TMX Group
100 Adelaide Street West
Toronto, ON, M5H 1S3
Canada

1 888 873-8392
info@tmx.com

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VIA EMAIL

Theodora Lam
Director of Market Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
E-mail: tlam@ciro.ca

Copy to:

Trading and Markets
Ontario Securities Commission
Suite 2200
20 Queen Street West Toronto, Ontario M5H 3S8
E-mail: tradingandmarkets@osc.ca

Market Oversight
Alberta Securities Commission
Suite 600 250-5th Street SW, Calgary, Alberta T2P 0R4
E-mail: CIRO-Reporting@asc.ca

Dear Sirs/Mesdames:

Re: **Proposed Amendments Respecting Client Delivery Obligations**

TMX Group Limited ("**TMX**" or "**we**") welcomes the opportunity to comment on the proposed amendments respecting client delivery obligations ("**Request for Comment**" or "**Proposal**") published by the Canadian Investment Regulatory Organization ("**CIRO**") on April 2, 2026. TMX continues to support the implementation of requirements that would improve settlement discipline in Canada and ultimately increase investors' trust in the financial ecosystem. In particular, we welcome requirements that could address issuer and investor concerns about market participants that may be short selling without an intention to settle the resulting trades on the settlement date. Capitalized terms used in this letter and not specifically defined have the meaning given to them in the Request for Comment.

TMX

TMX is an integrated, multi-asset class exchange group. TMX's key subsidiaries operate cash and derivatives markets for multiple asset classes, including equities and fixed income, and provide clearing facilities, data driven solutions and other services to domestic and global financial and energy markets. Toronto Stock Exchange, TSX Venture Exchange, Alpha Exchange, The Canadian Depository for Securities ("**CDS**"), Montreal Exchange, Canadian Derivatives Clearing Corporation, Shorcan Brokers Limited and other TMX companies provide securities listing markets, trading markets, clearing facilities, data products and other services to the global financial community and play a central role in Canadian capital and financial markets.

I. Executive Summary

In our April 2025 response to CIRO's proposed amendments respecting mandatory close-out requirements (the "**CIRO Close-Out Proposal**"), TMX advised of concerns of issuers and market participants regarding short selling in the Canadian market. In particular, we are aware of issuers' and investors' concerns that some market participants may, solely as a means to drive down the price of an issuer's securities, engage in short selling where they enter short sale orders without an intention to settle the resulting trades on the settlement date. While we support CIRO's actions to bring forward proposed requirements that may address Canadian stakeholder concerns about short selling, the Proposal could be enhanced to deal with these concerns directly. Along with the proposed requirement that sets a deadline by which the investment dealer must commence action to address a client's failure to settle a short sale, we recommend that the investment dealer also be required to report to CIRO that the short sale has failed to settle.

More timely reporting would give valuable data to CIRO sooner so that CIRO can observe any patterns of failures to settle in an issuer's securities. CIRO's improved access to data on settlement failures would also enable it to provide more frequent and higher quality data to the public on failures to deliver on short sales. TMX believes that both these measures could improve confidence in our markets.

II. Discussion of the Proposal

The Proposal is an alternative to close-out requirements that were proposed in the CIRO Close-Out Proposal. Instead of mandating close-out provisions, the Proposal would require investment dealers to enhance their policies and procedures governing client delivery failures. TMX understands that CIRO's shift in its original proposed approach is in response to public comments received, including feedback that enacting the CIRO Close-Out Proposal would have been significantly impactful on many types of capital market participants.

The issue remains that there are persistent issuer concerns around short selling and failed trades. CIRO rule amendments could, at least in part, address the need to restore trust among certain issuers and investors. Confidence among these market players has been eroded, and

TMX believes that enhanced requirements to address concerns around naked short selling would benefit the market as a whole.

While the Proposal's focus on investment dealers' policies and procedures is intended to address client conduct that could potentially be harmful to the capital markets, the proposed amendments do not go far enough to change potentially harmful practices. We suggest that the Proposal be enhanced by including an obligation on investment dealers to report to CIRO their failures to deliver securities on short sales sooner than is currently required under CIRO's extended failed trade provisions.

TMX would also support public reporting of data by CIRO on failures to deliver securities on short sale trades as well as a formalized mechanism for concerned issuers to obtain data from CIRO about settlement failures in the issuer's securities. Enhanced public disclosure of failed trades and settlement delays brings transparency that could address concerns by market participants who have lost confidence in the fairness of our markets. Monthly reporting, for example, could include publication of trends about failures to settle, as well as related enforcement activities.

A. Timely Reporting of Settlement Fails of Short Sales

The Request for Comment proposes only two new requirements. One requirement is that the Dealer Member must establish policies and procedures to address a client's failure to deliver a security. The second requirement is that the Dealer Member must commence action to address its client's failure to deliver on a short sale by no later than five business days following the intended settlement date.

CIRO should take further steps that would help to ensure that Dealer Members are in fact taking necessary actions to ensure that their clients' short sales are settled in a timely manner. For example, if a Dealer Member is required to take steps to address a client's failure to deliver on a short sale, then this information should be reported to CIRO. We suggest that a reporting obligation be imposed on a Dealer Member that would align with the requirement to take action. Timely reporting with sufficient data (i.e. the security/issuer, number of securities, client identifier) would give CIRO data to allow it to view, among other things, whether a specific client was failing to settle through accounts at multiple dealers.

The additional discipline of requiring investment dealers to report failures to deliver on short sales in a more timely manner means that CIRO will have the ability to deal with problem actors in closer to real-time. Without a shorter reporting interval, CIRO's sole mechanism to review for Dealer Member compliance would be as part of their member examinations. Reviewing compliance on a sampling basis every 2-3 years is not a process that would engender confidence in participants who have concerns about short selling practices. More timely reporting on failures to deliver, by contrast, would provide CIRO with additional and timely knowledge that it could use in its analysis.

B. Enhanced Public Disclosure of Failed Trades

It is important to take steps to address the perception that there may be unfair short selling on Canadian markets. One step that CIRO could take is to regularly publish data on failures to settle short sales, as well as any trends in this area. We would suggest that making data available monthly would provide the industry with the ability to perform analysis that could address potential concerns with market fairness. The provision of public data would also support issuers who may want to discuss with the market regulators any concerns about trading in their securities. Ultimately, enhancing transparency would help to fortify investor confidence in the integrity of our capital markets.

III. Responses to Questions

Question 1: *In addition to the actions set out in section 2.3 of this Bulletin, are there any other steps that we should consider that an investment dealer should take when a client has failed to deliver shares as expected?*

As set out in the body of this letter, TMX would support imposing a positive reporting obligation on an investment dealer to notify CIRO when its client has failed to deliver securities to settle a short sale. We suggest that the reporting obligation should be part of the activity that the Dealer Member must take on the fifth business day following the intended settlement date. This reporting obligation would ensure that CIRO receives timely notifications of settlement failures that are related to short sales.

In addition, CIRO should incorporate a targeted short selling module as part of its regular dealer compliance examinations. This component should address short sales (and related settlement) by all investment dealers (i.e. those that are not executing brokers, as well as CIRO members that are marketplace participants subject to UMIR). It is important that CIRO perform sampling regarding the settlement of trades that are short sales, and not simply review for the existence of procedures.

Question 2: *Industry consultations generally supported assigning responsibility to the investment dealer best able to engage directly with the client. In an introducing / carrying broker arrangement, the introducing dealer was deemed to be in the best position to follow up directly with the client and has visibility into the client's delivery status through reporting from the carrying broker and/or the client's custodian. Likewise, in an originating / executing dealer arrangement, the originating dealer maintains the relationship with the underlying client and is able to engage with the client in the event of a failure to deliver. We request feedback on this proposed approach and will consider all comments when finalizing the Proposed Amendments.*

We agree that the originating dealer with the client relationship should be in a position to determine whether its clients have failed to settle a trade, and that the originating dealer should have policies and procedures to deal with this event, and to take action when the failure to settle is related to a client's short sale.

Question 3*: Do you agree with the proposed timeline of five business days past settlement date as the period within which investment dealers must commence action to address a client failure to deliver where the failure relates to a short sale? Why or why not?*

Five business days past settlement date is a relatively long time within a T+1 settlement regime. This period is also longer than mandatory close-out deadlines in other jurisdictions. The trigger for an investment dealer to take action should not be longer than five business days past settlement date. It may be useful for CIRO to seek feedback from its members to understand if there would be a meaningful impact to have this period shortened.

Question 4*: Should the timeline for extended failed trade reporting be shortened to align with the proposed timeline of five business days following settlement date for short sales under the Proposed Amendments? Currently the extended failed trade reporting timeline is ten trading days past settlement date under UMIR 7.10.*

As stated in the body of our letter, we believe that failures to settle short sales should be reported earlier than ten trading days past the settlement date. We have suggested that reporting short sale fails could align with the proposed "commence action" requirement of five business days post settlement date. This then begs the question of whether short sales and long sales should have different failed trade reporting timelines. If the reporting deadlines were different, then this could raise a question of whether short sellers might intentionally not mark their sales as short sales, with the knowledge that these trades would not be reported as extended failed trades until ten business days after settlement date.

Question 5*: Have we identified all the proposed provisions that will materially impact clients, investment dealers, marketplaces or CIRO in our Impact Assessment? If not, please list any other proposed provisions that you believe will materially impact one or more parties and why.*

The Proposal is significantly less impactful than the CIRO Close-Out Proposal. Our understanding of the Proposal is that it would not impose any new technology builds, and would not create any significant new processes. We agree with the statements in the Proposal that investment dealers already have processes and systems in place to ensure that all clients have a reasonable expectation to settle on settlement date. Strengthening the controls at an investment dealer to ensure that escalation processes exist to resolve a client's failures to deliver is reasonable. We agree that the Proposal should not have a meaningful impact on marketplaces, and in our view the Proposal would also not have an impact on post-trade processes that are in place between CDS and its participants.

Question 6**:** *Overall, do you agree with CIRO's qualitative assessment of the benefits and impacts of the Proposed Amendments? Please provide reasons for your stance***.**

We support the intended benefits of the Proposal that include enhancing investor confidence by reducing concerns about abusive short selling, and reducing the number of failures to deliver so that shareholders are not negatively affected and prospective investors do not have adverse perceptions of our market. As suggested in the body of our letter, to further improve confidence in our markets CIRO should begin to regularly publish data related to settlement failures. Additional transparency could have the effect of improving confidence in our markets.

Question 7*: We are proposing an implementation period of no less than three months after the publication of the final amendments, and request feedback on what implementation period would be appropriate to provide applicable investment dealers with sufficient time to make the changes necessary to comply with the Proposed Amendments.*

A number of investment dealers impacted by the new requirements may rely significantly on other brokers for trade execution. CIRO should take into account that these investment dealers may need to build processes that involve building enhanced communications mechanisms with their executing brokers.

IV. Conclusion

The Proposal could be a step forward to addressing concerns related to abusive short selling in our market, but its focus on enhanced policies and procedures does not evoke a sense of urgency, and may not meaningfully impact traders who make short sales without the intention of settling the trade. Adding a requirement for investment dealers to report failed short sales to CIRO sooner would give CIRO better data earlier, and could have the effect of adding discipline at the investment dealer to ensure that the action commenced at the investment dealer is meaningful. Regular periodic publication by CIRO of failed trade data related to short sales should also instill confidence into the market.

We appreciate the opportunity to respond to the Request for Comment and would be pleased to work with CIRO on this matter.

Sincerely,

"Loui Anastasopoulos"

Loui Anastasopoulos
Chief Executive Officer, Toronto Stock Exchange and Global Head, Capital Formation

"Luc Fortin"

Luc Fortin
President and CEO, Montreal Exchange and Global Head of Trading