Notice of
Proposed amendments to National Instrument 21-101 *Marketplace Operation*
and Companion Policy 21-101CP

and

National Instrument 23-101 *Trading Rules*
and Companion Policy 23-101CP

I. INTRODUCTION

The Canadian Securities Administrators (the CSA or we) are publishing proposals for comment that would amend National Instrument 21-101 *Marketplace Operation* (NI 21-101), National Instrument 23-101 *Trading Rules* (NI 23-101) (together, the ATS rules), Companion Policy 21-101 CP and Companion Policy 23-101CP. We are also publishing for comment amendments to Form 21-101F2 *Initial Operation Report Alternative Trading System* and amendments to Form 21-101F5 *Initial Operation Report for Information Processor* (together, the Forms). The Alberta Securities Commission, Autorité des marchés financiers, Manitoba Securities Commission and Ontario Securities Commission are publishing the amendments (Proposed Amendments) at this time. Other jurisdictions may be publishing at a later date. The comment period for all jurisdictions will end on October 12, 2006.

II. BACKGROUND

The purpose of the ATS Rules is to create a framework that permits competition among marketplaces[1], while ensuring that trading is fair and efficient.[2]

The regulatory objectives are:

- to provide investor choice as to execution methodologies or types of marketplaces;
- to improve price discovery;
- to decrease execution costs; and
- to improve market integrity.

The ATS Rules were finalized in 2001 and set out:

1. A framework that outlines how marketplaces are authorized to do business and how they are regulated;

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[1] Marketplaces are exchanges, quotation and trade reporting systems and alternative trading systems (ATSs).
[2] See Notices for background at (1999), 22 OSCB (ATS Supp), (2001), 24 OSCB (Supp) and (2003), 26 OSCB 4377.

2. Requirements relating to data transparency and market integration to minimize any negative impact of having multiple markets trading the same securities; and

3. Market regulation rules.

In 2003, the ATS Rules were amended as follows:

- Based on the recommendations of an industry committee (industry committee) formed to review data consolidation and market integration in the equity markets, we deleted the concept of a data consolidator and a market integrator for equity securities to promote a market-driven solution to consolidation in the equity markets;
- An exemption from the pre-trade and post-trade transparency requirements for marketplaces and inter-dealer bond brokers (IDBs) trading in government fixed income securities was granted until December 31, 2006;
- Transparency requirements were clarified for corporate fixed income securities as follows: marketplaces were required to provide pre-trade information and marketplaces, IDBs and dealers were required to provide trade information to an information processor; and
- An exemption from the requirements placed on dealers and IDBs to record and report in electronic form certain information regarding orders and trades was granted until December 31, 2006 to allow for the development of appropriate standards and technology solutions.

The exemptions from the transparency requirements for government debt securities and from the electronic audit trail requirements will expire on December 31, 2006. The expiry of these exemptions, along with the emergence of multiple marketplaces, have created the need to make amendments to clarify the ATS Rules.

The topics discussed in this Notice are set out as follows in Part IV below:

A. Transparency for government debt securities
B. Transparency for corporate debt securities
C. Designated fixed income securities
D. Electronic audit trail requirements
E. Clarification of best execution and other obligations in a multiple marketplace environment
F. Requirements for and status of information processors for debt and equity
G. Other amendments

III. SUMMARY OF THE REQUIREMENTS TO BE AMENDED

The relevant requirements in the ATS Rules as of December 31, 2003 (2003 ATS Rules) that are being amended at this time are summarized below as background for the proposed changes.

1. Equity Securities

(i) Transparency

The ATS Rules set out pre-trade and post-trade transparency requirements for marketplaces that trade exchange-traded securities and foreign exchange-traded securities.[3] All marketplaces are currently required to provide order and trade information to an information processor, or if there is no information processor, to an information vendor.

(ii) Market Integration

In 2003, based on the recommendations of an industry committee, we amended the ATS Rules to delete the concept of a market integrator and explained that we would focus instead on ensuring compliance with best execution requirements for dealers and fair access requirements for marketplaces.

2. Government Debt Securities and Corporate Debt Securities

(i) Transparency

The 2003 ATS Rules require marketplaces and inter-dealer bond brokers (IDBs) to provide order and trade information on designated government debt securities to an information processor in real-time.[4] However, the IDBs and existing ATSs executing trades of government debt securities have been exempted from the pre-trade and post-trade transparency requirements until December 31, 2006.[5]

For corporate debt securities, marketplaces are required to provide order information to an information processor.[6] In addition, marketplaces, IDBs, and dealers executing trades outside of a marketplace are required to provide to an information processor trade information regarding designated corporate debt securities within one hour of the trade, subject to volume caps of $2 million for investment grade corporate debt securities and $200,000 for non-investment grade corporate debt securities.[7] On August 27, 2003, the CSA designated CanPX as an approved information processor for corporate fixed income securities. Since May 2004, marketplaces and dealers that have achieved a market share of 0.5% of total corporate bond trading over a specific period have been required to provide trade data on designated corporate debt instruments to CanPX.[8]

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[3] NI 21-101, Part 7.
[4] NI 21-101, subsections 8.1(1), 8.1(2), 8.1(3), 8.1(4) and 8.1(5) and Companion Policy 21-101CP, subsection 10.1(2).
[5] Companion Policy 21-101CP, subsection 10.1(1).
[6] NI 21-101, subsection 8.2(1).
[7] NI 21-101, subsections 8.2(3), 8.2(4) and 8.2(5) and Companion Policy 21-101CP, subsections 10.1(3), 10.1(4), 10.1(5), 10.1(6) and 10.1(7).
[8] IDA Bulletin #3289 released May 19, 2004.

3. Electronic Audit Trail Requirements

Part 11 of NI 23-101 and Part 8 of the Companion Policy 23-101CP deal with the audit trail requirements. NI 23-101 imposes obligations on dealers and IDBs to record and report in electronic form certain information regarding orders and trades. The 2003 ATS Rules included an exemption from these requirements until December 31, 2006 to allow the development of the appropriate standards and technology solutions.

IV. SUBSTANCE AND PURPOSE OF THE PROPOSED AMENDMENTS

Over the last three years, CSA staff have been working on the following initiatives that relate to the ATS Rules:

- consultations with various industry participants including the Bond Market Transparency Committee to look at the appropriate levels of transparency for government debt securities and corporate debt securities;
- development of the implementation process for electronic audit trail requirements with self-regulatory organizations (SROs);[9] and
- approvals of new marketplaces, which included consideration of the impact of those marketplaces on existing rules and practices.

The Proposed Amendments, which are attached and also summarized below, are the results of these initiatives.

We have also been working on a number of other initiatives including trade-through, best execution and access requirements. We will be proposing subsequent amendments to the ATS Rules to deal with any changes as a result of our review of trade-through and best execution.

A. Transparency for Government Debt Securities

During the last few years, a CSA staff group met with various stakeholders including: staff of the Bank of Canada and the Federal Department of Finance; members of the Interdealer Brokers Association (IDBA); issuers of government fixed income securities; retail bond desk representatives of the large dealers; the Bond Market Association; the Financial Services Authority of the U.K.; and the U.S.'s National Association of Securities Dealers (NASD) staff.

The purpose of the meetings was to get an understanding of market developments in both domestic and international markets; to discuss issues surrounding fixed income markets; and to get an understanding of the fixed income information available for market participants, as well as their information needs.

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[9] Participating SROs working with the CSA are the IDA, RS Inc., Bourse de Montréal, and the Mutual Fund Dealers Association of Canada.

In the process, meeting participants discussed developments in domestic debt markets, such as the growth of ATSs and various market-initiated ventures designed to enhance transparency in Canadian fixed-income markets, such as the dissemination of fixed income information by ATSs. Meeting participants also discussed developments in foreign debt markets, including transparency initiatives, both industry-led and regulator driven, most significantly, through NASD's Trade Reporting and Compliance system (TRACE).[10]

Other topics discussed in the meetings included other regulatory initiatives that are related to debt market transparency, such as Trade Reporting and Electronic Audit Trail Standards (TREATS), trade-through rules, best execution, and IDA Policy 5.

As a result of these meetings, we have concluded that, while transparency has generally increased, issues regarding pricing for retail customers still exist, and that it is difficult to monitor compliance with other requirements applicable to the fixed income markets (for example, best execution or fair pricing) without a single source of reported and disseminated information for government fixed income securities. Feedback from industry participants also reinforced that, regardless of the transparency decisions, it is important that there be a level-playing field amongst market participants such as IDBs, marketplaces and dealers.

Some discussions also addressed issues relating to information sources and types of information that market participants find most useful, as well as the need for an information processor. The industry participants' responses regarding the information sources varied: some relied on dealer screens, some on ATSs, CanPX, or on multiple sources, depending on their needs. Some thought that the existing pricing sources are sufficient, while others noted that they have limitations, such as lack of broader coverage of the bond market. While many believe that indicative pricing may be most useful for price discovery, they also expressed concern about requiring the publication of such information.

CSA staff asked the following questions: 1) what, if any, should be the optimal level of transparency; 2) what would be the downside of increased transparency; and 3) who should be required to report fixed income information. While some industry participants thought that the current levels of transparency were adequate for institutional customers, others thought that mandatory transparency would be helpful because it promotes the consistency and integrity of information made available to the public. It was also clear that most thought that if a decision was made to increase transparency, an incremental approach should be taken.

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[10] TRACE is the NASD's system for reporting and disseminating trade information for corporate bonds. On December 28, 2005, the SEC approved amendments to Rule 6240 of the Rule 6200 Series (TRACE rules), that provide that information on transactions in TRACE-eligible securities be disseminated immediately upon receipt, with a few exceptions. The amendments became effective on January 9, 2006 and TRACE now disseminates trade information for virtually all transactions in corporate debt securities, immediately upon receipt of the reported information.

CSA staff identified four options regarding transparency of government fixed income securities, as follows:

1) Adopt a gradual, phased-in approach for achieving transparency by: mandating transparency for marketplaces and IDBs for benchmark government debt securities, subject to certain limitations such as volume caps;
2) Extend the current exemption in NI 21-101 for five years;
3) Require full transparency for all securities and all market participants; and
4) Give a permanent exemption from transparency requirements.

These options and our recommended approach are described below.

1. Proposed approach - phased-in approach for transparency

We are proposing the following approach: marketplaces and IDBs would be required to report order and trade information for designated benchmark government debt securities to an information processor (or, in the absence of an information processor, to an information vendor that meets the applicable standards).[11] Order information would be reported in real time and trade information within one hour from the time of the trade. The information displayed would be subject to volume caps of $10 million for fixed income securities issued or guaranteed by the government of Canada, and $2 million for all other government debt securities.[12]

This approach, consistent with that currently taken by dealers trading in corporate debt securities, would allow for a phased-in approach for transparency as information would be reported for designated government debt securities and would be disseminated subject to volume caps. The number of benchmark securities and the size of the volume caps could change over time. This would give the industry time to adapt and assess the impact of transparency. We also believe that mandating transparency for benchmark government debt securities may have a beneficial "spill-over" effect for other government debt securities and would eventually lead to greater overall transparency. We do not expect that the costs associated with the implementation of these requirements would be significant since certain market participants (i.e. the IDBs) already have systems in place that allow them to provide order information for government bonds to CanPX on a voluntary basis.

2. Alternatives considered

a. Extension of exemption

We have considered extending the current exemption in NI 21-101 until December 31, 2011 and providing guidance on our expectations regarding the level of transparency at the end of the period. This approach would allow the industry to take the lead in achieving transparency, but would communicate clearly that market developments will be

[11] Proposed amendments to NI 21-101, subsections 8.1(1), 8.1(3), 8.1(4), 8.1(5) and proposed amendments to Companion Policy 21-101CP, subsections 10.1(1) and 10.1(2).
[12] Proposed amendments to Companion Policy 21-101CP, subsection 10.1(2)(b).

monitored and that there will be regulatory intervention if the levels of transparency achieved at the end of the exemption period are insufficient. We are concerned, however, that if this approach is taken, the current situation where dealers, IDBs and marketplaces all report different fixed income information would continue. Since there is no assurance regarding the integrity of data reported and disseminated, market participants would continue to have unequal access to this information, which could create compliance issues for SROs and regulators. We are also concerned that the lack of mandatory transparency would cause certain market participants to stop providing information on a voluntary basis.

b. Full transparency

One option we considered was requiring full transparency for all fixed income securities and all market participants. Although this would ensure equal access to government bond market information for all market participants and would be easier to monitor for compliance, we are concerned that it could adversely impact liquidity.

c. Permanent Exemption

Finally, we considered extending the current exemption from the transparency requirements for government fixed income securities permanently. Some have argued that market participants are already motivated by commercial interests to provide quote and trade information to information processor or information vendors and thus believed that increased transparency might occur as part of the natural evolution of bond markets. However, we believe that, without any regulatory intervention or guidance, the information provided voluntarily by market participants would continue to be inconsistent in quality and quantity, and unequal access to bond information by market participants would continue.

Specific Request for Comment

Question #1:

> **Should there be a mandatory requirement to report and disseminate information related to designated government debt securities? What are the benefits and disadvantages of this and the alternative approaches?**

Question #2:

> **Should dealers be subject to order and/or trade transparency requirements for government fixed income securities? If so, should they be required to report order information, trade data or both?**

Question #3:

> **What type of pre-trade information should be disseminated? Should it include indications of interest?**

Question #4:

Are the reporting timelines appropriate – i.e. order information in real time and trade information within one hour of the time of the trade?

Question #5:

Are the volume caps applicable to government fixed income securities set out in the Companion Policy to NI 21-101 adequate? Should there be further tiering of volume caps for the different types of government bond securities?

B. Transparency for Corporate Debt Securities

The current transparency requirements for corporate fixed income securities set out in NI 21-101 are different than those applicable to government debt securities. Specifically, while IDBs and ATSs are required to provide both order and trade information for government debt securities to an information processor,[13] NI 21-101 only requires marketplaces to report order information for corporate bond securities to the information processor[14] and marketplaces, IDBs and dealers to report corporate bond trade information.[15] We will maintain the requirements with respect to the corporate debt securities. Specifically, marketplaces, IDBs and dealers would continue to be required to provide post-trade information regarding designated corporate debt securities to an information processor, subject to volume caps (within one hour of the trade).[16]

Specific Request for Comment

Question #6:

Should we require pre-trade transparency for corporate fixed income securities? If so, should the requirements be applicable to marketplaces only or should they also apply to dealers?

Question #7:

Should the time for reporting the trades be reduced (for example, should all trades be reported and disseminated in real time)?

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[13] NI 21-101, section 8.1.

[14] Currently, the information processor does not require reporting of order information.

[15] NI 21-101, section 8.2.

[16] Proposed amendments to NI 21-101, subsection 1.1(6) and proposed 8.2(3), 8.2(4), 8.2(5) and proposed amendments to Companion Policy 21-101CP, subsection 10.1(3).

C. Designated Fixed Income Securities

Currently, CanPX requires certain marketplaces and dealer to report trade information for designated corporate fixed income securities.[17] These designated securities are highly liquid, represent all major industrial groups of issuers, different maturity terms, and cover a majority of trade flow within the corporate bond markets. For these reasons, they are considered the corporate debt securities of broader interest to retail investors.

CanPX is also responsible for selecting the designated corporate fixed income securities, based on input from members of the IDA's Capital Markets Committee. The process for selection of corporate bond securities for inclusion takes place on a quarterly basis, and CanPX is also responsible for communicating this list to its subscribers. Over time, the number of designated corporate debt securities has more than doubled, with 50 corporate bond securities currently being reported.[18]

The Canadian securities regulatory authorities expect that, for government fixed income securities, the information processor would also designate securities representative of the government fixed income market. For example, in order to help ensure that a level of transparency that is useful to investors is achieved, the most liquid government bond securities would qualify as designated securities.

Specific Request for Comment

Question #8:

> **Has the process for designating benchmark corporate fixed income securities been effective? Please explain your response.**

Question #9:

> **Has there been sufficient progress, both regulatory and industry-driven, regarding fixed income transparency to date? For retail investors? For large and small institutional investors?**

D. Electronic Audit Trail Requirements

Background

In June 2003, the CSA formed the Industry Committee on Trade Reporting and Electronic Audit Trail Standards (TREATS Committee), to review the appropriate standards for data consolidation and the electronic audit trail requirements. On July 26,

[17] IDA Bulletin #3289 released May 19, 2004.

[18] The most recent list of designated corporate bond securities can be found at http://www.canpx.ca/selectioncriteria.jsp.

2004, the TREATS Committee submitted a report providing its recommendations (TREATS Report).[19] Based on the TREATS Report, the CSA joined with Market Regulation Services Inc. (RS), the Bourse de Montréal Inc. (Bourse), the Investment Dealers Association of Canada (IDA) and the Mutual Fund Dealers Association of Canada (MFDA) (together, the Regulators) to investigate, design and implement a solution to facilitate compliance with the audit trail requirements introduced in NI 23-101.

In April 2004, the Regulators selected a consultant to prepare documentation to identify and further clarify the high-level requirements for the Regulators' facility for requesting and receiving audit trail information from dealers and marketplaces. These high-level requirements formed the basis of a Request for Information (RFI) that was used to solicit recommendations on how best to fulfill the objectives of TREATS from both technical and operational perspectives. The RFI process officially concluded in December, 2004.

After considering the recommendations of the TREATS Committee as set out in the TREATS Report, and the responses to the RFI, the Regulators developed more detailed requirements for the electronic facility, and decided to replace the existing Standard Electronic Client Transaction Reporting System (SELECTR) data format specification and the associated REGNET system used by some of the Regulators.

In December 2005, the Regulators also determined that it would be appropriate to defer the inclusion of mutual funds from the scope of the TREATS initiative to a future date, having regard to such factors as the significant differences in the manner in which mutual funds are traded as compared to other categories of securities. As a result of the Regulators' decision to defer inclusion of mutual funds in the TREATS initiative, the MFDA did not participate directly in the Request for Proposal (RFP) process.

The TREATS project includes the following tasks:

1. Developing a facility to communicate, validate and track reporting requests (responsibility of Regulators);
2. Establishing technology requirements of the interfaces between the facility and Regulators as well as between the facility and dealers (responsibility of Regulators);
3. Identifying "Automatic" and "On-Request" Business Use Cases (responsibility of Regulators); and
4. Implementing recording and business processes that will enable dealers to respond to Regulators' requests (responsibility of dealers and marketplaces).[20]

[19] The Report is found at Appendix A to CSA Staff Notice 23-302 – Joint Regulator Notice – Electronic Audit Trail Initiative (TREATS) published on April 15, 2005 at (2005) 28 OSCB 3561.

[20] On March 17, 2006, a Joint CSA-SRO Notice entitled "Status of the Transaction Reporting and Electronic Audit Trail System (TREATS)" was published in Volume 29, Issue 11 of the OSC Bulletin, and summarizes the key developments in the project.

The RFP addressed the first two tasks and was issued on March 13, 2006.[21] It is intended to solicit firm proposals from suppliers to address the business and technical requirements for the TREATS solution and to provide information that will help the Regulators in their selection process and the decision whether to move forward with this initiative.

The Regulators, with the assistance of a consultant, have been meeting with representatives from dealers, marketplaces and service providers to establish and confirm documentation of data modeling to assist the Regulators' and market participants' efforts to achieve the objectives of TREATS. One of the purposes of the data modeling has been to confirm the information that must be electronically recorded and available.

Responses to the RFP have been received. Some data modeling remains and it is our intention to complete the preliminary work by September 2006. After it is completed, it is expected that a cost benefit analysis will be done. The decision whether to proceed with building the facility and the steps going forward will depend upon the results of the data modeling and the cost benefit analysis conducted by the Regulators. This decision will likely take place in the fall of 2006, however, the timelines and steps may change.

The date for implementation of the requirements set out in NI 23-101 needs to be amended to reflect the above timelines and remaining data modeling work. Although the CSA will be involved in any decision concerning TREATS, the rule has been amended to specifically provide for implementation by the SROs to allow for a more flexible implementation approach without requiring additional rule-making. For these reasons, and to clarify some of the current record keeping responsibilities, NI 23-101 has been amended as follows:

1. The reference in subsection 11.2(6) to January 1, 2007 has been changed to January 1, 2010;
2. An exemption has been provided to dealers and IDBs complying with similar electronic audit trail requirements that are established by a regulation services provider and approved by the applicable securities regulatory authority to provide flexibility for implementation;[22]
3. A ten business day time period to transmit information as required by a securities regulatory authority or a regulation services provider has been set out;[23]
4. The scope of the applicable securities has been changed to allow for a phase-in of requirements;
5. A seven-year record preservation requirement, similar to existing requirements on marketplaces in NI 21-101 has been added;[24] and
6. Order marker references have been changed to correspond with requirements of a regulation services provider.[25]

[21] The RFP can be found at Market Regulation / Special Projects / TREATS on the OSC web site.
[22] Proposed amendments to NI 23-101, subsection 11.2(8)
[23] Proposed amendments to NI 23-101 subsection 11.2(5).
[24] Proposed amendments to NI 23-101, subsection 11.2(7).
[25] Proposed amendments to NI 23-101, subsection 11.2(1) (s).

E. Clarification of Best Execution and Other Obligations in a Multiple Marketplace Environment

When the ATS Rules came into force in 2001, we postponed the implementation of the requirement that pre-trade and post-trade information be sent to a data consolidator because of the cost of developing the data consolidator and the uncertainty with respect to how the market would develop. We also postponed market integration to see how many new marketplaces would develop before making a commitment to a particular solution for integration.

We struck an industry committee to review data consolidation and market integration for the equity markets.[26] In 2003, based on the recommendations of the industry committee, we deleted the data consolidation and market integration requirements for exchange-traded securities from the ATS Rules and required instead that, in the absence of an information processor, marketplaces must send information on orders and trades for equities to an information vendor that meets the standards set by the regulation services provider. While we acknowledged that transparency and access to marketplaces are key elements to reducing the impact of fragmentation, we accepted the industry's view that a data consolidator or market integrator may not be necessary. The focus was shifted to ensuring compliance with best execution requirements for dealers and fair access requirements for marketplaces (which would make the information available through the information vendors). The CSA confirmed its expectations in section 11.5 of Companion Policy NI 21-101CP:

> Although the Canadian securities regulatory authorities have removed the concept of a market integrator, we continue to be of the view that market integration is important to our marketplaces. We expect to achieve market integration by focusing on compliance with fair access and best execution requirements. We will continue to monitor developments to ensure that the lack of a market integrator does not unduly affect the market.

We remain of the view that availability of pre-trade and post-trade information is essential to facilitate best execution and market integrity, especially with multiple marketplaces trading the same securities. Under current requirements, dealers should be taking into consideration information from all marketplaces trading the same securities and taking steps to access orders. This is consistent with the views expressed in the industry committee report that "pre-and post-trade data consolidation is necessary in Canada amongst marketplaces offering execution on the same securities". Although our review of trade-through and best execution generally is ongoing, we believe that it is important to clarify our expectations on this particular issue. As a result, we propose to amend the Companion Policy to NI 23-101 by adding the following section:

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[26] The report of the industry committee is dated March 2, 2003 and was published on June 13, 2003 at (2003) 26 OSCB 4385.

In order to meet best execution obligations, we expect that a dealer will take into account order information from all marketplaces where a particular security is traded (not just marketplaces where a dealer is a participant) and take steps to access orders, as appropriate. This may include making arrangements with another dealer who is a participant of a particular marketplace or routing an order to a particular marketplace, where appropriate.[27]

F. Requirements for and Status of Information Processors for Debt and Equity

1. Equity

As set out above, based on the recommendations of the industry committee, in the amendments to the ATS Rules we made in 2003 we required that information on orders and trades for exchange-traded securities be sent to an information vendor. Although there would not be a data consolidator, use of consolidated data was still expected. The following key objectives of data consolidation were set out in the industry committee report:

- Provide visibility and transparency to all key stakeholders of continuous marketplaces' pre- and post-trade information;
- Facilitate best execution while allowing flexible trading methodologies;
- Facilitate effective market regulation and market integrity;
- Minimize additional costs to the investment community; and
- Allow key stakeholders to utilize existing technology capabilities and commercial relationships.

Currently, there is no information processor for equity securities. However, we continue to believe that consolidation of data is important to address best execution and market integrity issues, especially in a multiple marketplace environment. Now that we have seen the emergence of multiple marketplaces, we may need to re-visit the issue of whether a market-driven solution to data consolidation is sufficient. However, at this time, we believe that an information processor would ensure that a central source of consolidated data that is consistent and meets the standards approved by the regulators exists and encourage any interested parties to apply as an information processor for the purpose of consolidating pre-trade and post-trade information for the equity markets. We are publishing with this Notice a separate notice to request that interested parties apply as an information processor for equity securities.

2. Debt

The 2003 ATS Rules retained transparency and data consolidation requirements for corporate debt securities, for which CanPX had recently been approved as the

[27] Proposed amendments to Companion Policy 23-101CP, subsection 4.1(8).

information processor. Government debt securities, however, were exempted from the transparency (and, therefore, data consolidation) requirements until December 31, 2006.

We note that CanPX's approval as the information processor for the debt markets expires on December 31, 2006. To the extent that transparency of more debt securities, including government debt securities, is phased in, the importance of having a robust system increases. While we will be considering extending CanPX's approval, we are publishing with this Notice a separate notice to invite other entities that are positioned for the role to apply.

G. Other Amendments

There are a number of other amendments that we have made to the ATS Rules. Most of them are being made to clarify the existing provisions. They are summarized below:

1. NI 21-101

- amendments to the definition of a "government debt security" for consistency with definitions in existing legislation;[28]

- clarification that the dealer registration exemptions are not available to an ATS because it is also a marketplace and different considerations apply;[29]

- amendment to post-trade information requirements to refer to "trades" to correct a clerical error;[30]

- deletion of the section exempting exchange-traded securities that are options or foreign exchange-traded securities that are options until January 1, 2007 so that transparency requirements will apply;[31]

- addition of section setting out the obligations of an information processor[32]

- addition of a section for a marketplace to comply with the requirements of an information processor;[33]

- amendments to conform marketplace recordkeeping requirements with dealer requirements;[34] and

[28] Proposed amendments to NI 21-101, section 1.1
[29] Proposed amendments to NI 21-101, section 6.2 and Companion Policy 21-101CP, subsection 3.4(6).
[30] Proposed amendments to NI 21-101, sections 7.2 and 7.4.
[31] Proposed amendments to NI 21-101, section 7.5 and Companion Policy 21-101CP, subsection 9.1(5).
[32] Proposed amendments to NI 21-101, section 7.6.
[33] Proposed amendments to NI 21-101, section 7.7.
[34] Proposed amendments to NI 21-101, sections 11.2(2) and 11.2(3).

- addition of a section to require a marketplace to publish technology requirements for two months prior to operating and to provide testing facilities for one month prior.[35]

2. Forms 21-101F1, 21-101F2, 21-101F3, 21-101F4, 21-101F5 and 21-101F6

- amendments to Form 21-101F2 Initial Operation Report for Alternative Trading System to clarify the information required about clearing and settlement[36]

- amendments to Form 21-101F5 Initial Operation Report for Information Processor dealing with corporate governance, systems and operations, fees and the selection of securities reported to the information processor[37]

3. Companion Policy 21-101CP

- clarification that marketplace information must include identification of the marketplace and other relevant information[38]

4. NI 23-101

- clarification of jurisdictions that have provisions in their legislation that deal with manipulation and fraud and are not subject to the manipulation and fraud provisions in NI 23-101[39]

- clarification that a regulation services provider monitors the conduct of members of a recognized exchange or recognized quotation and trade reporting system and not the conduct of the recognized exchange or recognized quotation and trade reporting system[40]

5. Companion Policy 23-101CP

- clarification of best execution obligations of a dealer to take into consideration order information from all marketplaces and take steps to access orders[41]

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[35] Proposed amendments to NI 21-101, section 12.3.
[36] Proposed amendments to Form 21-101F2, Exhibit G.
[37] Proposed amendments to Form 21-101F5, Parts 1, 2, 4, 6.
[38] Proposed amendments to Companion Policy 21-101CP, section 9.1(2).
[39] Proposed amendments to NI 23-101, subsection 3.1(2), Companion Policy 23-101CP, section 2.1 and subsection 3.1(2).
[40] Proposed amendments to NI 23-101, subsections 7.2(a) and 7.4(a).
[41] Proposed amendments to Companion Policy NI 23-101CP, subsection 4.1(8)

V. SPECIFIC REQUESTS FOR COMMENTS

In summary, we specifically request comment on the following issues:

Question #1:

> Should there be a mandatory requirement to report and disseminate information related to designated government debt securities? What are the benefits and disadvantages of this and the alternative approaches?

Question #2:

> Should dealers be subject to order and/or trade transparency requirements for government fixed income securities? If so, should they be required to report order information, trade data or both?

Question #3:

> What type of pre-trade information should be disseminated? Should it include indications of interest?

Question #4:

> Are the reporting timelines appropriate – i.e. order information in real time and trade information within one hour of the time of the trade?

Question #5:

> Are the volume caps applicable to government fixed income securities set out in the Companion Policy to NI 21-101 adequate? Should there be further tiering for the different types of government bond securities?

Question #6:

> Should we require pre-trade transparency for corporate fixed income securities? If so, should the requirements be applicable to marketplaces only or should they also apply to dealers?

Question #7:

> Should the time for reporting the trades be reduced (for example, should all trades be reported and disseminated in real time)?

Question #8:

> Has the process for designating benchmark corporate fixed income securities been effective? Please explain your response.

Question #9:

> Has there been sufficient progress, both regulatory and industry-driven, regarding fixed income transparency to date? For retail investors? For large and small institutional investors?

VI. AUTHORITY FOR THE PROPOSED AMENDMENTS

In those jurisdictions in which the Proposed Amendments are to be adopted, the securities legislation provides the securities regulatory authority with rule-making or regulation-making authority in respect of the subject matter of the Proposed Amendments.

In Ontario, the proposed amendments to NI 21-101 and the Forms are being made under the following provisions of the *Securities Act* (Ontario) (Act):

- Paragraph 143(1)1 of the Act authorizes the Commission to make rules prescribing requirements in respect of applications for registration and the renewal, amendment, expiration or surrender of registration and in respect of suspension, cancellation or reinstatement of registration.

- Paragraph 143(1)2 authorizes the Commission to make rules prescribing categories or sub-categories of registrants, classifying registrants into categories or sub-categories and prescribing the conditions of registration or other requirements for registrants or any category or sub-category.

- Paragraph 143(1)7 authorizes the Commission to make rules prescribing requirements in respect of the disclosure or furnishing of information to the public or the Commission by registrants.

- Paragraph 143(1)10 authorizes the Commission to make rules prescribing requirements in respect of the books, records and other documents required by subsection 19(1) of the Act to be kept by market participants (as defined in the Act), including the form in which and the period for which the books, records and other documents are to be kept.

- Paragraph 143(1)11 authorizes the Commission to make rules regulating the listing or trading of publicly traded securities including requiring reporting of trades and quotations.

- Paragraph 143(1)12 authorizes the Commission to make rules regulating recognized stock exchanges, recognized self-regulatory organizations, and recognized quotation and trade reporting systems including prescribing requirements in respect of the review or approval by the Commission of any by-law, rule, regulation, policy, procedure, interpretation or practice.

- Paragraph 143(1)13 authorizes the Commission to make rules regulating trading or advising in securities to prevent trading or advising that it is fraudulent, manipulative, deceptive or unfairly detrimental to investors.

- Paragraph 143(1)39 authorizes the Commission to make rules requiring or respecting the media, format, preparation, form, content, execution, certification, dissemination and other use, filing and review of all documents required under or governed by the Act, the regulation or the rules and all documents determined by the regulations or the rules to be ancillary to the documents.

In Ontario, the proposed amendments to NI 23-101 are being made under the following provisions of the Act:

- Paragraph 143(1)10 authorizes the Commission to make rules prescribing requirements in respect of the books, records and other documents required by subsection 19(1) of the Act to be kept by market participants (as defined in the Act), including the form in which and the period for which the books, records and other documents are to be kept.

- Paragraph 143(1)12 authorizes the Commission to make rules regulating recognized stock exchanges, recognized self-regulatory organizations, and recognized quotation and trade reporting systems including prescribing requirements in respect of the review or approval by the Commission of any by-law, rule, regulation, policy, procedure, interpretation or practice.

- Paragraph 143(1)13 authorizes the Commission to make rules regulating trading or advising in securities to prevent trading or advising that it is fraudulent, manipulative, deceptive or unfairly detrimental to investors.

VII. COMMENTS AND QUESTIONS

We invite all interested parties to make written submissions with respect to the Proposed Amendments. Submissions received by October 12, 2006 will be considered.

You should send submissions to all of the CSA listed below in care of the OSC, in duplicate, as indicated below:

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division, Department of Justice,
Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

Submissions should also be addressed to the Autorité des marchés financiers (Québec) as follows:

Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
Telephone: (514) 940-2150
Fax: (514) 864-6381
e-mail: consultation-en-cours@lautorite.qc.ca

A diskette containing the submissions should also be submitted. As securities legislation in certain provinces requires a summary of written comments received during the comment period be published, confidentiality of submissions cannot be maintained.

Questions may be referred to any of:

Randee Pavalow
Ontario Securities Commission
(416) 593-8257

Cindy Petlock
Ontario Securities Commission
(416) 593-2351

Ruxandra Smith
Ontario Securities Commission
(416) 593-2317

Tony Wong
British Columbia Securities Commission
(604) 899-6764

Shaun Fluker
Alberta Securities Commission
(403) 297-3308

Doug Brown
Manitoba Securities Commission
(204) 945-0605

Serge Boisvert
Autorité des marchés financiers
(514) 395-0558 x4358

July 14, 2006