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## **Headnote**

Mutual Reliance Review System for Exemptive Relief Applications – Relief from certain requirements of ATS Rules, including information transparency, market integration and regulation services provider agreement requirements, to allow applicant to trade debt and foreign exchange-traded securities, subject to certain conditions

## **Applicable British Columbia Provisions**

National Instrument 21-101 *Marketplace Operation*

National Instrument 23-101 *Trading Rules*

### **IN THE MATTER OF NATIONAL INSTRUMENT 21-101 MARKETPLACE OPERATION**

### **AND NATIONAL INSTRUMENT 23-101 TRADING RULES**

**AND**

### **IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS**

**AND**

### **IN THE MATTER OF BLOOMBERG TRADEBOOK CANADA COMPANY**

### **MRRS DECISION DOCUMENT**

WHEREAS the local securities regulatory authority or regulator in each of the Provinces of British Columbia, Alberta, Ontario and Quebec (each, a "Decision Maker") has received an application from Bloomberg Tradebook Canada Company ("Bloomberg Tradebook Canada") for a decision under section 15.1 of National Instrument 21-101 Marketplace Operation ("NI 21-101") and under section 12.1 of National Instrument 23-101 Trading Rules ("NI 23-101") granting Bloomberg Tradebook Canada:

- (a) an exemption from section 6.3 of NI 21-101 to permit non-Canadian debt securities to be traded through the Bloomberg Tradebook System and displayed on the Bloomberg BondTrader System;
- (b) an exemption from sections 8.1 and 8.2 of NI 21-101 to relieve Bloomberg Tradebook Canada from the transparency requirements in

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respect of debt securities until the earlier of December 31, 2003 or certain thresholds are reached;

- (c) an exemption from sections 8.1 and 8.2 of NI 21-101 to relieve Bloomberg Tradebook Canada from the transparency requirements in respect of non-Canadian debt securities until December 1, 2004;
- (d) an exemption from subsection 9.2(1) of NI 21-101 to relieve Bloomberg Tradebook Canada from the market integration requirements;
- (e) an exemption from sections 8.1 and 8.3 of NI 23-101 to relieve Bloomberg Tradebook Canada from the requirement to enter into an agreement with a regulation services provider; and
- (f) an exemption from sections 8.1 and 8.4 of NI-23-101 to relieve Bloomberg Tradebook Canada from the requirement to enter into the prescribed agreement with its subscribers.

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System") the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS Bloomberg Tradebook Canada has represented to the Decision Makers as follows:

1. Bloomberg Tradebook Canada is a Nova Scotia unlimited liability company incorporated on February 15, 2001 and is 100% owned by Bloomberg Canada LLC, a Delaware limited liability company, formed on February 1, 2001. Bloomberg Canada LLC is 100% owned by Bloomberg L.P.
2. Bloomberg Tradebook Canada is currently registered or has applied to be registered as an investment dealer in British Columbia, Alberta, Ontario and Quebec and has also applied to be a member of the Investment Dealers Association.
3. Bloomberg Tradebook Canada will offer the Bloomberg Tradebook System to brokers, investment dealers and institutional investors located in the Provinces of Ontario, British Columbia, Quebec and Alberta who represent under contractual arrangements with Bloomberg Tradebook Canada that they are an "Institutional Investor", as defined in Schedule A to this MRRS Decision Document (a "Permitted Tradebook User").

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4. The Bloomberg Tradebook System is an electronic trading system in equity and debt securities. Although approximately 90% of its activity in equity securities is limited to order-routing, it does have an internal order-matching facility which constitutes it as an alternative trading system (an “ATS”) under NI 21-101. In addition, the Bloomberg Tradebook System matches orders in debt securities.
5. Bloomberg Tradebook Canada also proposes to offer a system in Canada, which consists of an electronic bulletin board system (the “Bloomberg BondTrader System”) on which securities dealers display quotations in both Canadian government and foreign government debt securities.
6. The Bloomberg BondTrader System also has an “inquiry” function that allows customers to transmit a general and non-binding “Bid Wanted” or “Offer Wanted” notice to participating dealers that have authorized the particular customer. This part of the Bloomberg BondTrader System constitutes an ATS under NI 21-101.
7. The Bloomberg BondTrader System will be available to brokers and investment dealers who agree under contractual arrangements with Bloomberg Tradebook Canada that their use of the Bloomberg BondTrader System will comply with applicable securities laws (“Permitted Dealer Participants”) and to users, other than individuals, that
  - (a) are customers of the Permitted Dealer Participants;
  - (b) are enabled by a Permitted Dealer Participant to use the BondTrader System; and
  - (c) meet the definition of “Institutional Investor” as defined in Schedule A to this MRRS Decision Document (users meeting (a), (b) and (c) are “Permitted Customer Participants”).
8. The following non-Canadian debt securities are currently traded through the Bloomberg Tradebook System:
  - (a) corporate debt securities, and preferred and convertible securities;
  - (b) U.S. Government and agency securities, including securities issued by agencies of the U.S. Government but not backed by the full faith and credit of the U.S. Government;

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- (c) securities issued by state and local municipalities of the United States regardless of whether they are backed by the full faith and credit of the municipality;
  - (d) mortgage-backed and asset-backed securities and collateralized mortgage obligations;
  - (e) sovereign debt issued by governments and political subdivisions of countries other than the United States; and
  - (f) corporate and governmental commercial paper, certificates of deposit, bankers' acceptances, repurchase and reverse repurchase agreements and other money market instruments.
9. Section 6.3 of NI 21-101 provides that an ATS can only execute trades in the debt securities included in the definitions of "corporate debt security" and "government debt security" found in section 1.1 of NI 21-101. The definition of "corporate debt security" only includes debt securities issued in Canada by companies or corporations that are not listed on a recognized exchange or quoted on a recognized quotation and trade reporting system. Similarly, while the definition of "government debt security" includes a debt security issued by the government of any foreign country or any political division thereof, it does not include debt securities of other foreign government-like entities.
10. Section 8.1 and 8.2 of NI 21-101 impose pre-trade and post-trade transparency requirements for unlisted debt securities. These provisions require that the relevant information be provided to an information processor, as defined in NI 21-101.12.
11. Subsection 9.2(1) of NI 21-101 requires a marketplace subject to 8.1(1) to have an electronic connection to the principal market for each security traded on that marketplace.
12. For securities listed on the Toronto Stock Exchange (TSX), Bloomberg Tradebook Canada satisfies subsection 9.2(1) as it routes orders, via the Bloomberg Tradebook System, to the TSX. If Bloomberg Tradebook Canada or the Bloomberg Tradebook System matched TSX orders internally, or if the TSX was no longer the principal market for TSX securities, Bloomberg Tradebook Canada would no longer comply with this subsection.
13. Section 8.1 of NI 23-101 prohibits an ATS from executing a subscriber's order unless the ATS has executed and is subject to the written agreements in sections 8.3 and 8.4 of NI 23-101.

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14. Bloomberg Tradebook Canada has requested an exemption from section 8.3 of NI 23-101 which requires an ATS to enter into an agreement with a regulation services provider. Bloomberg Tradebook Canada will enter into an agreement with Market Regulation Services Inc. with respect to exchange-traded securities that are routed to recognized exchanges or exchanges that are recognized for the purposes of NI 21-101 and NI 23-101.
15. The exemption from the requirement to contract with a regulation services provider for foreign exchange-traded securities means that the subscribers of Bloomberg Tradebook Canada will not be complying with the requirements of a recognized exchange, recognized quotation and trade reporting system or a regulation services provider with respect to trades in those securities. Consequently, the exemption provided in section 2.1 of NI 23-101 is not applicable and Parts 3, 4 and 5 of NI 23-101 apply.

AND WHEREAS pursuant to the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);

AND WHEREAS each of the Decision Makers are satisfied that the test contained in NI 21-101 and NI 23-101 that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers is that Bloomberg Tradebook Canada is:

- (a) exempt from section 6.3 of NI 21-101 in respect of trading non-Canadian debt securities through the Bloomberg Tradebook System and on the Bloomberg BondTrader System

PROVIDED THAT:

- (i) the Bloomberg Tradebook System is only made available to Permitted Tradebook Users; and
  - (ii) the Bloomberg BondTrader System is only made available to Permitted Dealer Participants and Permitted Customer Participants;
- (b) exempt from the requirements of sections 8.1 and 8.2 of NI 21-101 in respect of Canadian debt securities until the earlier of:
- (i) December 31, 2003; and

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- (ii) the date when the total trading volume on Bloomberg Tradebook Canada (including the Bloomberg BondTrader System) in any of the following categories in at least three of the preceding four calendar quarters exceeds 5% of the total aggregate trading in such securities by all ATs, inter-dealer bond brokers and dealers for such calendar quarter, as determined by staff of the Ontario Securities Commission:
  - A. Canadian government debt securities - 0-3 years;
  - B. Canadian government debt securities - 3-10 years;
  - C. Canadian government debt securities - 10 years and over;
  - D. provincial government debt securities - 0-10 years;
  - E. provincial government debt securities - 10 years and over;
  - F. Canadian corporate debt securities – 0-10 years;
  - G. Canadian corporate debt securities - 10 years and over;
- (c) exempt from the requirements of sections 8.1 and 8.2 of NI 21-101 in respect of non-Canadian debt securities until December 1, 2004;
- (d) exempt from subsection 9.2(1) of NI 21-101 with respect to trades of
  - (i) foreign exchange-traded securities; and
  - (ii) non-Canadian debt securities;
- (e) exempt from sections 8.1 and 8.3 of NI 23-101 with respect to foreign exchange-traded securities, provided that Bloomberg Tradebook Canada routes the subscriber orders via the Bloomberg Tradebook System to marketplaces subject to regulatory oversight by either an IOSCO member or a self-regulatory organisation that is regulated by an IOSCO member;
- (f) exempt from section 8.4 of NI 23-101 with respect to foreign exchange-traded securities, provided that Bloomberg Tradebook Canada enters into an agreement with its subscribers and includes as part that agreement an acknowledgment by subscribers that orders routed via the Bloomberg Tradebook System to foreign marketplaces will not be regulated by a

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regulation services provider but by the regulatory body in the jurisdiction to which the order is routed.

DATED this 6<sup>th</sup> day of September, 2002.

Randee B. Pavalow

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## SCHEDULE A

In this Decision Document, “Institutional Investor” means:

- (a) a bank listed in Schedule I or II of the *Bank Act* (Canada), or an authorized foreign bank listed in Schedule III of that Act;
- (b) the Business Development Bank incorporated under the *Business Development Bank Act* (Canada);
- (c) a loan corporation, trust corporation, savings company or loan and investment society registered under the *Loan and Trust Corporations Act* (Ontario) or under the *Trust and Loan Companies Act* (Canada), or under comparable legislation in any other province of Canada;
- (d) a co-operative credit society, credit union central, federation of caisses populaires, credit union or league, or regional caisse populaire, or an association under the *Cooperative Credit Associations Act* (Canada), in each case, located in Canada;
- (e) a company licensed to do business as an insurance company in a province of Canada;
- (f) a subsidiary of any company referred to in paragraph (a), (b), (c), (d) or (e), where the company owns all of the voting shares of the subsidiary;
- (g) a federation within the meaning of the *Act respecting Financial Services Cooperatives* (Quebec);
- (h) the Caisse centrale Desjardins du Québec established under the *Act respecting the Movement des Caisses Desjardins* (Quebec);
- (i) a person or company registered under the securities legislation of the applicable province of Canada as an adviser or dealer, other than a limited market dealer;
- (j) the government of Canada or of any jurisdiction, or any crown corporation, instrumentality or agency of a Canadian federal, provincial or territorial government;
- (k) any Canadian municipality or any Canadian provincial or territorial capital city;



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- (l) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any instrumentality or agency thereof;
- (m) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a provincial pension commission or similar regulatory authority;
- (n) a registered charity under the *Income Tax Act* (Canada);
- (o) a company, limited partnership, limited liability partnership, trust or estate, other than a mutual fund or non-redeemable investment fund, that had net assets of at least Cdn.\$5,000,000 as reflected in its most recently prepared financial statements;
- (p) a person or company, other than an individual, that is recognized by the British Columbia, Alberta or Ontario Securities Commission as an “exempt purchaser” or “accredited investor” or by the Commission des valeurs mobilières du Québec as a “sophisticated purchaser”;
- (q) a mutual fund or non-redeemable investment fund that, in the applicable province of Canada, distributes its securities only to persons or companies that are accredited investors;
- (r) a mutual fund or non-redeemable investment fund that, in the applicable province of Canada, distributes its securities under a prospectus for which a receipt has been granted;
- (s) an account that is fully managed by a registered portfolio manager or an entity listed in paragraphs (a), (c), (d) or (e);
- (t) an entity organized outside of Canada that is analogous to any of the entities referred to in paragraphs (a) through (f) and paragraph (m) in form and function; and
- (u) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, are persons or companies that are Institutional Investors; provided that:
  - (i) two or more persons who are the joint registered holders of one or more securities of the issuer shall be counted as one beneficial owner of those securities; and

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- (ii) a corporation, partnership, trust or other entity shall be counted as one beneficial owner of securities of the issuer unless the entity has been created or is being used primarily for the purpose of acquiring or holding securities of the issuer, in which event each beneficial owner of an equity interest in the entity or each beneficiary of the entity, as the case may be, shall be counted as a separate beneficial owner of those securities of the issuer.