2.1.12 Please refer to section (d) below for further discussion of the governance structure, arrangements and safeguards relating to the management of conflicts of interest that are relevant to OneChicago's public interest mandate.

(c) fair, meaningful and diverse representation on the Board and any committees of the Board, including:

i. appropriate representation of independent directors, and

ii. a proper balance among the interests of the different persons or companies using the services and facilities of the Exchange,

2.1.13 The experience and diversity of the Board has been, and continues to be, critical to OneChicago's success. The Board is comprised of directors appointed by each voting owner of the Exchange. The Board has three Public Directors comprising 37.5% of the Board. These Public Directors are experienced in the industry but are not actively using the services of the Exchange. A majority of the Public Directors have significant regulatory experience in the futures and securities industry, and help to bolster OneChicago's regulatory program and mission. The Board seeks directors from diverse professional backgrounds and expertise. Currently, OneChicago's Board is comprised of individuals representing futures exchanges, securities exchanges, broker-dealers, and market-makers.

2.1.14 Consistent with DCM Core Principle 16 and pursuant to Exchange Rule 207, at all times not less than 35% of the Board's Directors (but not fewer than two individuals) must be Public Directors, as defined by the CFTC. To qualify as a Public Director, a person cannot have a significant business relationship with the Exchange. In addition, OCX Rule 211 establishes policies and procedures for members of the Boards to abstain from deliberating on an issue in which that member has a conflict of interest.

2.1.15 Consistent with Core Principle 17 and pursuant to the LLC Agreement, the Board consists of eight directors, three of which are Public Directors as defined in CFTC Regulations. As such, 37.5% of the Board is Public Directors. Additionally, the ROC is comprised solely of Public Directors.

(d) OneChicago has policies and procedures to appropriately identify and manage conflicts of interest, and

2.1.16 OneChicago takes seriously its obligation to ensure the integrity and fairness of its market. To achieve that goal, OneChicago has appropriate policies and procedures in place to identify and manage conflicts of interest. OneChicago believes that these policies and procedures ensure that the Exchange is operated in a way that serves the best interest of its market participants.

2.1.17 Through its enforcement of the conflicts of interest policies in OCX Rule 211 that apply to all members of the Board and any Disciplinary Panel ("**Disciplinary Panel**"), as well as the Exchange's compliance with the CEA and CFTC Regulations, OneChicago has established a robust set of safeguards designed to ensure the Exchange's functions operate free from conflicts of interest or inappropriate influence as described above. In addition to the CFTC's oversight of the markets, OneChicago separately establishes and enforces rules governing the activity of all OneChicago Participants in their market. Furthermore, the NFA establishes rules and has regulatory authority with respect to every firm and individual who conducts futures trading business with public customers. The CFTC, in turn, oversees the effectiveness of OneChicago and the NFA in fulfilling their respective regulatory responsibilities. Similarly, FINRA establishes rules and has regulatory authority with respect to every firm and individual who conducts securities trading business with public customers. The SEC oversees the effectiveness of FINRA in fulfilling its regulatory responsibilities. Because OneChicago Contracts are considered both futures and securities, OneChicago Participants are generally overseen by several regulatory agencies. OneChicago's disciplinary procedures are outlined in Section 7 (Due Process) of this application.

2.1.18 OneChicago has adopted an Employee Manual that applies to all employees, including the executive officers. The provisions of the Employee Manual address potential and actual conflicts of interest. On an annual basis, employees are required to review the Employee Manual and recertify that they have read and understand the Employee Manual.

2.1.19 OneChicago is required to ensure that it meets the DCM Core Principles, which among other things require that OneChicago has processes and procedures to address potential conflicts of interest that may arise in connection with the operation of the Exchange. Significant representation of individuals who do not have relationships with the Exchange, referred to as "public directors" in the CFTC Regulations, play an important role in OneChicago's processes to address potential conflicts of interest. The Board has assessed which directors would be considered "public directors" based upon their lack of relationship with the Exchange and the industry per the CFTC Regulations.

2.1.20 In accordance with OCX Rule 211, no member of the Board may vote on any matter where such member is subject to a conflict of interest. Accordingly, no member of the Board or any Disciplinary Panel will knowingly participate in such body's deliberations or voting in any matter involving a named party in interest where such member (i) is the named party in interest in the matter, (ii) is an employer, employee or fellow employee of a named party in interest, (iii) has any other significant, ongoing business relationship with a named party in interest, excluding relationships limited to OneChicago Contracts, or (iv) has a family relationship with a named party in interest.

2.1.21 Prior to consideration of any matter involving a named party in interest, each member of the deliberating body who does not choose to abstain from deliberations and voting shall disclose to the CEO, or his or her designee, whether such member has one of the relationships listed paragraph 2.1.20 above with a named party in interest.

2.1.22 The CEO, or his or her designee, shall determine whether any member of the relevant deliberating body who does not choose to abstain from deliberations and voting is subject to a conflicts restriction.

2.1.23 In addition to the named party in interest restrictions described in paragraph 2.1.22 above, OCX Rule 211 also establishes conflicts of interest prohibitions based on financial interest.

2.1.24 Furthermore, members of a OneChicago Disciplinary Panel must meet the same requirements as a Public Director. OneChicago Disciplinary Panels are described more fully in Section 7 below. Members of Disciplinary Panel can be disqualified based on objections from a Respondent in a Disciplinary Hearing.

(e) There are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for directors, officers and employees of the exchange.

2.1.25 OneChicago maintains directors' and officers' insurance, which provides professional indemnity to all directors and executive officers of the Exchange.

2.1.26 The LLC Agreement and the OCX Rulebook includes provisions related to limitations of liability and the indemnification of directors, officers, and in certain instances, employees and agents of OneChicago. OCX Rule 422 also limits the liability of the Exchange itself.

2.1.27 OneChicago hires officers and employees who are qualified for each position based on relevant experience and/or education. Officers and employees are competitively remunerated as appropriate for successful retention.

2.1.28 Public Directors are paid a stipend for their service and attendance. Owner-appointed directors are not compensated.

2.2 Fitness – The Exchange has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each director and officer is a fit and proper person.

2.2.1 To be appointed as a Public Director, potential candidates must complete a background and conflict of interest questionnaire. The purpose of this questionnaire is to ensure that potential candidates for Public Directors on the Exchange's Board are fit and proper. Public Directors are selected for their background and expertise.

2.2.2 Pursuant to the LLC Agreement, the owners of the Exchange appoint individual directors to the Board. Directors possess the ability to contribute to the effective oversight and management of the Exchange, taking into account the needs of the Exchange and such factors as the individual's experience, perspective, skills and knowledge of the industry in which the Exchange operates. This shall include sufficient expertise, where applicable, in financial services, risk management, and clearing services.

3 REGULATION OF PRODUCTS

3.1 Review and Approval of Products – The products traded on OneChicago and any changes thereto are reviewed by the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product.

3.1.1 The CFTC has implemented Part 41 (Security Futures Products) ("**Part 41**"), which provides the process for review of new SFPs to be traded on DCMs. Specifically, section 41.21 of the CFTC Regulations defines the types of securities which DCMs may list SFPs on. For a DCM like OneChicago to list for trading an SFP overlaying a security not explicitly permitted by the Part 41 regulations, the CFTC and SEC must agree, by joint order, to permit the listing of SFPs on such other security. Section 41.22 requires that a DCM like OneChicago make certain certifications to the CFTC regarding the products to be listed. First, the DCM must certify that the underlying security satisfies the requirements of section 41.21, described above. For physically delivered SFPs, the DCM must certify that arrangements are in place with a clearing agency registered pursuant to section 17A of the SEA for the payment and delivery of the securities underlying the SFP. The DCM also must certify that only certain registered entities may solicit or accept any order for, or otherwise deal in any transaction in or in connection with SFPs.

DCMs listing SFPs must further certify that procedures are in place for coordinated surveillance among the DCM and any market on which any security underlying an SFP is traded. DCMs must also have procedures in place to coordinate regulatory trading halts between the DCM and any market on which any security underlying the SFP is traded and other markets on which any related security is traded. Finally, the DCM must certify that the margin requirements comply with relevant regulations and that the product is subject to the prohibition of dual trading in SFPs by floor brokers in section 41.27.

3.1.2 In accordance with section 41.23, a DCM wishing to list SFPs for trading must submit a filing to the CFTC no later than the day prior to the initiation of trading that meets certain requirements. This filing must be properly labeled, include a copy of the product's rules, including its terms and conditions, include the certifications required by section 41.22, described above, include a certification that the terms and conditions of the contract comply with section 41.25, and include a certification that the SFP complies with the CEA and the rules promulgated thereunder. In addition to the certification process, DCMs may request that the CFTC approve any SFP under the procedures of section 40.5.

The DCM Core Principles relevant to products traded on the DCM include: Core Principle 2 – *Compliance with Rules* ("**Core Principle 2**"), Core Principle 3, Core Principle 4 – *Monitoring of Trading* ("**Core Principle 4**"), Core Principle 5 – *Positions Limits or Accountability*, Core Principle 7 – *Availability of General Information* ("**Core Principle 7**"), Core Principle 8, Core Principle 9, Core Principle 10 – *Trade Information* ("**Core Principle 10**"), Core Principle 11 and Core Principle 12. To show compliance with Core Principle 3, the CFTC requires DCMs to demonstrate that new products are not susceptible to manipulation. Explicit instructions to meet this requirement are at Appendix C to Core Principle 3 – *Demonstration of Compliance That a Contract is Not Readily Susceptible to Manipulation* ("**Appendix C**"). Appendix C outlines general product requirements as well as requirements by derivative type (i.e., futures, swaps, and options). Appendix C includes the following general requirements: including certain contract terms and conditions in public-facing materials, reliance on publicly available information when practicable, attestations of reliability in calculating prices for trade and/or settlement, cash market descriptions based on both the national and regional/local markets relevant to the underlying commodity and price derivations that promote price discovery and are not susceptible to manipulation. Appendix C also contains varied and numerous requirements specific to each derivative type and settlement method. These specific requirements seek to foreclose the potential for price manipulation unique to each derivative type and settlement method.

3.2 Product Specifications – The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products.

3.2.1 As described above, the listing of SFPs is strictly controlled and limited by Part 41 of the CFTC Regulations. Only certain underlying securities may qualify for listing. Critically, the underlying security must be registered pursuant to section 12 of the SEA. Section 12 requires that securities traded on an exchange be registered with the SEC. This registration includes information relating to the issuer of the subject securities. Accordingly, SFPs may only be listed on securities for which there is publically available information.

3.2.2 SFs listed by OneChicago are all standardized futures contracts, with contract specifications that establish the terms and conditions of the contracts. The product specifications for each SFP lists the underlying security, the futures symbol, the product code, the type of underlying security, the trading hours, the delivery months, the physical delivery settlement cycle, termination dates (if any), the trading unit, the minimum price fluctuation, position limits or position accountability level, reportable position and reportable trading volume level.

3.2.3 Currently, all of OneChicago's SFs are physically settled. That is, at expiry, long futures holders are obligated to take delivery of the corresponding number of underlying securities, whereas short futures holders are obligated to make delivery of the corresponding number of underlying securities.

3.2.4 The trading hours for SFs listed on OneChicago are established by the Rules of the Exchange. Trading hours for SFs vary based on the underlying security and the type of trading. The following are the current trading hours listed in U.S. Central Time. Outright trading of SFs based on common stock occurs from 8:30 a.m. to 3:00 p.m. Outright trading of SFs based on exchange traded funds occurs from 8:30 a.m. to 3:15 p.m. For spread transactions, trading occurs from 8:30 a.m. to 4:00 p.m. For bilateral transactions such as Blocks and EFPs, trading occurs from 7:00 a.m. to 4:00 p.m.

3.2.5 Daily settlement prices of OneChicago Contracts is conducted by the Exchange. Settlement prices are based on an Exchange calculation of fair value of the contracts based on various criteria including, among other factors, the price of the underlying equity, the prevailing interest rate, days to expiry, and the hard-to-borrow status of the underlying equity, if any. Accordingly, the settlement prices of OneChicago Contracts are not susceptible to manipulation by trading in the OneChicago Contracts themselves.

3.2.6 Due to the regulatory structure established by the United States Congress in the CFMA, the trading of SFs listed by OneChicago is subject to dual oversight by both the CFTC and the SEC. SFP exchanges like OneChicago may be primarily registered with the CFTC and notice-registered with the SEC, or vice versa. The same is true of OneChicago Participants trading SFPs. Both the CFTC and SEC have the authority to bring enforcement actions against OneChicago Participants trading SFPs that violate any applicable rules of either regulatory agency.

3.2.7 The underlying securities market is established and highly regulated. The United States equities market is one of the deepest and most liquid securities market in the world. Issuers of securities listed on securities exchanges are required to make periodic filings regarding the issuer's financial and other company information. The underlying securities market is subject to regulation by the SEC, which regulates the activities of national securities exchanges, broker-dealers, registered investment advisers, and registered investment companies.

3.2.8 OneChicago's product listings are available on OneChicago's FTP site at ftp://www.onechicago.com/product_listings/.

3.3 Risk Associated with Trading Products – The Exchange maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on the exchange, including, but not limited to, margin requirements, intra-day margin calls, daily trading limits, price limits, position limits, and internal controls.

3.3.1 All OneChicago Contracts are settled and cleared through the OCC, the primary clearing house for equity derivatives in the United States. The OCC is exempted from recognition by the OSC as a clearing agency under Section 21.2 of the OSA. OCC Clearing Members generally consist of large financial institutions.

3.3.2 OneChicago requires all OneChicago Participants to access the Exchange through a Clearing Member of the OCC who is authorized to clear SFPs. OCC Clearing Members receive and hold customer funds in segregated accounts, or accounts protected by the Securities Investor Protection Corporation ("**SIPC**"). SIPC protects client accounts against the possibility of a broker-dealer's financial failure. The OCC determines the minimum margin that needs to be held for each Clearing Member. The Clearing Member must charge minimum margin to customers as determined by CFTC and SEC regulations. The Clearing Members assume the credit risk of the Participants, and OCC assumes the central counterparty risk to each OneChicago Contract.

3.3.3 Exchange Members with direct access and Clearing Members are required to utilize the Exchange-provided risk control, OCX.RiskMan ("**RiskMan**"). RiskMan risk controls require Clearing Members or Exchange Members to set absolute quantity and notional value limits for all orders entered on the OneChicago System. RiskMan evaluates electronic orders, as well as bilateral trades reported to the Exchange. Clearing Members have the right to suspend trading by a customer. OneChicago monitors and enforces the trade risk limits by rejecting trades that exceed the limits.

3.3.4 OneChicago provides the OCC with the settlement prices at the end of each day for use in settling trades and positions. Based on these prices, OCC calculates variation margin and initial margin at the Clearing Member level. Clearing Members use this information to determine customers' margin requirements and execute margin calls to customers as necessary to ensure that positions are fully margined and mark-to-market losses on a portfolio are covered in full each day.

3.3.5 Part 41 of the CFTC Regulations establishes spot month position limits for all OneChicago Contracts. OCX Rule 414 and Schedule A to Chapter 4 of the OCX Rulebook set forth the Exchange's position limit, position accountability and position reporting rules and aggregation standards. The Exchange may grant position limit exemptions for certain enumerated "qualified hedge transactions."

3.3.6 The Exchange follows the CFTC's framework regarding positions limits for SFPs. Specifically, section 41.25 of the CFTC Regulations sets position limits at either 13,500 contracts or 22,500 contracts during the last five days of trading before expiry.[10] These position limits are based on the shares outstanding and average daily trading volume ("ADTV") of the security underlying the SFP. The CFTC's regulations also permit for SFPs to be subject to position accountability rather than a hard position limit if the underlying security meets certain requirements regarding the number of shares outstanding and ADTV. OneChicago reviews the number of shares outstanding and ADTV of each of its underlying securities monthly. If the review indicates that a products' position limit must be reduced or may be increased, OneChicago will amend the limits.

3.3.7 Position accountability levels allow the Exchange to take action to address concerns about Exchange positions. Specifically, the Exchange has the authority to request information regarding the nature of the position, trading strategy, and hedging information if applicable, and to require the position holder to halt increasing their positions when so ordered.

3.3.8 The OneChicago Compliance Department ("**CD**") reviews trades in real time and is alerted to any trade that occurs a specified percentage above or below the theoretical fair value of the Contract.

4 ACCESS

4.1 Fair Access

(a) The Exchange has established appropriate written standards for access to its services including requirements to ensure:

(i) Participants are appropriately registered as applicable under Ontario securities laws or Ontario commodity futures laws, or exempted from these requirements,

(ii) The competence, integrity and authority of systems users, and

(iii) Systems users are adequately supervised.

(b) The access standards and the process for obtaining, limiting, and denying access are fair, transparent and applied reasonably.

(c) The Exchange shall not unreasonably prohibit, condition or limit access by a person or company to services offered by it.

(d) The Exchange does not

i. permit unreasonable discrimination among participants, or

ii. impose any burden on competition that is not reasonably necessary and appropriate.

4.1.1 Consistent with Core Principle 2, Chapter 3 of the OCX Rulebook provides clear and transparent access criteria to access the Exchange. OneChicago has three different classes of OneChicago Participants with equal terms of access for each group. OneChicago Participants include Clearing Members, Exchange Members, and Access Persons.

Any firm that is a SFs eligible member of the OCC qualifies as a OneChicago Clearing Member. To become a member of the OCC, a firm must (1) be a broker dealer or futures commission merchant registered with the SEC or CFTC, or a non-U.S. securities firm; (2) meet minimum net capital requirements (with an initial minimum requirement of $2,500,000); and (3) have qualified staff and adequate facilities to self-clear financial products and interface with the OCC and other clearing members.

Exchange Members include any firm or person with member trading privileges on the CME, CBOE, or CBOT, provided that such trading privileges, trading rights or permits, and membership rights shall be those that are in effect for each of the foregoing entities as of March 15, 2006. Each of these entities has established adequate membership criteria.

A OneChicago Access Person is any person, other than a Clearing Member or Exchange Member, or Related Party of either, who has been given access to the OneChicago System by a Clearing Member. There are no established criteria for Access Persons; however, all Access Persons must be provided access and guaranteed by a Clearing Member. OneChicago does not permit access to the Exchange unless such access is provided and guaranteed by a Clearing Member.

[10] 17 CFR § 41.25(a)(3).

4.1.2 OCX Rule 503 establishes minimum financial and related reporting requirements. Specifically, OCX Rule 503 requires each Clearing Member, Exchange Member and Access Person that is registered with any self-regulatory association to comply with the provisions of Applicable Law relating to minimum financial and related reporting and recordkeeping requirements. As described in section 2 above, the JAC conducts financial audits of firms conducting futures business with the public. Firms that conduct securities business with the public are subject to audits and examinations by a DEA, which may be FINRA or a national securities exchange.

OCX Rule 506 permits OneChicago to adopt additional minimum financial requirements. OCX Rule 506 requires that in addition to requirements imposed by the NFA, OneChicago Participants are required to satisfy any minimum financial standards established by the Exchange. Further, if a market participant becomes aware that it fails to satisfy minimum financial requirements applicable to it, it must notify the CEO of the Exchange immediately. Until a market participant is able to demonstrate to the Exchange that it is in compliance with minimum financial requirements, it may not engage in any transactions except for the purpose of closing open positions. OneChicago has not established any additional minimum financial requirements.

4.1.3 OneChicago is subject to CFTC Regulations 38.601 through 38.607 relating to the financial integrity of transactions. These regulations require, among other things, that OneChicago establish and enforce rules and procedures for ensuring the financial integrity of transactions entered into on or through the Exchange. This requirement includes the mandatory clearing of transactions, establishing minimum financial standards, rules concerning the protection of customer funds, and financial surveillance of compliance with the Exchange's minimum financial standards. Further, as explained above, financial audits are conducted by each OneChicago Participant's DSRO or DEA.

4.1.4 All OneChicago Participants who access the OneChicago System directly are required to complete the OCXdelta1 User Agreement, which requires such direct participants to, among other things, agree to comply by the OCX Rulebook, represent that they are properly registered with the appropriate regulatory agencies, and agree to be bound by the jurisdiction of the Exchange.

4.1.5 All Clearing Members are required to sign the OCX Clearing Firms Registration form. This form obligates Clearing Members to guarantee and assume financial responsibility for all transactions on OneChicago resulting from any orders, bids, offers, trades, and other messages transmitted to the OneChicago System through either the connection(s) or trading screen(s) connected to the OneChicago System established or approved by the Clearing Member.

4.1.6 The Exchange may at any time revoke, suspend, limit, condition, restrict or qualify the Access Privileges of any Clearing Member, Exchange Member or Access Person if, in the sole discretion of the Exchange, such action is in the best interest of the Exchange. Furthermore, the CRO of the Exchange, after consultation with the ROC, if practicable, may summarily suspend, revoke, limit, condition, restrict or qualify the Trading Privileges of a Member or Access Person, and may take other summary action against any member or Access Person in accordance with the Rules of the Exchange. A OneChicago Participant whose access has been summarily revoked, suspended, limited, conditioned, or qualified may appeal the Exchange's decision in accordance with the OCX Rulebook.

4.1.7 All Clearing Members, Exchange Members, and Access Persons are subject to the Rules of the Exchange. Further, any Person who accesses or enters any order into the OneChicago System agrees to be bound by the Rules of the Exchange. This includes any Person initiating or executing a transaction on or subject to the Rules of the Exchange directly or through an intermediary, and any Person for whose benefit such a transaction has been imitated or executed.

4.1.8 OneChicago will confirm that Ontario Participants are complying with Ontario securities laws or Ontario commodity futures laws or exempted from these requirements by obtaining a representation in the OCXdelta1 User Agreement that the Ontario Participant is capable and authorized to enter into the legally binding agreement, and is properly registered with the appropriate regulatory agencies.

4.1.9 Some OneChicago Participants may qualify as "hedgers," in accordance with section 1 of the CFA because as a necessary part of their commercial activities, OneChicago Participants may "become exposed to risks upon fluctuations in the price of a commodity and offset that risk through trading in contracts for the commodity or related commodities."

4.1.10 OneChicago expects Ontario residents that become OneChicago Participants to maintain a compliance program in accordance with the OCX Rulebook. The Participant's compliance program is designed, in part, to ensure conduct in accordance with applicable laws and regulations. Accordingly, OneChicago will expect Ontario residents that become OneChicago Participants to be cognizant of their Ontario and other Canadian regulatory requirements, as appropriate.

4.1.11 OneChicago does not unreasonably prohibit, condition, or limit access to its services. The restrictions on access to OneChicago are consistent with regulatory requirements and risk limits established by Clearing and Exchange

Members. OneChicago may need to prohibit, condition, or limit access in the case of extenuating market circumstances which include, but are not limited to, any occurrence or circumstance which threatens or may threaten such matters as the fair and orderly trading in, or the liquidation of or delivery pursuant to, any OneChicago Contracts, and which in the opinion of Exchange administration requires immediate action. The process implemented by OneChicago to exercise such emergency authority is reasonable and consistent with the process used by similar markets in order to protect the integrity of the market.

4.1.12 Any rules pertaining to membership criteria or selection must be self-certified under CFTC Regulation 40.6. CFTC Regulation 40.6 requires the Exchange to provide certification and explanatory analysis that the revised rules comply with the CEA, CFTC Regulations, and the DCM Core Principles. The CFTC reviews all self-certifications of rules and rule amendments under CFTC Regulation 40.6 for compliance with the DCM Core Principles. Core Principle 12 requires exchanges to establish and enforce rules that protect OneChicago Participants from fraudulent, noncompetitive or unfair actions committed by any party, and further, to discipline such behavior under Core Principle 2. Membership rules that are unreasonably discriminatory or access and fee rules that unreasonably discriminate among participant classes would not meet DCM Core Principle requirements and therefore the CFTC would instruct OneChicago to withdraw its self-certification of such rules.

4.1.13 Based on the foregoing, OneChicago does not impose any burden on competition that is not reasonably necessary and appropriate.

5 REGULATION OF PARTICIPANTS ON THE EXCHANGE

5.1 Regulation – The Exchange has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.

5.1.1 In accordance with CFTC Regulation 38.151, and pursuant to the OCXdelta1 User Agreement and Exchange Rule 307, OneChicago Participants must consent to the jurisdiction of the Exchange before being granted access to the Exchange. OCX Rule 702 requires OneChicago Participants to appear and testify and respond in writing to interrogatories sent by CD in connection with an investigation. OneChicago Participants are also obligated to produce books, records, paper, documents or other tangible evidence in connection with an investigation.

5.1.2 Chapter 6 of the OCX Rulebook imposes Business Conduct Rules designed to encourage ethical conduct and protect OneChicago Participants from abusive, disruptive, fraudulent or noncompetitive conduct or trade practices. Specifically, Chapter 6 of the OCX Rulebook prohibits fraudulent acts (Rule 601), fictitious transactions (Rule 602), market manipulation (603), misstatements (606), acts detrimental to the Exchange and acts inconsistent with just and equitable principles of trade (Rule 608), pre-arranged trades (Rule 614), and disruptive practices (617).

5.1.3 The Exchange's ROC prepares an annual report assessing the Exchange's regulatory program for the Exchange's Board. The ROC's annual report must (i) set forth the regulatory program's expenses, (ii) describe the staffing and structure of the regulatory program, (iii) catalogue disciplinary actions taken during the year, and (iv) review the performance of disciplinary panels.

5.1.4 CD, in accordance with Chapter 7 of the OCX Rulebook, is responsible for ensuring that the Rules of the Exchange are followed. CD monitors overall activity on the Exchange on a real-time and post-trade basis, using a proprietary compliance system developed for monitoring OneChicago's market. Specifically, CD views all activity on the Exchange, including orders, transactions and Block and EFP trades, reviews the trades executed on the OneChicago System, tracks the activity of specific traders, monitors price and volume information and is alerted when any trading or order activity exceeds certain pre-defined parameters with regard to wash trades, pre-arranged trades, trades occurring at prices away from the fair value, trades or positions in futures for which the underlying security had a large increase or decrease in price, errors in large trader reporting, or unexplained changes in open interest. OneChicago conducts real-time surveillance of its markets, and opens investigations into any unusual or aberrant trading activity. Finally, the Exchange conducts routine monthly spot checks of Block and EFP trades.

5.1.5 Pursuant to OCX Rule 701, CD will (i) conduct market surveillance and trade practice surveillance using data from the trading system with programs and procedures designed to alert the Exchange when potentially unusual trading activity takes place, and (ii) initiate reviews and, where appropriate, commence investigations of unusual trading activity or other activity that CD has reasonable cause to believe could constitute a violation of the Rules of the Exchange.

5.1.6 Pursuant to OCX Rule 702, CD will investigate any matter within the Exchange's disciplinary jurisdiction which it has reasonable cause to believe could constitute a violation of the OneChicago Rules. CD is required to function independently of any commercial interests of the Exchange. To advance the goal of market regulation, CD has the

authority to (i) initiate and conduct inquiries and investigations, (ii) prepare investigative reports and make recommendations concerning disciplinary proceedings, (iii) prosecute alleged violations within the Exchange's disciplinary jurisdiction, and (iv) represent the Exchange on appeal from any disciplinary proceeding, summary imposition of fines, summary suspension or other summary action.

5.1.7 CD maintains a log of all investigations commenced, as well as their disposition. CD prepares a written report for each investigation. The investigation report contains certain information such as all relevant facts and evidence gathered, and the recommendation of the Exchange as to the outcome of the investigation ("**Investigation Report**"). Specifically, in each investigation, CD makes a recommendation to either (i) close the investigation without further action, (ii) take summary action, (iii) resolve the investigation through an informal disposition, such as the issuance of a warning letter, or (iv) initiate formal disciplinary proceedings.

5.1.8 Pursuant to OCX Rule 213, the Exchange may from time to time enter into such agreements with domestic or foreign self-regulatory organizations, associations, boards of trade and their respective regulators providing for the exchange of information and other forms of mutual assistance for financial surveillance, routine audits, market surveillance, investigative, enforcement and other regulatory purposes as the Exchange may consider necessary or appropriate or as the CFTC may require.

5.1.9 Consistent with Core Principle 4, and pursuant to Exchange Rule 207, the ROC oversees the Exchange's regulatory program on behalf of the Board and shall assist the Board in minimizing actual and potential conflicts of interest. The Board shall delegate sufficient authority, dedicate sufficient resources, and allow sufficient time for the ROC to fulfill its mandate. The ROC is comprised of only Public Directors who provide a non-interested perspective during Board meetings. The ROC shall have the authority to: (i) monitor the Exchange's regulatory program for sufficiency, effectiveness, and independence; (ii) oversee all facets of the program, including trade practice and market surveillance; audits, examinations, and other regulatory responsibilities with respect to member firms (including ensuring compliance with financial integrity, financial reporting, sales practice, recordkeeping, and other requirements); and the conduct of investigations; (iii) review the size and allocation of the regulatory budget and resources; and the number, hiring and termination, and compensation of regulatory personnel; (iv) supervise the CRO, who will report jointly to the ROC for all regulatory, compliance, supervisory, and surveillance matters and to the CEO for all others matters that are not related to regulation and supervision; (v) prepare an annual report assessing the Exchange's self-regulatory program for the Board and the CFTC, which sets forth the regulatory program's expenses, describes its staffing and structure, catalogues disciplinary actions taken during the year, and reviews the performance of disciplinary committees and panels; (vi) recommend changes that would ensure fair, vigorous, and effective regulation; (vii) review regulatory proposals and advise the Board as to whether and how such changes may impact regulation, and (viii) exercise any other functions expressly assigned to it in the Rules of the Exchange.

5.1.10 The ROC, in conjunction with the CRO and CD, implement the Exchange's monitoring, surveillance and other enforcement functions. The Rules of the Exchange provide the framework for the Exchange's enforcement activities. CD monitors trading activity on a real-time and post-trade basis, and the Exchange's automated trade practice surveillance system monitors trading activity on a real-time and "trade date plus one" (T+1) basis. OneChicago utilizes audit trail data to support its enforcement efforts.

5.1.11 Pursuant to OCX Rule 403 and NTM 2016-1, OneChicago Participants that electronically enter orders directly into the OneChicago System are responsible for maintaining such front-end audit trail information. Audit trail information must be maintained for a minimum of five years, and OneChicago Participants must produce audit trail data upon request to the Exchange.

5.1.12 CD has access to information related to the Exchange's contracts, including relevant news events and economic reports, and historical price and volume information. In addition, the Rules of the Exchange specifically contemplate information-sharing arrangements with other markets. See OCX Rule 213.

5.1.13 OneChicago is a member of the Intermarket Surveillance Group ("**ISG**"), which is an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. CD reviews ISG investigations opened by other exchanges and regulators to determine if similar, concurrent activity had occurred on OneChicago. When appropriate, OneChicago will initiate ISG investigations and notify other ISG members.

5.1.14 OneChicago Members are required to utilize OneChicago's proprietary risk management system to set risk parameters for all trading for which the Member is responsible for. Members must set absolute quantity per order or trade, notional value per order or trade, notional value per day risk limits. Also, firms may set a list of restricted products for which the Exchange will not accept orders or trades.

5.1.15 Chapter 7 of the OCX Rules describe the Exchange's compliance and enforcement procedures, which include inquiries, investigations, disciplinary proceedings, and provide for arbitrations related to Exchange activity.

5.1.16 Consistent with Core Principle 8, the Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for actively traded OneChicago Contracts on its website. The Exchange also publishes the total quantity of EFP and Block trades that are included in trading volume for each trading day. That daily information can be found on OneChicago's public website at ftp://www.onechicago.com/.

5.1.17 Consistent with Core Principle 12, Chapter 6 of the OCX Rules protects the market and OneChicago Participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. Improper conduct and trade practices will be investigated and adjudicated as described in Chapter 7 of the Rules (Discipline and Enforcement).

5.1.18 Consistent with Core Principle 13, Chapter 7 of the OCX Rules describes the disciplinary procedures of the Exchange that authorize the Exchange to discipline, suspend, or expel OneChicago Participants that violate the Rules of the Exchange. Pursuant to the Rules of the Exchange OneChicago's jurisdiction extends to any person who enters orders, or has orders entered on their behalf, to the Exchange.

5.1.19 CD conducts inquiries and investigations relating to real-time surveillance, trade practice, and market surveillance. In the event such investigations result in further disciplinary proceedings, Rules 706 through 720 provide procedures regarding service of notice, answers to charges, settlements, hearings, appeals, sanctions (which may include may include limitation or termination of trading privileges, censure, restitution, suspension and/or fines), summary actions and rights and responsibilities after suspension or termination.

5.1.20 In continual support of its regulatory function, OneChicago has invested in, and continues to invest in, technology and staff dedicated to developing and continually maintaining the regulatory technology structure to evolve with the changing dynamics of the marketplace. OneChicago's regulatory and compliance tools are built completely in-house, and are tailor-made for OneChicago's unique marketplace. The Exchange's regulatory technological systems are highly scalable and customized for trade practice surveillance that allow surveillance staff to monitor trading in real time and conduct detailed analysis of historical trading and order patterns. These systems include tools to examine audit trail data of market activity, detect trading patterns potentially indicative of market abuses, and help protect against market disruptions.

6 RULEMAKING

6.1 Purpose of Rules

(a) The Exchange has rules, policies and other similar instruments that are designed to appropriately govern the operations and activities of participants.

(b) The Rules are not contrary to the public interest and are designed to

(i) Ensure compliance with applicable legislation,

(ii) prevent fraudulent and manipulative acts and practices,

(iii) promote just and equitable principles of trade,

(iv) foster cooperation and coordination with persons or companies engaged in regulation, clearing, settling, processing information with respect to, and facilitating transactions in products traded on the Exchange,

(v) provide a framework for disciplinary and enforcement actions, and

(vi) ensure a fair and orderly market.

6.1.1 Pursuant to its obligation under the CEA and more specifically 7 U.S.C 2, 5, 6, 6c, 7, 7a-2, 12a and Part 38 of the CFTC Regulations, OneChicago has implemented rules, policies and other similar instruments that govern the operations and activities of its OneChicago Participants.

6.1.2 OneChicago is primarily registered with the CFTC as a DCM under section 5 of the CEA. OneChicago is notice-registered as a national securities exchange for the limited purpose of trading SFs under section 6(g) of the SEA.

OneChicago is obligated to comply with the CEA, the DCM Core Principles and the CFTC Regulations (collectively, the "**U.S. Futures Regulations**"). The U.S. Futures Regulations require compliance on behalf of OneChicago and that OneChicago implement rules that require compliance with the U.S. Futures Regulations by its OneChicago Participants. OneChicago Rules are recorded in the OCX Rulebook, which is reviewed by the CFTC for the Exchange's DCM registration to ensure compliance with the CEA and the CFTC Regulations. Revisions to the OCX Rulebook must be submitted to the CFTC for review pursuant to CFTC Regulation 40.6 or 41.24, which requires the Exchange to provide certification and explanatory analysis that the revised Rules comply with the CEA and the CFTC Regulations, including the DCM Core Principles.

6.1.3 All activity on OneChicago is conducted in accordance with the OneChicago Rules. The OneChicago Rules are applicable to OneChicago Participants without regard to jurisdictional boundaries as such obligations arise by virtue of the submission of orders into the OneChicago System by any person. The OCX Rulebook contains substantive provisions relating to membership standards, procedural provisions relating to discipline, arbitration, and other provisions. OneChicago Participants are required to act in accordance with the spirit as well as the letter of the OneChicago Rules.

6.1.4 The OneChicago Rules are designed to enable OneChicago to fulfill its requirement to provide a fair and orderly market. OneChicago Rule 421 explicitly permits the Exchange to adjust market hours and suspend market activities in the event of extenuating market circumstances that may threaten the fair and orderly trading in, or the liquidation of or delivery pursuant to any OneChicago Contracts, which in the opinion of the CEO or CEO's designee requires immediate action.

6.1.5 In accordance with Core Principle 12 (Protection of Markets and Market Participants), Chapter 6 of the OCX Rulebook is designed to protect the market and OneChicago Participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. In relation to the prevention of fraudulent and manipulative acts and practices, OCX Rule 615 – Simultaneous Buying and Selling Order prohibits OneChicago Participants from accepting simultaneous buy and sell orders from the same beneficial owner for the same delivery month of a particular futures contract. Similarly, OCX Rule 602 – Fictitious Transactions prohibits OneChicago Participants from creating fictitious transactions or executing any order for a fictitious transaction with knowledge of its nature.

6.1.6 In addition, Rule 603 – Market Manipulation prevents OneChicago Participants from engaging in fraudulent and manipulative acts including transactions used to create a false, misleading, or artificial price, trading volume, or appearance of market activity that does not reflect the true state of the market in OneChicago Contracts. Rule 614 prevents OneChicago Participants from entering any order into the OneChicago trading platform which has been pre-arranged, except as expressly permitted by Rules 416 and 417 or in accordance with any policies or procedures for pre-execution discussions from time to time adopted by the Exchange.

6.1.7 In relation to promoting just and equitable principles of trade, the Exchange operates in accordance with Core Principle 12. Accordingly, OCX Rule 608 makes it an offense to violate any Rule of the Exchange or Rule of the Clearing Corporation regulating the conduct or business of a Clearing Member, Exchange Member (including their respective Related Parties) or Access Person, or any agreement made with the Exchange, or to engage in any act detrimental to the Exchange or in conduct inconsistent with just and equitable principles of trade. OneChicago also has rules regarding the execution of transactions on the Exchange. Specifically, OCX Rules 416 and 417 discuss the rules relating to the execution of EFP and Block trades. Chapter 4 of the OCX Rulebook generally establishes rules relating to the execution of trades on OneChicago.

6.1.8 OCX Rule 213 – Regulatory Cooperation authorizes the Exchange to "enter into such agreements with domestic or foreign self-regulatory organizations, associations, boards of trade and their respective regulators providing for the exchange of information and other forms of mutual assistance for financial surveillance, routine audits, market surveillance, investigative, enforcement and other regulatory purposes as the Exchange may consider necessary or appropriate or as the [CFTC] may require." OneChicago is a member of the ISG, which is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. OneChicago is also a member of the JAC, which ensures that U.S. futures exchange members are complying with minimum financial requirements. Finally, OneChicago is a member of the Joint Compliance Committee, which is a committee formed by U.S. futures exchanges for the purposes of fostering improvements and uniformity in their systems and procedures used for trade practice compliance.

6.1.9 In accordance with Core Principle 13 (Disciplinary Procedures) and OCX Rule 307, OneChicago Participants are subject to disciplinary action in the event of failure to comply with OneChicago Rules. Disciplinary action may result in censure, suspension, expulsion, and/or monetary fines. Clearing Members, Exchange Members, or Access Persons may be held accountable for the actions of their users accessing OneChicago.

6.1.10 Chapter 6 of the OCX Rulebook establishes business conduct standards for OneChicago Participants. The purpose of Chapter 6 is to ensure trading practices are fair and that ethical standards are maintained by OneChicago Participants.

6.1.11 Chapter 6 generally prohibits activities that unlawfully restrain competition, including collusion with other OneChicago Participants to affect the price of any OneChicago Contract.

6.1.12 The OCX Rulebook describes the trading practices and actions that constitute violations that may be subject to penalties including, but not limited to, temporary and permanent suspension from the Exchange. CD is led by the CRO, who is appointed by the CEO. The CRO and CD are authorized by the ROC to provide market surveillance and investigation of trading activities on the Exchange to ensure compliance with the Rules and applicable law.

6.1.13 Pursuant to OCX Rule 706, CD may issue Notice of Charges against a OneChicago Participant who is found to have violated a Rule of the Exchange. OneChicago Participants in receipt of a Notice of Charges are afforded the opportunity to provide an answer. OneChicago Participants may make CD an offer to settle at any time after receiving a Notice of Charges. If no settlement offer is made or accepted, CD will commence a disciplinary proceeding against the market participant.

6.1.14 Disciplinary Proceedings are conducted in accordance with OCX Rule 711. Disciplinary Proceedings are conducted before a Disciplinary Panel. OCX Rule 127 establishes that a Disciplinary Panel shall consist of three individuals selected by the CRO from the Public Directors on the Exchange's Board and/or members of the public, all of which would qualify as a Public Director at OneChicago, ensuring that the panel members are uninterested and non-conflicted. OneChicago staff also asks potential panel members whether they are familiar with any respondent in an upcoming case, or whether they might have a financial interest in the outcome of the case. Once panel members are selected, the respondent has the ability to refuse the selection any panel member for cause. OneChicago also retains counsel on behalf of the Disciplinary Panel. This counsel serves as a disinterested advisor regarding futures regulation and Rules of the Exchange, and assists the panel in making impartial decisions, uninfluenced by Exchange staff.

The responding OneChicago Participant may elect to be represented by counsel and has the power to cross-examine witnesses. The burden of proof is on CD, which shall prosecute the case. The Disciplinary Panel will determine violations by a majority vote and determine disciplinary action to be taken by the Exchange.

6.1.15 Consistent with Core Principle 14 (Dispute Resolution), Chapter 8 of the OCX Rulebook establishes rules concerning alternative dispute resolution, which provide for the resolution of disputes between or among OneChicago Participants through NFA arbitration.

7 DUE PROCESS

7.1 Due Process – For any decision made by the Exchange that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, the exchange ensures that:

(a) parties are given an opportunity to be heard or make representations, and

(b) it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.

7.1.1 CD provides market surveillance and investigation of trading on the Exchange to ensure compliance with the Rules of the Exchange and applicable law. The CRO reviews completed Investigation Reports and determines whether a reasonable basis exists to believe that violation within the Exchange's jurisdiction has occurred or will occur. After receiving completion of an investigation, the CRO determines for each potential respondent whether to authorize:

a. the commencement of disciplinary proceedings;

b. the informal disposition of the investigation by issuing a warning letter or otherwise; or

c. the closing of the investigation without any action because no reasonable basis exists to believe that a violation within the Exchange's jurisdiction has occurred or is about to occur.

7.1.2 In accordance with OCX Rule 306, the Exchange may at any time revoke, suspend, limit, condition, restrict or qualify the Access Privileges of any OneChicago Participant if, in the sole discretion of the Exchange, such action is in the best interest of the Exchange.

7.1.3 Notice of Charges. Once the CRO authorizes disciplinary proceedings, CD will prepare and serve a notice of charges that will:

a. State the acts, practices or conduct that the respondent is alleged to have engaged in;

b. State the Rule of the Exchange or provision of Applicable Law alleged to have been violated or about to be violated;

c. State the proposed sanctions;

d. Advise the respondent of its right to a hearing;

e. State the period of time within which the respondent can request a hearing on the notice of charges, which will not be less than 20 days after service of the notice of charges;

f. Advise the respondent that any failure to request a hearing within the period stated, except for good cause, will be deemed to constitute a waiver of the right to a hearing; and

g. Advise the respondent that any allegation in the notice of charges that is not expressly denied will be deemed to be admitted.

The service of notice upon the respondent will be delivered by electronic mail to the respondent at the address as it appears on the books and records of the Exchange.

7.1.4 Answer to Notice of Charges. If the respondent determines to answer a notice of charges, the respondent must file answers within 20 days after being served with such notice, or within such other time period determined appropriate by the hearings staff.

a. To answer a notice of charges, the respondent must in writing:

i. Specify the allegations that the respondent denies or admits;

ii. Specify the allegations that the respondent does not have sufficient information to either deny or admit;

iii. Specify any specific facts that contradict the notice of charges;

iv. Specify any affirmative defenses to the notice of charges;

v. Sign and serve the answer on the hearings staff.

Failure by the respondent to timely serve an answer to a notice of charges will be deemed to be an admission to the allegations in such notice. Any failure by the respondent to answer one or more allegations in a notice of charges will be deemed to be an admission of that allegation or those allegations. Any allegation in a notice of charges that the respondent fails to expressly deny will be deemed admitted. Respondents may not submit a general denial to a notice of charges.

7.1.5 Settlements. A respondent or potential respondent may at any time propose in writing an offer of settlement to anticipated or instituted disciplinary proceedings. Settlement offers should contain proposed findings and sanctions and be signed by the respondent or potential respondent and submitted to CD. A respondent or potential respondent may offer to settle disciplinary proceedings without admitting or denying the findings contained in the notice of charges but must accept the jurisdiction of the Exchange over it and over the subject matter of the proceedings and consent to the entry of the findings and sanctions imposed.

7.1.6 If a respondent or potential respondent submits an offer of settlement, CD will forward the offer to the CRO with a recommendation on whether to accept or reject the offer. Any preliminary determination by the CRO to accept the offer shall be submitted for review by the ROC. If the ROC agrees, then the CRO conditionally accepts the offer of settlement, and a notice that the settlement will become final upon the expiration of 20 days after an order of the disciplinary proceedings consistent with the terms of the offer of settlement is served on the respondent.

7.1.7 If an offer of settlement is accepted and the related order of disciplinary proceedings becomes final, the respondent's submission of the offer will be deemed to constitute a waiver of the right to notice, opportunity for a hearing and review and appeal under the Rules of the Exchange. If the offer of settlement of a respondent or potential respondent is not accepted by agreement between the CRO and the ROC, fails to become final or is withdrawn by the respondent or potential respondent, the matter will proceed as if the offer had not been made and the offer and all documents relating to it will not become part of the record. Neither a respondent or potential respondent nor CD may use an unaccepted offer of settlement as an admission or in any other manner at a hearing of, or appeal from, disciplinary proceedings.

7.1.8 Hearings. If the CRO determines to commence disciplinary proceedings against a respondent, such disciplinary proceedings will take place before a Disciplinary Panel composed of at least three individuals selected by the CRO from the Public Directors on the Exchange's Board and/or members of the public, all of which would qualify as a Public Director at OneChicago. Within ten days of being notified of the appointment of the Disciplinary Panel, a respondent may seek to disqualify any individual named to the Disciplinary Panel for the reasons identified in the Rules of the Exchange or for any other reasonable grounds. The respondent may elect to be represented by counsel and has the power to cross-examine witnesses.

7.1.9 As promptly as reasonable following a hearing, the Disciplinary Panel will issue an order rendering its decision based on the weight of the evidence contained in the record of the disciplinary proceedings. A decision by a majority of the panel constitutes the decision of the entire panel. The order must include:

a. The notice of charges or summary of the allegations;

b. The answer, if any, or a summary of the answer;

c. A summary of the evidence introduced at the hearing;

d. A statement of findings of fact and conclusions, and a complete explanation of the evidentiary and other basis for such findings and conclusions concerning each allegation, including each specific Rule of the Exchange and provision of Applicable Law that the respondent is found to have violated.

e. A declaration of the imposition of sanctions, if any, and the effective date of each sanction; and

f. Notice of the respondent's right to appeal pursuant to OCX Rule 716.

7.1.10 Consistent with Core Principle 13, Chapter 7 of the OCX Rulebook describes the disciplinary procedures of the Exchange that authorize the Exchange to discipline, suspend, or expel OneChicago Participants that violate the Rules of the Exchange.

7.1.11 Summary Suspensions. The CRO may, after consultation with the ROC, if practicable, summarily suspend, revoke, limit, condition, restrict or qualify the trading privileges of a market participant. The CRO must reasonably believe that the business, conduct, or activities of the market participant in question is not in the best interests of the Exchange or the marketplace.

7.1.12 Appeals Procedures. A respondent found by the Disciplinary Panel to have violated a Rule of the Exchange, a provision of Applicable Law, or who is subject to any summary fine or summary action may appeal the decision within 20 days of receiving the order of the disciplinary or summary action by filing a notice of appeal with the CRO. While an appeal is pending, the effect of the order of disciplinary proceedings or the summary action shall be suspended.

7.1.13 Appeals Panel. Within 30 days after the last submission filed, the CRO will request that the ROC appoint an appeals panel, consisting of three Board Members, one of which must be a public director, to consider and determine the appeal. The Public Director will act as chairman of the Appeals Panel.

7.1.14 Review by the Appeals Panel. The Appeals Panel may hold a hearing to allow parties to present oral arguments. Any hearing will be conducted privately and confidentially. Notwithstanding the confidentiality of hearings, the Appeals Panel may appoint an expert to attend any hearing and assist in the deliberations if such individuals agree to be subject to appropriate confidentiality agreements. In determining procedural and evidentiary matters, the Appeals Panel will not be bound by evidentiary or procedural rules or law.

7.1.15 Final Decision. As promptly as reasonably possible following its review, the Appeals Panel will issue a written decision on appeal rendering its decision based on the weight of the evidence before the Appeals Panel. The decision of the Appeals Panel will include a statement of findings of fact and conclusions, and a complete explanation of the evidentiary and other basis for such finding and conclusions, and a complete explanation of the evidentiary and other basis for such finding and conclusions for each finding, sanction, remedy and cost reviewed on appeal, including each specific Rule of the Exchange and provision of Applicable Law that the respondent is found to have violated, if any, and the imposition of sanctions, remedies and costs, if any, and the effective date of each sanction, remedy or cost. The Appeals Panel's written order on appeal will be the final action of the Exchange and will not be subject to appeal within the Exchange.

7.1.16 As described in section 12, all records related to the Exchange's disciplinary process are maintained in accordance with the Exchange's recordkeeping requirements.

8 CLEARING AND SETTLEMENT

8.1 Clearing Arrangements – The exchange has appropriate arrangements for the clearing and settlement of transactions through a clearing house.[11]

8.1.1 OneChicago is not a clearing house. All Trades in OneChicago Contracts are settled and cleared through the OCC in accordance with the clearing agreement between OneChicago and the OCC. The OCC is exempted from recognition by the OSC as a clearing agency under Section 21.2 of the OSA. Accordingly, appropriate arrangements that are regulated by the OSC exist for the clearing and settlement of OneChicago Contracts.

8.2 Regulation of the Clearing House – The clearing house is subject to acceptable regulation.

8.2.1 The OCC is an entity formed in the United States and is subject to the regulations of both the SEC and the CFTC. The OCC is registered as a clearing agency under Section 17A of the SEA and as a derivatives clearing organization under section 7a-1 of the Commodity Exchange Act. It has been designated by the U.S. Financial Stability Oversight Council ("**FSOC**") as a systematically important financial market utility ("**SIFMU**") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In addition, the OCC is required to comply with the terms and conditions imposed by the OSC and compliance with these regulatory requirements are overseen by the OSC. As part of its oversight, the OSC reviews required filings and reviews any new substantive rules or substantive changes to current rules relating to access criteria, default management that are specific to the clearing services utilized by Ontario clearing members.

8.3 Authority of Regulator – A foreign regulator has the appropriate authority and procedures for oversight of the clearing house. This includes regular, periodic regulatory examinations of the clearing house by the foreign regulator.

8.3.1 The SEA establishes conditions that registered clearing agencies must satisfy relating to, among other things, the clearing agency's capacity to promptly and accurately clear and settle transactions, safeguarding of funds and securities, enforcement of the clearing agency's rules, equitable allocation of fees and charges among participants, and avoiding any unnecessary burden on competition. Similarly, the CEA establishes core principles with which registered DCOs must comply relating to, among other things, financial resources, appropriate admission and eligibility standards for participants, risk management, timely completion of settlements, ensuring the safety of funds and enforcement of the DCO's rules.

8.3.2 As appropriate and/or upon request and in a form and manner specific by the CFTC, the OCC must file information related to its business as a DCO, written demonstration of its compliance with one or more core principles, and information related to counterparties or related positions. The OCC is required to make available to the CFTC information regarding its activities including information regarding stress test results, internal governance, and legal proceedings.

8.4 Access to the Clearing House

(a) The clearing house has established appropriate written standards for access to its services.

(b) The access standards for clearing members and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.

8.4.1 The OCC has established written criteria for clearing membership, including minimum levels of net capital, appropriate banking arrangements, staff experience and knowledge of products being cleared, appropriate systems to cope with clearing activities, and adequate credit support and facilities. All member applicants must sign legal agreements, remit the application fee and minimum contributions upon approval. Membership criteria are available on the OCC website; such criteria are deemed to be applied reasonably and fairly on all applicants.

8.5 Sophistication of Technology of Clearing House – The Exchange has assured itself that the information technology used by the clearing house has been adequately reviewed and tested and provides at least the same level of safeguards as required of the exchange.

8.5.1 The OCC maintains secure, safe, and reliable technology solutions. The OCC is currently the largest clearing house in the world, and has been clearing trades since 1973. The OCC currently clears trades for all thirteen U.S. options exchanges, and several futures exchanges. In 2012, the OCC was designated as a SIFMU by the FSOC. FSOC designation as a SIFMU requires compliance with prescribed risk management standards and heightened oversight by U.S. financial regulators.

[11] For purposes of these criteria, "clearing house" also means a "clearing agency."

8.5.2 The OCC is regulated by both the CFTC and the SEC. The CFTC and the SEC subject the OCC's technology and risk management systems to scrutiny and oversight. The CFTC and SEC also require the OCC to demonstrate that it has adequate operational resources to complete settlements on a timely basis under varying circumstances. The OCC must also comply with the applicable CFTC and SEC regulations requiring adequate and appropriate systems safeguards, emergency procedures, and plan for disaster recovery.

8.6 Risk Management of Clearing House – The exchange has assured itself that the clearing house has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.

8.6.1 The OCC has appropriate risk management policies and procedures that includes default protections, valuation and variation margining, intra-day risk monitoring, operational risk management, risk committees, and management of risks in payments, settlement, and delivery.

8.6.2 The DCO core principles promulgated by the CFTC require that the OCC maintain adequate and appropriate risk management capabilities. The clearing house may comply with these core principles by documenting its use of risk analysis tools and procedures by showing how the adequacy of financial resources is tested on an ongoing periodic basis in a variety of market conditions. The clearing house may show their use of specific risk management tools such as stress testing and value at risk calculations, and what contingency plans exist for managing extreme market events.

8.6.3 The clearing house must demonstrate to the CFTC and SEC that its collateral and credit limits are used to adequately secure obligations arising from clearing transactions. The clearing house must document the factors considered in determining appropriate margin levels for OneChicago Contracts cleared and for clearing members and participants. The OCC uses a margin methodology called System for Theoretical Analysis and Numerical Simulations ("**STANS**"). STANS has been approved by U.S. regulatory agencies. Under the STANS methodology, the daily margin calculation for each account is based on full portfolio Monte Carlo simulations and is constructed conservatively to ensure a very high level of assurance that the overall value of cleared products in the account, plus collateral posted to meet margin requirements, will not be appreciably negative at a two-day horizon. The clearing house systems are implemented to monitor exposure, current funds at the clearing house, and financial resources of clearing firms.

8.6.4 The OCC has a default management plan to be activated in the event of a clearing member default that clearly outlines the responsibilities of each party and the necessary timing for the various activities.

9 SYSTEMS AND TECHNOLOGY

9.1 Systems and Technology – Each of the Exchange's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable the exchange to properly carry on its business. Critical systems are those that support the following functions:

a. order entry,

b. order routing,

c. execution,

d. trade reporting,

e. trade comparison,

f. data feeds,

g. market surveillance,

h. trade clearing, and

i. financial reporting

9.1.1 All OneChicago Contracts are traded or reported electronically on OneChicago's proprietary trade matching engine. The OneChicago System is in compliance with the Principles for the Oversight of Screen-Based Trading Systems for Derivative Products developed by the Technical Committee of IOSCO as applied flexibly and pragmatically by the CFTC. OCXdelta1 is a CLOB open during trading hours. The OneChicago System accepts and validates orders for the CLOB, runs the CLOB matching engine, and sends the completed trades to the clearing house to be cleared through a

Clearing Member of the clearing house. OCXdelta1 also permits the reporting of bilateral Block and EFP trades. Block and EFP trades are privately-negotiated transactions that are reported by the transacting parties to the Exchange.

Orders may be entered, and trades may be reported, to the OneChicago System either through the exchange-provided Graphical User Interface ("**GUI**") or through the Application Programming Interface ("**API**"). The GUI is a downloadable and executable java applet that allows OneChicago Participants to enter orders and report trades manually. The API permits OneChicago Participants to connect their own trading programs directly to the OneChicago System for order entry and trade reporting. Use of the API permits electronic or algorithmic trading. The specifications that provide OneChicago Participants with instructions to connect to the API are available on OneChicago's public website.

The OneChicago System records information about both CLOB and reported trades. CD uses this information to monitor the market and ensure that OneChicago Participants are not violating the Rules of the Exchange. Orders, including reported trades, are ran through a pre-execution risk limit to ensure that the completed trade will not exceed risk parameters set by the OneChicago Participant. Pre-trade risk parameters include maximum order or trade quantity, maximum notional value per order or trade, maximum cumulative notional value per day, as well as restricted list functionality.

9.1.2 The OneChicago System accepts limit orders for single contracts or combination trades known as calendar spreads. The OneChicago System operates on a price-time priority algorithm. Orders can be placed into the OneChicago System using the Exchange-provided GUI or by writing directly to the Exchange API, as described above.

9.1.3 The OneChicago System is designed to run on a cluster of servers, and is deployed in the production environment with an "N+1" configuration so that the failure of a single server will not disrupt trading. The industry standard FIX gateway for trade reporting and the engine supporting the match algorithms are also deployed in this fashion.

9.1.4 OneChicago maintains both a production data center in the metropolitan New Jersey area and a disaster recovery site in Chicago, Illinois. Both sites are housed at Tier I data centers with extensive security systems and provisions for backup power. Failover to the disaster recovery site is tested on a routine basis.

9.1.5 OneChicago has a documented Business Continuity/Disaster Recovery ("**BC-DR**") plan which contains procedures for operating through significant business disruptions. OneChicago conducts yearly tests of its BC-DR plan with its trading community.

9.1.6 OneChicago's architecture is designed in an industry standard client server model. All access to OneChicago is via FIX Gateways and require strong passwords. Users who incorrectly attempt a password too many times are locked out.

9.1.7 OneChicago employs numerous monitoring programs to assess the performance of its hardware and software. These monitoring programs generate automatic alerts should any performance or availability deviate from prescribed standards.

9.1.8 OneChicago has a variety of security features to protect it from external attacks, such as unauthorized access or a denial of service attack. OneChicago periodically conducts security audits to identify any system vulnerabilities.

OneChicago also conducts regular, periodic, objective testing and review of: (1) its automated systems to ensure that they are reliable, secure, and have adequate scalable capacity; and (2) its BC-DR capabilities. The Exchange will ensure that all such tests meet the following requirements:

(a) *Testing by Qualified Personnel*. Testing is performed by qualified professionals, which may be Exchange employees or independent third parties.

(b) *Coordination with Service Providers*. The Exchange will ensure that the BC-DR Plan takes into account the business continuity and disaster recovery plans of its telecommunications, power, water, clearing and other essential service providers.

OneChicago staff also conducts an annual assessment of internal controls for the Exchange. OneChicago participates in a number of industry security focus groups, including with the SEC, CFTC, and U.S. Federal Bureau of Investigations-sponsored Infragard.

9.1.9 OneChicago deploys virus protection programs on all OneChicago computers.

9.1.10 OneChicago has multiple controls and systems to mitigate against data loss.

9.1.11 OneChicago employs a suite of performance tests to ensure that the OneChicago System will withstand extreme user and trading volumes relative to the levels the system is currently experiencing in production.

9.1.12 Consistent with Core Principle 20, the Exchange has developed a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and procedures, and the development of automated systems that are reliable, secure, and have adequate scalable capacity. This program includes information regarding the security of those systems, the Exchange's risk assessment reviews, internal controls for operations, functional testing, security testing and capacity planning and testing. It also describes the Exchange's emergency plan and includes a description of the back-up systems and emergency procedures that include recovery time objectives. In addition, during an emergency, OCX Rule 421 authorizes the Exchange to implement temporary emergency procedures and rules.

9.2 System Capability/Scalability – Without limiting the generality of section 9.1, for each of its systems supporting order entry, order routing, execution, data fees, trade reporting and trade comparison, the Exchange:

(a) makes reasonable current and future capacity estimates;

(b) conducts capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner;

(c) reviews the vulnerability of those systems and data centre computer operations to internal and external threats, including physical hazards and natural disasters;

(d) ensures that safeguards that protect a system against unauthorized access, internal failures, human errors, attacks and natural catastrophes that might cause improper disclosures, modification, destruction or denial of service are subject to an independent and ongoing audit which should include the physical environment, system capacity, operating system testing, documentation, internal controls and contingency plans;

(e) ensures that the configuration of the system has been reviewed to identify potential points of failure, lack of back-up and redundant capabilities;

(f) maintains reasonable procedures to review and keep current the development and testing methodology of those systems; and

(g) maintains reasonable back-up, contingency and business continuity plans, disaster recovery plans and internal controls.

9.2.1 OneChicago maintains the systems capacity necessary to fully support its current and projected twelve month needs with regard to its trading systems. Currently, OneChicago has sufficient excess capacity to readily increase its allocated message traffic by 300%.

9.2.2 OneChicago conducts tests of its trading system's configuration and performance every time a systems change is made that may impact performance. The OneChicago technology staff determine whether any systems change that has been made may impact performance. One of the purposes of these reviews is to identify potential points of failure, and to ensure that all systems have back-up redundant capabilities, where applicable. In addition to reviews performed upon systems changes, OneChicago also conducts a formal annual review of its systems.

9.2.3 The development of all OneChicago systems is documented in its development specifications for each system. These development specifications allow market participants that are users of OneChicago systems, to review and understand the processes and functioning of each of these systems. In addition to these external development specifications, OneChicago also creates and maintains internal developer specifications for use by exchange employees. Additionally, OneChicago creates documentation for the testing methodology of its systems. These testing documents are reviewed and updated on an as-needed basis whenever a review of the underlying system is being conducted.

9.2.4 OneChicago tests its systems to ensure that the protections established by the Exchange are operating as expected. These include tests of protections to either internal or external threats. Additionally, access to OneChicago's systems is monitored by alerts that are sent to multiple exchange employees. All systems, applications, hardware, and networking appliances are fully monitored through an operational intelligence and log management tool, which alerts Exchange staff to specific issues with the technology. OneChicago has policies in place for all of its employees covering various issues including change control, passwords, credentials, servers, disaster recovery, security incidents, backups, computer use, remote access, extranets and regulatory information. These systems and policies are reviewed by

Exchange staff on a regular basis. All of the Exchange's firewalls employ intruder detection/prevention and anti-virus checks that scan all traffic, and drop traffic that matches pre-defined parameters. Furthermore, the Exchange's office firewalls use web filtering to prevent access to security risk websites, including file transfer websites. There is no outside customer or vendor access to any servers located in OneChicago's offices.

With regard to physical hazards and natural disasters, OneChicago has established and maintains business continuity-disaster recovery plans for all of its systems. This plan calls for OneChicago to recover its markets for trading by the following business day. The disaster recovery system is monitored in the same way as the Exchange's primary trading system. OneChicago participates in an annual industry-wide disaster recovery test.

OneChicago also maintains physical security related to its offices and hardware. Access to the building in which the OneChicago offices are located is restricted to tenants and their guests through a key card system. The OneChicago offices are locked 24 hours per day and seven days per week, with access permitted only via assigned keycard or physical key. OneChicago's data room in its corporate headquarters is even further restricted. OneChicago's data centers have state of the art physical security measures in place, including man-traps and biometric access.

The testing and auditing of these safeguards are required by the CFTC's currently proposed rule titled *System Safeguards Testing Requirements*.[12] Pursuant to these rules, systems testing must be conducted by an independent contractor. However, recognizing that it is appropriate to reduce costs and burdens for smaller entities while still achieving the goals of the rule, the CFTC's proposed rule exempts small DCMs like OneChicago from the independent contractor testing requirement. As such, OneChicago plans to continue to have its own employees with the requisite knowledge and experience to conduct the ongoing audit and testing of these systems and applicable testing procedures.

9.2.5 OneChicago has configured its systems in a manner to allow them to be reviewed by Exchange staff. Customers' access to the trading system is limited to cross connect or VPN within the data center; no general internet access is supported. Each connection to the trading system is further restricted to the appropriate servers and ports required to support that particular customer's business line.

9.2.6 As described in section 9.1, OneChicago maintains reasonable back-up contingency and business continuity plans, disaster recovery plans, and internal controls. The operation of OneChicago's systems is fully documented, as are the operations of its back up or disaster recovery plans. OneChicago reviews these policies and procedures on a routine basis.

9.2.7 Consistent with Core Principle 6, the Exchange has adopted procedures and guidelines for implementing an emergency intervention in the market. Under OCX Rule 421, the CEO may implement temporary emergency procedures and rules ("**Emergency Rules**"), subject to applicable provisions of the CEA and CFTC Regulations. Emergency Rules may require or authorize the CEO or any individual designated by the CEO and approved by the Board, to take actions necessary or appropriate to respond to the Emergency, including, but not limited to, the following actions: (i) limiting trading to liquidation only; (ii) extending or shortening, as applicable, the Expiration Date or Expiration Month of any Contract; (iii) extending the time of delivery, changing delivery points or the means of delivery provided in the rules governing any Contract; (iv) imposing or modifying position or price limits with respect to any Contract; (v) ordering the liquidation of Contracts, the fixing of a settlement price or any reduction in positions; (vi) ordering the transfer of Contracts, and the money, securities, and property securing such Contracts, held on behalf of Customers by any Clearing Member to one or more other Clearing Members willing to assume such Contracts or obligated to do so; (vii) extending, limiting or changing hours of trading; (viii) suspending or curtailing trading in any or all Contracts or modifying circuit breakers; (ix) requiring Clearing Members, Exchange Members, Access Persons or Customers to meet special margin requirements; (x) modifying or suspending any provision of the Rules of the Exchange or the Rules of the Clearing Corporation.

9.2.8 Whenever the CEO or the individual designated by the CEO takes actions necessary or appropriate to respond to an Emergency, the Exchange will notify the CFTC in accordance with CFTC Regulations.

9.2.9 An Emergency Rule placed into effect in accordance with OCX Rule 421 shall be reviewed by the Board as soon as practicable under the circumstances, and may be revoked, suspended or modified by the Board.

9.2.10 Emergency actions taken pursuant to OCX Rule 421 are subject to the conflict of interest provisions set forth in OCX Rule 211.

[12] 80 FR 80139.

9.2.11 OneChicago has an error trade policy that establishes procedures for handling an error trade on the OneChicago System. The error trade policy also permits the Exchange to cancel any trade that may have a material, adverse effect on the integrity of the market.

9.2.12 OneChicago has technology in place to coordinate trading halts and circuit breakers with the underlying equity markets on which OneChicago Contracts are based. OneChicago will halt trading in the case of a regulatory trading halt or activation of a circuit breaker in the underlying market.

10 FINANCIAL VIABILITY AND REPORTING

10.1 Financial Viability – The Exchange has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

10.1.1 Consistent with Core Principle 21, OneChicago has adequate financial, operational, and managerial resources to discharge each responsibility of the Exchange. As required by the CFTC, the financial resources of the Exchange exceed the total amount that would enable the Exchange to cover its operating costs for a one-year period, as calculated on a rolling basis. On a monthly basis, OneChicago assesses the adequacy of its financial resources and capital to meet its requirements, and submits a quarterly report to the CFTC that provides the Exchange's financial information to demonstrate compliance with CFTC Regulations. In addition, the Exchange maintains unencumbered, liquid financial assets (i.e., cash and/or highly liquid securities) equal to at least six months' operating costs.

10.1.2 In accordance with applicable CFTC Regulations, OneChicago is required to maintain regulatory capital in an amount at least equal to one year of projected operating expenses as well as cash, liquid securities, or a line of credit at least equal to six months of projected operating expenses. On an ongoing basis, OneChicago assesses the adequacy of its financial resources to meet its requirements, and submits a report quarterly to the CFTC that provides the Exchange's financial information to demonstrate compliance with the CFTC Regulations.

10.1.3 OneChicago maintains the current minimum capital amounts needed, and will maintain any future minimum capital amounts needed to meet CFTC requirements.

11 TRANSPARENCY

11.1 Transparency – The Exchange has adequate arrangements to record and publish accurate and timely trade and order information. This information is provided to all participants on an equitable basis.

11.1.1 The Rules of the Exchange describe sound trading practices and the accuracy of market information provided by OneChicago Participants to ensure the transparency of market behavior of all OneChicago Participants.

11.1.2 OneChicago provides its settlement pricing daily to all OneChicago Participants. Consistent with Core Principle 8, OneChicago publishes daily information on settlement prices, volume, open interest and opening and closing prices for OneChicago Contracts on its website. The Exchange also publishes the total quantity of EFP and Block trades that are included in trading volume for each trading day.

11.1.3 OneChicago provides the public with the opportunity to access a real time market data stream containing all bids, offers, and trades during the trading day.

12 RECORD KEEPING

12.1 Record Keeping - The Exchange has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of the Exchange, audit trail information on all trades, and compliance with, and/or violations of exchange requirements.

12.1.1 The Controller of OneChicago maintains its financial books and records to ensure adequate representation of the Exchange's financial condition. External auditors conduct the annual audit to confirm that the Exchange's books and records are properly maintained in order to issue an independent audit opinion.

12.1.2 Consistent with Core Principle 10, OneChicago maintains audit trail data with all information with respect to each order (whether or not such order results in a consummated trade) and each consummated trade. As such, any order submitted to OneChicago can be tracked from the time it is entered into the system until the time that it is matched, canceled or otherwise removed.

12.1.3 The Exchange's recordkeeping program satisfies the relevant criteria set forth in the CFTC's Regulations. The Exchange retains all books and records on electronic storage media in a write once, read many times format that is stored at multiple locations to ensure redundancy and critical safeguarding of the data.

12.1.4 CD's recordkeeping program satisfies the relevant criteria set forth in the CFTC's Regulations. CD maintains a log of all investigations and their disposition. The Investigation Report will include the reasons for initiating the investigation, all relevant facts and evidence gathered, analysis and conclusions, the Respondent's disciplinary history at the Exchange, and the staff's recommendation. Compliance retains books and records pertaining to investigations on limited access electronic storage media in a write once, read many times format that is stored at multiple locations to ensure redundancy and critical safeguarding of the data. Additionally, the Rules of the Exchange require OneChicago participants to maintain records and make such records available to the Exchange upon request.

12.1.5 OneChicago maintains audit trail records relating to orders and transactions that occur on the Exchange. The Rules of the Exchange also require market participants to maintain their own audit trail records, which OneChicago reviews on a yearly basis.

13 OUTSOURCING

13.1 Outsourcing - Where the Exchange has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations, and that are in accordance with industry best practices.

13.1.1 OneChicago Contracts are settled and cleared by the OCC. The OCC is recognized by the OSC as a clearing agency under Section 21.2 of the OSA. Accordingly, appropriate and formal arrangements and processes in place to ensure that the clearing obligation is met in accordance with industry best practices.

13.1.2 For those functions that OneChicago outsources, the Exchange has appropriate, formal and legal arrangements in place to ensure its obligations are met in accordance with industry best practices.

14 FEES

14.1 Fees

(a) All fees imposed by the Exchange are reasonable and equitably allocated and do not have the effect of creating unreasonable condition or limit on access by participants to the services offered by the exchange.

(b) The process for setting fees is fair and appropriate, and the fee model is transparent.

14.1.1 All fees imposed by OneChicago are equitably allocated and do not have the effect of creating unreasonable barriers to access. All OneChicago Participants are subject to the same fee schedule.

14.1.2 All changes in OneChicago's fee structure are communicated to OneChicago Participants in advance. Before making any changes to its fee structure, OneChicago carefully considers how any changes to its fees impact the market place and its OneChicago Participants. OneChicago files any changes to its fee structure with the CFTC.

14.1.3 OneChicago may offer fee discounts to liquidity providers. At its discretion, OneChicago may offer a liquidity provider program that provides incentives to OneChicago Participants willing to supply substantial numbers of bids and offers or traded volume in the market. The liquidity provider program may offer reduced fees, among other incentives, for qualified liquidity providers as determined by the Exchange. As of this application, OneChicago does not have such a program currently ongoing.

14.1.4 OneChicago fees are made available on the Exchange's website.

15 INFORMATION SHARING AND OVERSIGHT ARRANGEMENTS

15.1 Information Sharing and Regulatory Cooperation – The Exchange has mechanisms in place to enable it to share information and otherwise co-operate with the OSC, self-regulatory organizations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.

15.1.1 OneChicago has mechanisms in place to share information (including records of trade details) with the OCC, as authorized by the clearing agreement between the OCC and OneChicago.

15.1.2 OneChicago has mechanisms in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory and enforcement purposes is available to the relevant regulatory authorities on a timely basis. OneChicago monitors trading on the Exchange through market surveillance, compliance and disciplinary practices and procedures as described in the OCX Rulebook. By executing one of the various agreements applicable to each market participant, participants consent to the collection of such information by OneChicago in order to perform its monitoring functions and carry out its self- regulatory functions.

15.1.3 OCX Rule 213 authorizes the Exchange to enter into information-sharing agreements or other arrangements or procedures to coordinate surveillance with other markets on which financial instruments related to the OneChicago Contracts trade. As described above, OneChicago is a member of ISG, JAC, and JCC.

15.1.4 In compliance with Core Principle 7 – Availability of General Information – the Exchange posts general information, including its contract specifications and the OCX Rulebook on the Exchange's website.

15.1.5 Core Principle 2(c) (Compliance with Rules – Requirement of Rules) requires DCM rules to provide the DCM with "the ability and authority to obtain any necessary information to perform any function in this section [CFTC Regulations Part 38], including the capacity to carry out such international information-sharing agreements as the [CFTC] may require." OCX Rule 213 authorizes OneChicago to enter into information-sharing agreements with other markets in furtherance of the Exchange's purpose or duties under its Rules or any law or regulation.

15.2 Oversight Arrangements – Satisfactory information sharing and oversight agreements exist between the OSC and the Foreign Regulator.

15.2.1 The OSC, together with the Autorité des marchés financiers, Alberta Securities Commission and British Columbia Securities Commission, recently entered into a Memorandum of Understanding with the CFTC concerning regulatory cooperation related to the supervision and oversight of regulated entities that operate in both the United States and Canada (the "**Supervisory MOU**"). The Supervisory MOU provides a comprehensive framework for consultation, cooperation and information-sharing related to the day-to-day supervision and oversight of cross-border regulated entities and enhances the OSC's ability to supervise these entities. The Supervisory MOU became effective on March 25, 2014. The OSC has also entered into a similar agreement with the SEC.

16 IOSCO PRINCIPLES

16.1 IOSCO Principles – To the extent it is consistent with the laws of the foreign jurisdiction, the Exchange adheres to the standards of IOSCO including those set out in the "Principles for the Regulation and Supervision of Commodity Derivatives Markets" (2011).

16.1.1 OneChicago adheres to the IOSCO principles by virtue of the fact that the Exchange must comply with the CEA and the CFTC Regulations, which reflect the IOSCO standards. The CFTC is a signatory to the IOSCO Memorandum of Understanding that provides for the international exchange of information to investigate and enforce laws regarding securities and derivatives violations.

16.1.2 OneChicago adheres to the IOSCO principles set out in the "Objectives and Principles of Securities Regulation" (2003) applicable to exchanges and trading systems. Consistent with the CEA and CFTC Regulations, OneChicago maintains operations to achieve the following:

(a) ensure the integrity of trading through fair and equitable rules that strike an appropriate balance between the demands of different market participants;

(b) promote transparency of trading;

(c) detect and deter manipulation and other unfair trading practices;

(d) ensure proper management of large exposures, default risk and market disruption; and

(e) ensure that clearing and settlement of transactions are fair, effective and efficient, and that they reduce systemic risk.

Part III Submissions by OneChicago

1. Submissions Concerning the Exchange Relief

A. All contracts traded on OneChicago fall under the definition of "commodity futures contract" set out in section 1 of the CFA, as further clarified by OSC Rule 14-502 (Designation of Additional Commodities). OneChicago is therefore considered a "commodity futures exchange" as defined in section 1 of the CFA and is prohibited from carrying on business in Ontario unless it is registered or exempt from registration under section 15 of the CFA. OneChicago seeks to provide Ontario Participants with direct, electronic access to trading in OneChicago Contracts and may therefore be considered to be "carrying on business as a commodity futures exchange" in Ontario.

B. OneChicago is not registered with or recognized by the OSC as a commodity futures exchange under the CFA and no OneChicago Contracts have been accepted by the Director (as defined in the OSA) under the CFA. Therefore, OneChicago Contracts are considered "securities" under paragraph (p) of the definition of "security" set out in subsection 1(1) of the OSA and OneChicago is considered an "Exchange" under the OSA. Therefore, OneChicago is prohibited from carrying on business in Ontario unless it is recognized or exempt from recognition under subsection 21(1) of the OSA. OneChicago seeks to provide participants located in Ontario with direct, electronic access to trading in OneChicago Contracts. If it does so, it would be considered by the OSC to be carrying on business as a commodity futures exchange in Ontario and would be required to be registered as a commodity futures exchange or exempted from the requirement to be registered pursuant to section 15 of the CFA. If it were so exempted, OneChicago Contracts would be securities pursuant to paragraph (p) of the definition of "security" in the OSA, and OneChicago would be required to be recognized as an exchange or exempted from recognition pursuant to section 21 of the OSC.

C. OneChicago satisfies all the criteria for registration or exemption from registration as a commodity futures exchange and recognition or exemption from recognition as an exchange set out by OSC Staff, as described under Part II of this application. Ontario Participants that trade in commodity futures would benefit from the ability to trade on OneChicago, as they would have access to a range of exchange-traded SFs based on U.S. issuers, which are not currently available in Ontario. OneChicago would offer its Ontario Participants access to a transparent, efficient and liquid market to trade OneChicago Contracts. OneChicago uses sophisticated information systems and has adopted rules and compliance functions subject to CFTC oversight that will ensure that Ontario users are adequately protected in accordance with international standards set by IOSCO. We therefore submit that it would not be prejudicial to the public interest to grant the Requested Relief.

D. Provided that the OSC exempts OneChicago from registration as a commodity futures exchange under the CFA, OneChicago will be an "exempt exchange" as defined in OSC Rule 92-503 *Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situate Outside of Ontario* ("**OSC Rule 91-503**") and the OneChicago Contracts will be "exempt exchange contracts" under OSC Rule 91-503. We submit that OSC Rule 91-503 applies to OneChicago as "situate outside Ontario" and that separate exemptive relief for trades in OneChicago Contracts is not required from the registration requirement in Section 25 of the OSA and prospectus requirement in section 53 of the OSA pursuant to Part II of OSC Rule 91-503.

E. Additionally, pursuant to the deemed rule entitled *In the Matter of Trading in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges in the United States of America*, trades by any persons or companies in commodity futures contracts and commodity futures options entered into on commodity futures exchanges designated by the CFTC as DCMs under the CEA are not subject to the registration requirement in section 25 of the OSA and the prospectus requirement in section 53 of the OSA. Therefore, no registration or prospectus relief will be required under the OSA for trades in OneChicago Contracts in Ontario.

2. Submissions Concerning the Hedger Relief

A. OneChicago seeks to provide direct access to trading in OneChicago Contracts to Ontario Participants that may be "hedgers" as defined in subsection 1(1) of the CFA. Section 32(1)(a) of the CFA provides an *exemption from registration for trades "by a hedger through a dealer,"* which will not be available to Ontario resident hedgers because they will have direct access to OneChicago and will not be considered to be executing "through a dealer." To become OneChicago Participants, Ontario resident hedgers must execute a OneChicago user agreement agreeing to comply with the Rules of the Exchange and all applicable law pertaining to the use of the Exchange, and obtain a guarantee from an OCC Clearing Member that clears for the Exchange unless the Ontario Participant is an OCC Clearing Member clearing for its proprietary account.

B. The relevant OCC Clearing Member with which an Ontario resident hedger seeks to open an account for the purpose of trading on OneChicago will complete appropriate account opening procedures prior to entering into clearing agreements with all clients and on an ongoing basis in accordance with CFTC, SEC, and OneChicago requirements. Furthermore, because OCC Clearing Members are ultimately responsible for the trading activity of any Ontario Participants that they agree to guarantee, they can be expected to ensure that such Ontario Participants will have the requisite sophistication and proficiency in the trading of OneChicago Contracts to satisfy investor protection concerns associated with having direct access to OneChicago.

C. OneChicago intends to confirm that Ontario Participants that seek to rely on the Hedger Relief are "hedgers" (as defined in subsection 1(1) of the CFA) by obtaining a representation stating such from the Ontario resident hedgers as part of their onboarding documentation. The documentation will specify that this representation is deemed to be repeated by the Ontario Participant each time it enters an order for a OneChicago Contract and that the Ontario Participant must be a "hedger" for the purposes of each trade resulting from such an order.

D. The requested Hedger Relief will allow sophisticated Ontario residents who meet the definition of "hedger" to become Ontario Participants and gain the benefits of direct access to the OneChicago System. Given the sophistication of such Ontario Participants and the fact that the financial responsibility for their trading activity ultimate lies with the OCC Clearing Member that guarantees their trades, or the Ontario Participant itself if it is an OCC Clearing Member, it is not necessary for the protection of other investors or the integrity of the market to require such Ontario Participants to send their Orders through a dealer rather than accessing OneChicago directly.

3. Submissions Concerning the Bank Relief

A. Section 35.1 of the OSA provides that financial institutions are exempt from the requirement to be registered under the OSA to act as dealers provided that the conditions of the exemption are met. However, there is no corresponding exemption from registration for trades by financial institutions in the CFA. For this reason, OneChicago is seeking Commission approval for the Bank Relief.

B. OneChicago intends to confirm that Ontario Participants that seek to rely on the Bank Relief are banks listed in Schedule 1 to the *Bank Act* (Canada) by obtaining a representation stating such from the Ontario resident banks as part of their onboarding documentation. The documentation will specify that this representation is deemed to be repeated by the Ontario Participant each time it enters an order for a OneChicago Contract.

C. The requested Bank Relief will allow sophisticated Ontario residents who are banks listed in Schedule 1 to the *Bank Act* (Canada) to become Ontario Participants and gain the benefits of direct access to the OneChicago System. Given the sophistication of such Ontario Participants, it is not necessary for the protection of other investors or the integrity of the market to require such Ontario Participants to send their Orders through a dealer rather than accessing OneChicago directly.

Part IV Other Matters

1. In support of this application, we are enclosing the following:

   a. a verification statement from an officer of OneChicago confirming our authority to prepare and file this application, and certifying the truth of the facts contained herein as Appendix A;

   b. a cheque in the amount of the fees payable to the OSC; and

   c. a draft form of the order

2. OneChicago consents to the publication of this Application for public comment in the OSC Bulletin.

Appendix A

Verification Certificate

To: Ontario Securities Commission

Dear Sirs/Mesdames:

Re: Application by OneChicago, LLC

I, David G. Downey as Chief Executive Officer of OneChicago, do hereby certify that the preparation and compilation of the attached application to the Ontario Securities Commission is authorized and confirm the truth of the facts contained therein as they relate to OneChicago.

DATED July 22, 2016

"David G. Downey"
David G. Downey
Chief Executive Officer
OneChicago, LLC

Appendix B

List of OneChicago Contracts

The list of OneChicago Contracts is available for download as a CSV on the Exchange's FTP site:
ftp://www.onechicago.com/product_listings/

EXHIBIT "B"

OneChicago, LLC Draft Exemption Order

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, CHAPTER S. 5, AS AMENDED
(THE OSA)

AND

IN THE MATTER OF
THE COMMODITY FUTURES ACT
R.S.O. 1990, CHAPTER C.20, AS AMENDED
(THE CFA)

AND

IN THE MATTER OF
ONECHICAGO, LLC

ORDER
(Section 147 of the OSA and sections 38 and 80 of the CFA)

WHEREAS OneChicago, LLC (**OneChicago**) has filed an application (**Application**) with the Ontario Securities Commission (**Commission**) requesting:

a. an order pursuant to section 147 of the OSA exempting OneChicago from the requirement to be recognized as an exchange under subsection 21(1) of the OSA;

b. an order pursuant to section 80 of the CFA exempting OneChicago from the requirement to be registered as a commodity futures exchange under subsection 15(1) of the CFA (together with the requested order above, **Exchange Relief**);

c. an order pursuant to section 38 of the CFA exempting trades in contracts on OneChicago by a "hedger," as defined in subsection 1(1) of the CFA (**Hedger**), from the registration requirement under section 22 of the CFA (**Hedger Relief**); and

d. an order pursuant to section 38 of the CFA exempting trades in contracts on OneChicago by a bank listed in Schedule I to the Bank Act (Canada) (**Bank**) entering orders as principal and for its own account only from the registration requirement under Section 22 of the CFA (**Bank Relief** and, together with the Hedger Relief, **Registration Relief**).

AND WHEREAS OSC Rule 91-503 *Trades in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges Situated Outside of Ontario* (**Rule 91-503**) exempts trades of commodity futures contracts or commodity futures options made on commodity futures exchanges not registered with or recognized by the Commission under the CFA from sections 25 and 53 of the OSA;

AND WHEREAS the deemed rule titled *In the Matter of Trading in Commodity Futures Contracts and Commodity Futures Options Entered into on Commodity Futures Exchanges in the United States of Americ*a provides that section 33 of the CFA does not apply to trades entered into a commodity futures exchange designated by the United States (**U.S.**) Commodity Futures Trading Commission (**CFTC**) under the U.S. Commodity Exchange Act (**CEA**);

AND WHEREAS OneChicago has represented to the Commission that:

1. OneChicago is a limited liability company organized under the laws of the State of Delaware;

2. OneChicago receives a majority of its revenue from transaction and carry fees, which include electronic trading fees and charges for carrying positions in futures contracts listed on OneChicago (**OneChicago Contracts**);

3. OneChicago is a designated contract market (**DCM**) by the CFTC, within the meaning of that term under the CEA. OneChicago is subject to regulatory supervision by the CFTC, a U.S. federal regulatory agency. OneChicago is obligated under the CEA to give the CFTC access to all records unless prohibited by law or such records are subject to solicitor-client privilege. The CFTC reviews, assesses and enforces OneChicago's adherence to the CEA and regulations thereunder on an ongoing basis, including DCM core principles (**DCM Core Principles**) relating to the operation and oversight of OneChicago's markets, including financial resources, systems and controls, maintenance of an orderly market, execution and settlement of transactions, rule-making and investor protection;

4. OneChicago is notice registered with the U.S. Securities and Exchange Commission (**SEC**) as a national securities exchange for the limited purpose of trading security futures products. As a condition of its notice-registration, OneChicago is required to comply with certain sections of the Securities Exchange Act of 1934 (**SEA**);

5. The CFTC's Division of Market Oversight, Compliance Branch conducts regular in-depth reviews of each DCM's ongoing compliance with CFTC regulations in order to enforce its rules, prevent market manipulation and customer and market abuses, and to ensure the recording and safe storage of trade information. The results of these rule enforcement reviews are in most cases summarized in reports by the CFTC which are made available to the public and posted on the CFTC's website;

6. OneChicago provides trading services for its market participants (**OneChicago Participants**) transacting in physically-settled security futures products and may list for trading cash-settled security futures products. OneChicago Contracts overlay publicly-traded equity securities. OneChicago Participants may include commercial and investment banks, money managers, hedge funds, proprietary trading firms, and retail investors. All OneChicago Contracts are cleared through the Options Clearing Corporation (**OCC**), which is exempted by the Commission from the requirement to be recognized as a clearing agency under Section 21.2 of the OSA, by OCC Clearing Members (**OCC Clearing Member**);

7. OneChicago maintains and operates an electronic trading system known as OCXdelta1, which functions as an electronic central limit order book (**Trading System**) where entities trade OneChicago Contracts. OneChicago Participants trade OneChicago Contracts on both a proprietary and agency basis. Agency trades are handled by broker dealers (**BDs**) or futures commission merchants (**FCMs**);

8. OCXdelta1 also supports the reporting of privately-negotiated, bilateral trades such as block trades (**Block Trades**) and Exchange of Future for Physical (**EFP**) trades in accordance with CFTC regulations and the OneChicago Rulebook;

9. Orders entered, and trades reported, into OCXdelta1 are subject to risk limit checks by OneChicago's proprietary risk management system, OCX.RiskMan (**RiskMan**). RiskMan performs risk checks such as maximum order contract quantity, maximum order notional value, maximum daily notional value, and restricted list functionality;

10. OneChicago does not have any offices or maintain other physical installations in Ontario or any other Canadian province or territory;

11. OneChicago proposes to offer direct access in Ontario to its Trading System and facilities to prospective participants in Ontario (**Ontario Participants**). To obtain direct access to the Trading System and facilities of OneChicago, an Ontario Participant must execute (i) an OCXdelta1 User Agreement, (ii) a Responsible Administrator Form, and (iii) an Authorized Trade Reporter Form. Additional agreements may need to be completed depending on whether the Ontario Participant intends to access OneChicago as a Clearing Member, Exchange Member, or Access Person;

12. OneChicago expects that Ontario Participants will be certain Canadian financial institutions (within the meaning of such term in subsection 1.1(3) of National Instrument 14-101 Definitions) and certain other market participants that have a head office or principal place of business in Ontario, such as (i) dealers that are engaged in the business of trading futures contracts in Ontario; and (ii) institutional investors and proprietary trading firms;

13. OneChicago Contracts fall within the definition of "commodity futures contract" as defined in section 1 of the CFA, as interpreted by OSC Rule 14-502. Therefore, OneChicago is prohibited from carrying on business in Ontario unless it is registered or exempt from registration as a commodity futures exchange under subsection 15(1) of the CFA;

14. As OneChicago intends to provide Ontario Participants with access in Ontario to its Trading System and facilities to trade OneChicago Contracts, OneChicago is considered to be "carrying on business as a commodity futures exchange in Ontario";

15. Additionally, the exemption from registration in subsection 32(a) of the CFA applies for trades "by a hedger through a dealer." This exemption will not be available for trades in OneChicago Contracts by Ontario resident Hedgers that become OneChicago Participants since they will have direct access to OneChicago but will not be considered to be executing "though a dealer." For this reason, OneChicago is seeking Commission approval for the Hedger Relief;

16. Section 35.1 of the OSA provides that financial institutions are exempt from the requirement to be registered under the OSA to act as dealers provided that the conditions of the exemption are met. However, there is no corresponding exemption from registration for trades by financial institutions in the CFA. For this reason, OneChicago is seeking Commission approval for the Bank Relief;

17. OneChicago is not registered with or recognized by the Commission as a commodity futures exchange under the CFA and none of the OneChicago Contracts have been accepted by the Director (as defined in the OSA) under the CFA. As a result, OneChicago Contracts are also considered "securities" under paragraph (p) of the definition of "security" in section 1 of the OSA and OneChicago is considered to be an "exchange" under the OSA. Therefore, OneChicago is prohibited from carrying on business in Ontario unless it is recognized or exempt from recognition under subsection 21(1) of the OSA;

18. Further, while OneChicago Contracts are also considered "securities" under paragraph (p) of the definition of "security" in section 1 of the OSA for the reasons outlined in the preceding paragraph, OneChicago Contracts would not be considered "securities" under any other paragraph contained in that definition, nor would any OneChicago Contract be considered a "derivative" as defined in section 1(1) of the OSA;

19. Similar to paragraph 14 above, since OneChicago seeks to provide Ontario Participants with access in Ontario to trade OneChicago Contracts, OneChicago is considered to be "carrying on business as an exchange in Ontario";

20. OneChicago ensures that all applicants to become OneChicago Participants must satisfy certain criteria, including, among other things: validly organized and in good standing, good reputation, business integrity and adequate financial resources to assume the responsibilities and privileges of being a OneChicago market participant;

21. All OCC Clearing Members holding customer accounts to guarantee the trades of OneChicago Participants under paragraph 11 will be registered or notice-registered as FCMs with the CFTC. Such OCC Clearing Members are subject to the compliance requirements of the CEA, the CFTC, and the National Futures Association as they relate to customer accounts, including various know-your-client, suitability, risk disclosure, anti-money laundering and anti-fraud requirements. These requirements, in conjunction with the margin requirements for OneChicago Contracts applicable to OneChicago Participants, ensure that Ontario Participants seeking to become OneChicago Participants are subjected to appropriate due diligence procedures and fitness criteria. Notice-registered FCMs are subject to the compliance requirements of the SEA, the SEC, and the Financial Industry Regulatory Authority;

22. Based on the facts set out in the Application, OneChicago satisfies the criteria for exemption set out in Appendix 1 of Schedule A to this order;

AND WHEREAS the Commission will monitor developments in international and domestic capital markets and OneChicago's activities on an ongoing basis to determine whether it is appropriate for the Commission to continue to grant the Exchange Relief or Registration Relief and, if so, whether it is appropriate for the Exchange Relief and Registration to continue to be granted subject to the terms and conditions set out in Schedule A to this order;

AND WHEREAS OneChicago has acknowledged to the Commission that the scope of the Exchange Relief or Registration Relief and the terms and conditions imposed by the Commission set out in Schedule A to this order may change as a result of its monitoring of developments in international and domestic capital markets or OneChicago's activities, or as a result of any changes to the laws in Ontario affecting trading in derivatives, commodity futures contracts, commodity futures options or securities;

AND WHEREAS based on the Application, together with the representations made by and acknowledgements of OneChicago to the Commission, the Commission has determined that:

a. OneChicago satisfies the criteria for exemption set out in Appendix 1 of Schedule A;

b. The granting of the Exchange Relief would not be prejudicial to the public interest; and

c. The granting of the Registration Relief would not be prejudicial to the public interest;

IT IS HEREBY ORDERED by the Commission that:

a. Pursuant to section 147 of the OSA, OneChicago is exempt from recognition as an exchange under subsection 21(1) of the OSA;

b. Pursuant to section 80 of the CFA, OneChicago is exempt from registration as a commodity futures exchange under subsection 15(1) of the CFA;

c. Pursuant to section 38 of the CFA, trades in OneChicago Contracts by Hedgers who are Ontario Participants are exempt from the registration requirement under section 22 of the CFA; and

d. Pursuant to section 38 of the CFA, trades in OneChicago Contracts by Banks who are Ontario Participants entering orders as principal and only for their own accounts are exempt from the registration requirement under section 22 of the CFA;

PROVIDED THAT

a. OneChicago complies with the terms and conditions attached hereto as Schedule A; and

b. The Bank Relief shall expire on the earliest of:

(i) the expiry of any transition period as may be provided by law, after the effective date of the repeal of the CFA;

(ii) six months, or such other transition period as may be provided by law, after the coming into force of any amendment to Ontario commodity futures law (as defined in the CFA) or Ontario securities law (as defined in the OSA) that affects the dealer registration requirements in the CFA; and

(iii) five years after the date of this order.

SCHEDULE "A"

TERMS AND CONDITIONS

Meeting Criteria for Exemption

1. OneChicago will continue to meet the criteria for exemption included in Appendix 1 to this schedule.

Regulation and Oversight of OneChicago

2. OneChicago will maintain its registration as a DCM with the CFTC and will continue to be subject to the regulatory oversight of the CFTC.

3. OneChicago will continue to comply with the ongoing requirements applicable to it as a DCM registered with the CFTC.

4. OneChicago must do everything within its control, which would include cooperating with the Commission as needed, to carry out its activities as an exchange exempted from recognition under subsection 21(1) of the OSA, as a commodity futures exchange exempted from registration under subsection 15(1) of the CFA, and in compliance with Ontario securities law and Ontario commodity futures law.

Access

5. OneChicago will maintain and operate a Trading System where OneChicago Participants trade on a proprietary or agency basis through an intermediary such as a broker dealer or FCM.

6. OneChicago will not provide direct access to an Ontario Participant unless the Ontario Participant is appropriately registered to trade in OneChicago Contracts, is a Hedger, or a Bank; in making this determination, OneChicago may reasonably rely on a written representation from the Ontario Participant that specifies that it is appropriately registered to trade in OneChicago Contracts or that it is a Hedger, or a Bank, and OneChicago will notify such Ontario Participant that this representation is deemed to be repeated each time it enters an order for a OneChicago Contract.

7. Each Ontario Participant that intends to rely on the Hedger Relief will be required to, as part of its application documentation or continued access to trading in OneChicago Contracts:

   (a) represent that it is a Hedger;

   (b) acknowledge that OneChicago deems the Hedger representation to be repeated by the Ontario Participant each time it enters an order for a OneChicago Contract and that the Ontario Participant must be a Hedger for the purposes of each trade resulting from such an order;

   (c) agree to notify OneChicago if it ceases to be a Hedger;

   (d) represent that it will only enter orders for its own account;

   (e) acknowledge that it is a market participant under the CFA and is subject to applicable requirements; and

   (f) acknowledge that its ability to continue to rely on the Hedger Relief in accessing trading on OneChicago will be dependent on the Commission continuing to grant the relief and may be affected by changes to the terms and conditions imposed in connection with the Hedger Relief or by changes to Ontario securities laws or Ontario commodity futures laws pertaining to derivatives, commodity futures contracts, commodity futures options or securities.

8. Each Ontario Participant that intends to rely on the Bank Relief will be required to, as part of its application documentation or continued access to trading in OneChicago Contracts:

   (a) represent that it will only enter orders as principal and for its own account only;

   (b) represent that it is a Bank;

   (c) acknowledge that the Bank Relief may be affected by changes to the terms and conditions imposed in connection with the Bank Relief or by changes to Ontario securities laws or Ontario commodity futures laws pertaining to derivatives, commodity futures contracts, commodity futures options or securities; and

(d) represent that it is not engaging in activities prohibited by its governing legislation.

9. OneChicago will require Ontario Participants to notify OneChicago if their applicable registration has been revoked, suspended or amended by the Commission or if they have ceased to be eligible for the Registration Relief and, following notice from the Ontario Participant or the Commission and subject to applicable laws, OneChicago will promptly restrict the Ontario Participant's access to OneChicago if the Ontario Participant is no longer appropriately registered with the Commission, or is no longer eligible for the Registration Relief.

10. OneChicago must make available to Ontario Participants appropriate training for each person who has access to trade in OneChicago Contracts.

Trading by Ontario Participants

11. OneChicago will not provide access to an Ontario Participant to trading in exchange-traded products of an exchange other than those of OneChicago, unless such other exchange has sought and received appropriate regulatory standing in Ontario.

12. OneChicago will not provide access to an Ontario Participant to trading in OneChicago Contracts other than those that meet the definition of "commodity futures contract" or "commodity futures option" as defined in subsection 1(1) of the CFA, and which also fall under paragraph (p) of the definition of "security" in subsection 1(1) of the OSA, without prior Commission approval.

Submission to Jurisdiction and Agent for Service

13. With respect to a proceeding brought by the Commission arising out of, related to, concerning or in any other manner connected with the Commission's regulation and oversight of the activities of OneChicago in Ontario, OneChicago will submit to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of Ontario and (ii) an administrative proceeding in Ontario.

14. OneChicago will file with the Commission a valid and binding appointment of an agent for service in Ontario upon whom the Commission may serve a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal, penal or other proceeding arising out of or relating to or concerning the Commission's regulation and oversight of OneChicago's activities in Ontario.

Disclosure

15. OneChicago will provide to its Ontario Participants disclosure that states that:

(a) rights and remedies against OneChicago may only be governed by the laws of the U.S., rather than the laws of Ontario, and may be required to be pursued in the U.S. rather than in Ontario; and

(b) the rules applicable to trading on OneChicago may be governed by the laws of the U.S., rather than the laws of Ontario.

Filings with the CFTC

16. OneChicago will promptly provide staff of the Commission copies of all material rules of OneChicago, and material amendments to those rules, that it files with the CFTC under the regulations pertaining to self-certification and/or approval.

17. OneChicago will promptly provide staff of the Commission copies of all material contract specifications and material amended contract specifications that it files with the CFTC and SEC under the regulations pertaining to self-certification and/or approval.

18. OneChicago will promptly provide staff of the Commission the following information to the extent it is required to file such information with the CFTC:

(a) the annual Board of Directors' report regarding the activities of the Board and its committees;

(b) the annual financial statements of OneChicago;

(c) details of any material legal proceeding instituted against OneChicago;

(d) notification that OneChicago has instituted a petition for a judgment of bankruptcy or insolvency or similar relief, or to wind up or liquidate OneChicago or has a proceeding for any such petition instituted against it; and

(e) the appointment of a receiver or the making of any voluntary arrangement with creditors.

Prompt Notice or Filing

19. OneChicago will promptly notify staff of the Commission of any of the following:

(a) any material change to its business or operations or the information provided in the Application, including, but not limited to:

(i) changes to the regulatory oversight by the CFTC;

(ii) the corporate governance structure of OneChicago

(iii) the access model, including eligibility criteria, for Ontario Participants;

(iv) systems and technology; and

(v) the clearing and settlement arrangements for OneChicago;

(b) any change in OneChicago's regulations or the laws, rules and regulations in the U.S. relevant to futures and options where such change may materially affect its ability to meet the criteria set out in Appendix 1 to this schedule;

(c) any condition or change in circumstances whereby OneChicago is unable or anticipates it will not be able to continue to meet the DCM Core Principles or any applicable requirements of the CEA or CFTC regulations;

(d) any revocation or suspension of, or amendment to, OneChicago's registration as a DCM by the CFTC or if the basis on which OneChicago's registration as a DCM was granted has significantly changed;

(e) any known investigations of, or disciplinary action against, OneChicago by the CFTC or any other regulatory authority to which it is subject;

(f) any matter known to OneChicago that may affect its financial or operational viability, including, but not limited to, any significant system failure or interruption; and

(g) any default, insolvency, or bankruptcy of any OneChicago market participant known to OneChicago or its representatives that may have a material, adverse impact upon OneChicago or any Ontario Participant.

20. OneChicago will promptly file with staff of the Commission copies of any Rule Enforcement Review report regarding OneChicago.

Quarterly Reporting

21. OneChicago will maintain the following updated information and submit such information in a manner and form acceptable to the Commission on a quarterly basis (within 30 days of the end of each calendar quarter), and at any time promptly upon the request of staff of the Commission:

(a) a current list of all Ontario Participants, and, to the extent known by OneChicago**,** a list of other persons or companies located in Ontario trading as customers of participants (**Other Ontario Users**), specifically identifying for each Ontario Participant or Other Ontario User:

(i) its status as a Clearing Member, Exchange Member, or Access Person of OneChicago, and

(ii) the basis upon which it represented to OneChicago that it could be provided with direct access (i.e., that it is appropriately registered to trade in OneChicago Contracts, or is a Hedger, or is a Bank);

(b) a list of all Ontario Participants against whom disciplinary action has been taken in the last quarter by OneChicago or, to the best of OneChicago's knowledge, by the CFTC with respect to such Ontario Participants' activities on OneChicago;

(c) a list of all referrals to the OneChicago Chief Regulatory Officer by the OneChicago Compliance Department concerning Ontario Participants;

(d) a list of all Ontario applicants for status as an Ontario Participant who were denied such status or access to OneChicago during the quarter;

(e) a list of all new by-laws, rules, and contract specifications, and changes to by laws, rules and contract specifications, not already reported under sections 15 and 16 of this schedule;

(f) a list of all OneChicago Contracts available for trading during the quarter, identifying any additions, deletions or changes since the prior quarter;

(g) for each OneChicago Contract,

(i) the total trading volume and value originating from Ontario Participants, presented on a per Ontario Participant basis, and, to the extent known by the OneChicago**,** the total trading volume and value originating from Other Ontario Users presented on a per Other Ontario User basis; and

(ii) the proportion of worldwide trading volume and value on OneChicago conducted by Ontario Participants, and, to the extent known by OneChicago**,** by Other Ontario Users, presented in the aggregate for such Ontario Participants and Other Ontario Users;

(h) a list outlining each incident of a significant system outage that occurred at any time during the quarter for any system impacting Ontario Participants' trading activity, including trading, routing or data, specifically identifying the date, duration and reason for the outage, and noting any corrective action taken.

Annual Reporting

22. OneChicago will arrange to have the annual audited financial statements of OneChicago filed with the Commission promptly after their issuance.

Reporting

23. If an IT Service Auditor's Report (**Report**) is prepared for OneChicago, OneChicago will promptly file with the Commission the Report after the Report is issued as final by its independent auditor.

Information Sharing

24. OneChicago will provide information (including additional periodic reporting) as may be requested from time to time by, and otherwise cooperate with, the Commission or its staff, subject to any applicable privacy or other laws (including solicitor-client privilege) governing the sharing of information and the protection of personal information.

25. If OneChicago trades any security futures with the underlying that is listed on an exchange recognized in Canada, OneChicago will coordinate with the Investment Industry Regulatory Organization of Canada on any issues that involve securities of issuers listed on an exchange recognized in Canada, including trading halts and investigations of trading activity involving these.

APPENDIX 1

CRITERIA FOR EXEMPTION

PART 1 REGULATION OF THE EXCHANGE

1.1 Regulation of the Exchange

The exchange is regulated in an appropriate manner in another jurisdiction by a foreign regulator (Foreign Regulator).

1.2 Authority of the Foreign Regulator

The Foreign Regulator has the appropriate authority and procedures for oversight of the exchange. This includes regular, periodic oversight reviews of the exchange by the Foreign Regulator.

PART 2 GOVERNANCE

2.1 Governance

The governance structure and governance arrangements of the exchange ensure:

(a) effective oversight of the exchange,

(b) that business and regulatory decisions are in keeping with its public interest mandate,

(c) fair, meaningful and diverse representation on the board of directors (Board) and any committees of the Board, including:

  (i) appropriate representation of independent directors, and

  (ii) a proper balance among the interests of the different persons or companies using the services and facilities of the exchange,

(d) the exchange has policies and procedures to appropriately identify and manage conflicts of interest, and

(e) there are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for directors, officers and employees of the exchange.

2.2 Fitness

The exchange has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each director and officer is a fit and proper person.

PART 3 REGULATION OF PRODUCTS

3.1 Review and Approval of Products

The products traded on the exchange and any changes thereto are reviewed by the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product.

3.2 Product Specifications

The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products.

3.3 Risks Associated with Trading Products

The exchange maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on the exchange including, but not limited to, margin requirements, intra-day margin calls, daily trading limits, price limits, position limits, and internal controls.

PART 4 ACCESS

4.1 Fair Access

(a) The exchange has established appropriate written standards for access to its services including requirements to ensure

(i) participants are appropriately registered as applicable under Ontario securities laws or Ontario commodity futures laws, or exempted from these requirements,

(ii) the competence, integrity and authority of systems users, and

(iii) systems users are adequately supervised.

(b) The access standards and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.

(c) The exchange shall not unreasonably prohibit, condition or limit access by a person or company to services offered by it.

(d) The exchange does not

(i) permit unreasonable discrimination among participants, or

(ii) impose any burden on competition that is not reasonably necessary and appropriate.

PART 5 REGULATION OF PARTICIPANTS ON THE EXCHANGE

5.1 Regulation

The exchange has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.

PART 6 RULEMAKING

6.1 Purpose of Rules

(a) The exchange has rules, policies and other similar instruments (Rules) that are designed to appropriately govern the operations and activities of participants.

(b) The Rules are not contrary to the public interest and are designed to

(i) ensure compliance with applicable legislation,

(ii) prevent fraudulent and manipulative acts and practices,

(iii) promote just and equitable principles of trade,

(iv) foster co-operation and co-ordination with persons or companies engaged in regulation, clearing, settling, processing information with respect to, and facilitating transactions in the products traded on the exchange,

(v) provide a framework for disciplinary and enforcement actions, and

(vi) ensure a fair and orderly market.

PART 7 DUE PROCESS

7.1 Due Process

For any decision made by the exchange that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, the exchange ensures that:

(a) parties are given an opportunity to be heard or make representations, and

(b) it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.

PART 8 CLEARING AND SETTLEMENT

8.1 Clearing Arrangements

The exchange has appropriate arrangements for the clearing and settlement of transactions through a clearing house.[1]

8.2 Regulation of the Clearing House

The clearing house is subject to acceptable regulation.

8.3 Authority of Regulator

A Foreign Regulator has the appropriate authority and procedures for oversight of the clearing house. This includes regular, periodic regulatory examinations of the clearing house by the Foreign Regulator.

8.4 Access to the Clearing House

(a) The clearing house has established appropriate written standards for access to its services.

(b) The access standards for clearing members and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.

8.5 Sophistication of Technology of Clearing House

The exchange has assured itself that the information technology used by the clearing house has been adequately reviewed and tested and provides at least the same level of safeguards as required of the exchange.

8.6 Risk Management of Clearing House

The exchange has assured itself that the clearing house has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls.

PART 9 SYSTEMS AND TECHNOLOGY

9.1 Systems and Technology

Each of the exchange's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable the exchange to properly carry on its business. Critical systems are those that support the following functions:

(a) order entry,

(b) order routing,

(c) execution,

(d) trade reporting,

(e) trade comparison,

(f) data feeds,

(g) market surveillance,

(h) trade clearing, and

(i) financial reporting.

[1] For the purposes of these criteria, "clearing house" also means "clearing agency."

9.2 System Capability/Scalability

Without limiting the generality of section 9.1, for each of its systems supporting order entry, order routing, execution, data fees, trade reporting and trade comparison, the exchange:

(a) makes reasonable current and future capacity estimates;

(b) conducts capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner;

(c) reviews the vulnerability of those systems and data centre computer operations to internal and external threats, including physical hazards and natural disasters;

(d) ensures that safeguards that protect a system against unauthorized access, internal failures, human errors, attacks and natural catastrophes that might cause improper disclosures, modification, destruction or denial of service are subject to an independent and ongoing audit which should include the physical environment, system capacity, operating system testing, documentation, internal controls and contingency plans;

(e) ensures that the configuration of the system has been reviewed to identify potential points of failure, lack of back-up and redundant capabilities;

(f) maintains reasonable procedures to review and keep current the development and testing methodology of those systems; and

(g) maintains reasonable back-up, contingency and business continuity plans, disaster recovery plans and internal controls.

PART 10 FINANCIAL VIABILITY AND REPORTING

10.1 Financial Viability

The exchange has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

PART 11 TRANSPARENCY

11.1 Transparency

The exchange has adequate arrangements to record and publish accurate and timely trade and order information. This information is provided to all participants on an equitable basis.

PART 12 RECORD KEEPING

12.1 Record Keeping

The exchange has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of the exchange, audit trail information on all trades, and compliance with, and/or violations of exchange requirements.

PART 13 OUTSOURCING

13.1 Outsourcing

Where the exchange has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations and that are in accordance with industry best practices.

PART 14 FEES

14.1 Fees

(a) All fees imposed by the exchange are reasonable and equitably allocated and do not have the effect of creating an unreasonable condition or limit on access by participants to the services offered by the exchange.

(b) The process for setting fees is fair and appropriate, and the fee model is transparent.

PART 15 INFORMATION SHARING AND OVERSIGHT ARRANGEMENTS

15.1 Information Sharing and Regulatory Cooperation

The exchange has mechanisms in place to enable it to share information and otherwise co-operate with the Commission, self-regulatory organizations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.

15.2 Oversight Arrangements

Satisfactory information sharing and oversight agreements exist between the Ontario Securities Commission and the Foreign Regulator.

PART 16 IOSCO PRINCIPLES

16.1 IOSCO Principles

To the extent it is consistent with the laws of the foreign jurisdiction, the exchange adheres to the standards of the International Organisation of Securities Commissions (IOSCO) including those set out in the “Principles for the Regulation and Supervision of Commodity Derivative Markets” (2011).

13.2.2 Liquidnet Canada – Targeted Invitation Functionality – Notice of Proposed Changes and Request for Comment

LIQUIDNET CANADA

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Liquidnet Canada is publishing this Notice of Proposed Changes in accordance with the "Process for the Review and Approval of the Information Contained in Form 21-101F2 and the Exhibits Thereto." Market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by September 19, 2016 to

Market Regulation Branch
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, ON M5H 3S8
Fax: (416) 595-8940
marketregulation@osc.gov.on.ca

and

Thomas Scully
General Counsel
Liquidnet Canada Inc.
498 Seventh Avenue
New York, NY 10018
tscully@liquidnet.com

Comments received will be made public on the OSC website. Upon completion of the Review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

Any questions regarding the information below should be addressed to:

Peter Coffey
Head of Liquidnet Canada & Chief Compliance Officer
Liquidnet Canada Inc.
79 Wellington Street West - Suite 2403
TD South Tower
Toronto, ON M5K 1K2
pcoffey@liquidnet.com

Liquidnet Canada proposes to introduce the following change to the Liquidnet Canada trading system:

1. Targeted invitation functionality for trading of foreign debt securities

A. Description of the proposed change

Liquidnet Canada ATS is proposing to provide Canadian institutional clients with access to targeted invitation functionality for trading of non-Canadian fixed income securities (also referred to as "bonds") on the fixed income trading systems operated by affiliates Liquidnet, Inc. (LNUS) and Liquidnet Europe Limited (LNEL).

Background

On July 28, 2015, Liquidnet Canada was granted an exemption from Section 6.3 of National Instrument 21-101 *Marketplace Operation* permitting Canadian subscribers (referred to as "Members") to trade non-Canadian fixed income securities via trading systems operated by foreign affiliates LNI and LNEL.

The Liquidnet trading system provides both lit order book and negotiation functionality for trading non-Canadian fixed income securities. The fixed income negotiation functionality is based on indications (not firm orders) sent by Members to the Liquidnet Canada ATS, which are then routed to the indication matching engine operated by affiliates LNI and LNEL. When a Member has an indication that is transmitted to the indication matching engine, and there is another

Member with a matching indication on the opposite side on the same bond (a "contra"), Liquidnet notifies the first Member and any contra. Upon receipt of notification of a match, the two matching Members are in the one-to-one matching stage, where they may negotiate a price for the trade.

Overview of the proposed targeted invitation functionality

As an extension of its existing negotiation functionality, LNI and LNEL have implemented targeted invitation functionality for fixed income securities for Members located in the US and Europe. Liquidnet Canada wishes to enable Canadian Members to participate in this functionality, as described more fully below.

When a match is unavailable, targeted invitations will allow Members to selectively widen their search for trading opportunities by sending invitations concerning particular bonds or groups of bonds to other Members who previously had the opposite-side indication in the Liquidnet fixed income trading system within a Member-specified look-back period. All Members who upgrade to a version of the Liquidnet software that is compatible with the targeted invitation functionality, and, in the case of Canadian Members, affirmatively opt-in to participate in this functionality, will be eligible and enabled to send and receive targeted invitations. Upon request by a Member at any time, Liquidnet will disable the Member from participating in targeted invitation functionality. Since targeted invitation notifications are objectively limited to Members who have demonstrated contra-interest during a defined look-back period, information leakage, and associated market impact, is minimized.

While additional detail concerning the proposed functionality is provided below, we wish to highlight the following important characteristics of a targeted invitation:

- A targeted invitation for a fixed income security does not represent a firm order.
- A targeted invitation is only displayed to one recipient at a time.
- If a recipient accepts a targeted invitation, the sender and recipient can engage in the normal negotiation process – just as they would for any other match in the system.

Parameters for a targeted invitation

When sending a targeted invitation, a trader must specify the following parameters:

- ***Look-back period.*** A targeted invitation is only sent to a trader who had an opposite-side indication in Liquidnet during the look-back period. A trader can select the current trading day as the look-back period or the current trading day plus any of the following periods: 1, 3, 5, 10, 20, 50, 100 or 200 prior trading days.
- ***Max recipients.*** The maximum number of traders who can receive the targeted invitation.
- ***Minutes in force.*** The number of minutes for which the targeted invitation will be active. The system cancels all targeted invitations at the end of Liquidnet's trading day for the applicable region and instrument.
- ***Priority.*** Whether to prioritize recipients based on "most recent" or "size".

Liquidnet applies a set of default parameters, but a trader can modify any of the defaults for any targeted invitation.

Information provided to the sender of a targeted invitation

A sender is not notified whether a targeted invitation has been received by another trader. If a recipient accepts the sender's targeted invitation, as described below, the sender receives notification of a match. The match notification to the sender indicates that the recipient has accepted the sender's targeted invitation.

A sender is also notified when a recipient elects "interested but need ten minutes" (as described below).

Qualifying recipients of targeted invitations

A qualifying recipient is any trader who had an opposite-side indication to the sender's indication at any time during the look-back period specified by the sender, subject to the following additional conditions being met:

- The recipient is logged in
- The recipient's indication size meets the sender's minimum size

- The sender's indication size meet the recipient's minimum size
- The recipient is enabled for targeted invitations.

If a qualifying recipient of a targeted invitation is involved in a match, the system will not send a targeted invitation to the recipient.

As noted above, a targeted invitation is only sent to one contra at a time. When there are multiple qualifying recipients for a targeted invitation, prioritization depends upon the search priority parameter selected by the sender.

Actions upon receipt of a targeted invitation

Upon receipt of a targeted invitation, a trader has up to five minutes to select a response from one of the following:

- ***Accept invitation.*** This creates an indication in Liquidnet for the applicable bond and direction (for example, buy indication if the sender has a sell indication, and sell indication if the sender has a buy indication). When selecting this option, the recipient must specify the size for his or her indication.
- ***Interested but need ten minutes.*** This provides the trader additional time to decide whether or not to accept the invitation. If a trader specifies this response, the trader's response time is extended to ten minutes from when the trader makes this election. During this ten-minute period, the trader can still select any of the other three responses in this sub-section. The sender of the targeted invitation will be notified that the recipient (without disclosing the recipient's identity) has selected this option.
- ***Not interested for now.*** If a trader specifies this response, the system will no longer display the targeted invitation to the trader, but the trader can continue to receive other targeted invitations in that bond.
- ***Don't show me TIs in this bond again.*** If a trader specifies this response, the system will no longer display the targeted invitation to the trader, and the trader will not receive any targeted invitations in that bond (direction specific) unless, in the future, the trader enters an indication in that bond and direction at Liquidnet.

If a trader receiving a targeted invitation has not selected one of the options above within the five-minute period (or the trader has selected the "interested but need ten minutes" response within the five-minute period and has not selected one of the remaining three options above within the ten-minute period), the system notifies the trader that the targeted invitation is no longer available and makes the following options available to the trader:

- ***Create indication.*** This creates an indication in Liquidnet that is opposite-side to the sender's indication.
- ***Create indication plus targeted invitation.*** This creates an indication in Liquidnet that is opposite-side to the sender's indication and also a targeted invitation at the same time. This option is not available if the trader has elected for the system to automatically send indications (i) immediately when an indication is sent into Liquidnet or (ii) at a specified number of minutes after an indication is sent to Liquidnet.
- ***Not interested for now.*** If a trader specifies this response, the system will no longer display the targeted invitation to the trader, but the trader can continue to receive other targeted invitations in that bond.
- ***Don't show me TIs in this bond again.*** If a trader specifies this response, the trader will not receive any targeted invitation in that bond (direction specific) unless, in the future, the trader enters an indication in that bond and direction at Liquidnet.

Expiration of a targeted invitation to a recipient

A targeted invitation to a recipient expires upon the earliest of the following:

- The recipient's acceptance of the targeted invitation
- The recipient responding that it is not interested for now or don't show TIs in this bond again
- The expiration of the five or ten-minute response period, as applicable
- Cancellation of the targeted invitation by the sender or deletion of the relevant indication from the sender's blotter.

Upon expiration of a targeted invitation to a recipient other than as a result of the recipient's acceptance of the targeted invitation, the system will send a targeted invitation to the qualifying recipient, if any, who is next in priority, unless the sender at that time has a match in Liquidnet in the applicable indication or the minutes in force of the targeted invitation have expired.

Termination of match

If a match between the sender and recipient of a targeted invitation terminates, the system will send a targeted invitation to the qualifying recipient, if any, who is next in priority, unless the sender at that time has a match in Liquidnet in the applicable indication or the minutes in force of the targeted invitation have expired.

Amending a targeted invitation

A trader can edit or cancel a targeted invitation at any time through the Liquidnet client software. If a trader changes the parameters of a targeted invitation, the new parameters become applicable.

Acceptance of a targeted invitation does not guarantee a match

It is possible that between the sending of a targeted invitation and acceptance by the recipient, the sender has matched with another contra-side indication (an "existing match"). This existing match would be the result of an opposite-side indication being received by Liquidnet between the sending of the targeted invitation and acceptance of the targeted invitation by the recipient. In this scenario, the trader accepting the targeted invitation will not see a match until the existing match terminates. Upon termination of the existing match, the system will prioritize the recipient against other same-side matches based on Liquidnet's rules of priority in cases of multiple contras.

Cancellation of a targeted invitation by sender

At any point in time the sender of the targeted invitation can cancel the targeted invitation, delete the relevant indication, or move the relevant indication into an "out of pool" state. In any of these scenarios, the recipient of the targeted invitation will receive a notification that the targeted invitation is no longer available. The recipient of the targeted invitation will then receive a notification which includes the option to create an indication or a targeted invitation for the relevant bond and direction.

B. The expected date of implementation

It is expected that the proposed change will be implemented shortly after satisfaction of the requirements set forth in Section 3.2(1) of National Instrument 21-101, *Marketplace Operation* (NI 21-101), including the expiration of a 45-day notice period.

C. Rationale for the proposed change

Liquidnet Canada is implementing the proposed functionality to provide Canadian participants with the ability to draw otherwise latent liquidity to the marketplace, while still minimizing information leakage. The proposed functionality has already proven successful in the US market, and Liquidnet Canada respectfully submits that Canadian participants are currently at a disadvantage without it.

D. Expected impact of the proposed change on market structure, subscribers, investors and capital markets

We foresee no adverse impact on market structure, subscribers, investors or the capital markets because the proposed change will only help participants draw otherwise latent liquidity in non-Canadian fixed income securities to the marketplace.

E. Expected impact of the proposed change on Liquidnet Canada's compliance with Ontario securities law and the requirements for fair access and maintenance of a fair and orderly market

We foresee no adverse impact on Liquidnet Canada's compliance with market structure, Ontario securities laws or to requirements of fair access and the maintenance of a fair and orderly market.

F. Consultations undertaken in formulating the proposed change, including internal governance process followed

Liquidnet Canada consulted with certain customers before proceeding with the proposed change. The proposed change was approved by the management of Liquidnet Canada.

G. Whether the proposed change will require subscribers and vendors to modify their own systems

The proposed change will not require any work by subscribers or vendors to modify their own systems. The proposed change is not a material change to technology requirements regarding interfacing with or accessing the marketplace within the meaning of Part 12.3 of NI 21-101.

H. Whether the proposed change would introduce a fee model or feature that currently exists in other markets or jurisdictions

Liquidnet Canada's affiliates in other jurisdictions have already implemented the proposed functionality in other markets.

13.3 Clearing Agencies

13.3.1 CDCC – Proposed Amendments to Sections A-1A04 and A-401 of the Rules of the Canadian Derivatives Clearing Corporation in Order to Establish and Document CDCC's Consultation Power – OSC Staff Notice of Request for Comment

OSC STAFF NOTICE OF REQUEST FOR COMMENT

CANADIAN DERIVATIVES CLEARING CORPORATION (CDCC)

PROPOSED AMENDMENTS TO SECTIONS A-1A04 AND A-401 OF THE RULES OF THE CANADIAN DERIVATIVES CLEARING CORPORATION IN ORDER TO ESTABLISH AND DOCUMENT CDCC'S CONSULTATION POWER

The Ontario Securities Commission is publishing for public comment the proposed amendments to CDCC's rules. The purpose of the proposed amendments is to establish and document the consultation power granted to CDCC in the course of its Default Management process.

The comment period ends September 19, 2016.

A copy of the CDCC Notice is published on our website at http://www.osc.gov.on.ca.

13.3.2 CDCC – Amendments to the Rules, Operations Manual and the Risk Manual for the Introduction of the Share Futures Contracts – OSC Staff Notice of Request for Comment

OSC STAFF NOTICE OF REQUEST FOR COMMENT

CANADIAN DERIVATIVES CLEARING CORPORATION (CDCC)

AMENDMENTS TO THE RULES, OPERATIONS MANUAL AND THE RISK MANUAL FOR THE INTRODUCTION OF THE SHARE FUTURES CONTRACTS

The Ontario Securities Commission is publishing for public comment the proposed amendments to the CDCC's rules, operations manual and risk manual. The purpose of the proposed amendments is to update and harmonize the rules in order to allow the relaunch of Share Futures Contracts.

The comment period ends September 19, 2016.

A copy of the CDCC Notice is published on our website at http://www.osc.gov.on.ca.

13.3.3 CDCC – Amendments to the Risk Manual for the Pricing Model on Options on Futures – OSC Staff Notice of Request for Comment

OSC STAFF NOTICE OF REQUEST FOR COMMENT

CANADIAN DERIVATIVES CLEARING CORPORATION (CDCC)

AMENDMENTS TO THE RISK MANUAL
FOR THE PRICING MODEL ON OPTIONS ON FUTURES

The Ontario Securities Commission is publishing for public comment the proposed amendments to the CDCC's risk manual. The purpose of the proposed amendments is to allow CDCC to change its pricing model in SPAN® for Options on Futures.

The comment period ends September 19, 2016.

A copy of the CDCC Notice is published on our website at http://www.osc.gov.on.ca.

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