

**CSA Staff Notice 23-302 – Joint Regulatory Notice –Electronic Audit Trail Initiative (TREATS)  
Joint Notice of the Staff of the Canadian Securities Administrators, Market Regulation Services  
Inc., Bourse de Montréal Inc., the Investment Dealers Association, and the Mutual Fund Dealers  
Association**

## 1. Introduction

The electronic audit initiative is an ongoing project initiated and managed by the Canadian Securities Administrators (CSA), Market Regulation Services Inc., Bourse de Montréal Inc., the Investment Dealers Association of Canada, and the Mutual Fund Dealers Association (together the Regulators or we) to investigate, design and implement a comprehensive solution capable of fulfilling Canadian securities audit trail requirements introduced in Regulation entitled National Instrument 23-101, *Trading Rules* (Regulation 23-101). The project is currently named TREATS which stands for Transaction Reporting Electronic Audit Trail System.

## 2. Background

On December 1, 2001, the CSA implemented National Instrument 23-101 and its companion policy (Companion Policy 23-101)<sup>1</sup> among other documents, as part of their initiative to create a framework for the competitive operation of traditional exchanges and alternative trading systems. Part 11 of National Instrument 23-101 and Part 8 of Companion Policy 23-101 deal with the audit trail requirements. National Instrument 23-101 was amended in late 2003 / early 2004 to impose obligations on dealers and inter-dealer bond brokers to record and report certain information regarding orders and trades in electronic form. These electronic requirements will come into effect on the earlier of January 1, 2007 or the date on which a self-regulatory entity or regulation services provider implements a rule requiring the recording and transmission of order and trade information in electronic form.

In June 2003, the CSA formed a committee known as the Industry Committee on Trade Reporting and Electronic Audit Trail Standards (TREATS Committee), to review the appropriate standards for data consolidation as well as the requirements for an electronic audit trail related to Canadian securities. With respect to the audit trail, the TREATS Committee had the mandate to “identify and discuss issues, options and make recommendations regarding technology standards and an implementation plan for the electronic audit trail requirements for orders and trades in securities as defined in the *Securities Act* (Ontario)”. On July 26, 2004, the TREATS Committee submitted a report providing their recommendations (the Report) to the Regulators. The Report has been considered with respect to the business requirements documents and to the potential impact on the overall scope and focus of this initiative (the Report can be found in the Appendix A of Notice 23-302 available on the Ontario Securities Commission, at the following address <http://www.osc.gov.on.ca>).

In April 2004, the Regulators selected a consultant to prepare business requirements documentation to identify and further clarify the high-level requirements for the electronic audit system.

These high-level requirements formed the basis of a request for information (RFI) that was used to solicit industry recommendations on how best to fulfill the objectives of TREATS from both technical and operational perspectives. The RFI process also resulted in the creation of a list of suppliers interested in and capable of developing and delivering a solution that meets the requirements of this complex project.

The RFI process officially concluded in December of 2004 with the selection of six candidate vendors who have agreed to participate in a subsequent Request for Proposal (RFP). The RFP process will be based

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<sup>1</sup> They have since become Regulation entitled National Instrument 23-101, *Trading Rules* and Policy Statement entitled Companion Policy 23-101, *Trading Rules*, respectively.

on detailed business, regulatory and technical requirements that are currently being developed and documented.

On March 28, 2003, the Regulators published a joint notice related to the electronic audit trail (Staff Notice 23-301), which is superseded by this notice.

### 3. High Level Timeline

The ultimate objective of the rule changes previously mentioned and the resulting solution is to proactively introduce strategies that leverage evolving technology to promote and ensure fair and equitable capital markets for all securities transactions in Canada. The Regulators are firmly committed to achieving this goal through the successful implementation of this project by the deadline set out in Regulation entitled National Instrument 23-101, *Trading Rules*.

A phased implementation plan will be employed involving selected security classes and system functionality in order to promote a measured and effective implementation. The objective of the first phase of implementation is to activate the system with basic reporting and administrative functionality for exchange-traded equities in the first quarter of 2007. Subsequent phases will involve introducing additional security classes (including exchange-traded options and futures, over-the-counter traded equity securities, fixed income securities, investment fund securities and over-the-counter derivative securities) and enhancing the functional reporting capabilities, internal processes, data structures and administrative capabilities of the system.

The project is currently in the detailed requirements phase, which includes preparing the request for proposal (RFP). The RFP will solicit proposals from a list of qualified industry vendors for technical and operational solutions that satisfy the detailed requirements. These proposals will include supplier pricing, approach and detailed time plans, and they will be used to select one vendor that will work with the Regulators to develop and implement the solution.

Industry involvement in current project initiatives will be assured through a representative Industry Advisory Group (IAG) to be assembled in April 2005. This group will include industry representatives including some participants from the original TREATS Committee as well as a group of representatives appointed by the Regulators to represent dealers, marketplaces, service bureaus and other industry firms and organizations.

As the project proceeds and requirements and specifications are more completely defined, direct communication with industry participants will be undertaken. As indicated in the milestone section below, it is anticipated that requirements documents and draft and final technical specifications will be made available to all industry participants.

The Regulators understand that industry participants will likely be required to make significant modifications to their own business processes and technical systems in order to comply with the new system. We also understand that these modifications will require sufficient resources, lead time and support in order to be achieved and we are committed to supporting these participant requirements as effectively as possible.

The current timeline includes the following milestones:

Milestone	Target Date
Initiate Industry Advisory Group	April 2005
Distribute RFP to selected vendors	August 2005
Distribute requirements documents to industry participants	August 2005
Select vendor	September 2005
Distribute draft technical specifications to industry participants	January 2006
Initiate development and delivery project phase	October 2005

Initiate project implementation phase	April 2006
Distribute Phase 1 Technical specifications	April 2006
<b>Phase 1 Production (electronically traded equities)</b>	<b>January 2007</b>

As with any complex project, the milestone dates presented above are subject to change as the project proceeds. As such, updated milestone schedules will be provided in all subsequent Industry Status Reports. The Regulators are committed to continually reporting project status and progress to the industry participants.

#### **4. Current Phase: Request for Proposal**

The Regulators, along with our consultant, are currently working towards completing an RFP that will include detailed business, regulatory, and technical requirements for the eventual system. This phase consists of reviewing and enhancing the high-level business requirements prepared during the RFI phase by conducting a series of detailed review sessions with Regulators, marketplaces and industry representatives. Once the requirements documentation is complete, the IAG will have an opportunity to provide comments prior to its inclusion in the RFP. Finalized requirements will also be made available to industry participants for review.

The RFP process is intended to result in the selection and engagement of an appropriate vendor to develop and deliver the central components of this system.

#### **5. Communication Plan**

The Regulators intend to provide the industry with the following communications which will convey critical project information in a timely manner and provide the industry participants with reasonable notice and details to prepare for the required changes.

##### **a) Industry Status Report**

Industry Status Reports such as this will be made available to all industry participants at critical points in the project's evolution when there is relevant information to communicate. The next Industry Status Report will likely be issued in August 2005 to coincide with the completion of the RFP.

##### **b) Industry Advisory Group**

The IAG will be assembled in April 2005 to promote communication between the Regulators and participants in the market. The purpose of the IAG will be to facilitate the introduction and discussion of industry related questions and issues associated with TREATS and its implementation. IAG members will be encouraged to participate by asking questions and providing updates and responses as required.

##### **c) Electronic Audit Trail Discussion Forum**

An online moderated Discussion Forum will be available to facilitate open discussion of relevant issues, questions and concerns amongst the Regulators and industry participants. As indicated above, IAG members will be participants in the Discussion Forum but more direct access for industry participants will be evaluated as the project progresses.

##### **d) CCMA - STP Initiative**

There are certain similarities between the Canadian Capital Markets Association's straight-through processing initiative and TREATS, not the least of which is the timeframe under which the two initiatives are operating and the fact that each project has the potential to introduce significant procedural and technical changes to participant organizations. Representatives from both projects will work together to

ensure an effective sharing of information, direction and status between both projects and towards the affected industry participants.

## **6. Impact on Participant Organizations**

The Regulators anticipate that this report will result in industry participants wanting to understand exactly how this initiative will affect their firms and the procedures and systems which they currently employ. However, it is too early in the process for the Regulators to define at this time the specific technical requirements with which participants will be required to conform. Therefore, our commitment to industry participants going forward is to communicate these details as soon as they are clearly defined and to support as effectively as possible all efforts by industry participants to conform to the obligations which this new initiative will require.

At this point, industry participants must begin to understand Regulation 23-101 and to internally assess and prepare for the need to electronically record the required information. Additionally, consideration should be made for the future implementation of electronic reporting requirements.

## **7. Conclusion**

While it is still relatively early in this project, the Regulators feel that it is important to communicate the status and the progress of this initiative to industry. We will endeavour to provide details and information as appropriate to ensure that participant organizations clearly understand the implications of this initiative and are able to suitably plan and prepare for the changes that will result.

If there are any questions at this stage or you wish provide further input into this process, please contact:

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