CASLA | Canadian Securities Lending Association

July 3, 2026

Delivered By Email to: tlam@ciro.ca

Theodora Lam
Director of Market Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4

Dear Sirs and Mesdames:

Re: Proposed Amendments Respecting Client Delivery Obligations

The Canadian Securities Lending Association ("**CASLA**") appreciates the opportunity to comment on CIRO's Proposed Amendments Respecting Client Delivery Obligations (the "**Proposed Amendments**").

CASLA is an association of firms that engage as principal or agent in the lending or borrowing of securities. Its membership includes over 20 firms across Canada and the US, including, among others, dealer members of CIRO, financial institutions, and a range of service providers that support securities financing markets. CASLA seeks to enhance the public's understanding of securities lending and the role it plays in Canada's financial markets, and works with Canadian regulators, self-regulatory organizations, and other market participants to support the long-term viability of the Canadian securities lending industry and the adoption of sound market practices.

CASLA operates within a governance framework that requires it to gather input from its members. Analyses and recommendations that incorporate such input are submitted to the CASLA board or board-level committees for direction and approval. This process ensures that submissions reflect the perspectives of a broad range of members.

CASLA supports CIRO's objective of strengthening settlement discipline and addressing risks associated with failures to deliver. CASLA also supports CIRO's decision to move away from prescriptive mandatory close-out requirements in favour of a conduct- and principles-based framework, which appropriately recognizes that dealers require flexibility to address client delivery failures based on the specific facts and circumstances.

Notwithstanding this overall support, CASLA is of the view that certain elements of the Proposed Amendments would benefit from further clarification and refinement to support consistent, practical, and proportionate implementation across a range of market structures and business models.

I. Responses to Questions

A. Question 1 – Additional Steps to Remedy Client Delivery Failures

CASLA supports a flexible, principles-based approach to the steps that an investment dealer may take when a client has failed to deliver securities as expected.

The appropriate response to a delivery failure will depend on the nature of the transaction, the client relationship, and the underlying cause of the failure. Appropriate steps may include, for example:

- contacting the client to understand the circumstances giving rise to the failure;
- obtaining updated delivery commitments;
- escalating the matter internally in accordance with established policies and procedures;
- monitoring patterns of repeat or material delivery failures;
- applying targeted trading restrictions where warranted by the circumstances; and
- undertaking market activity where appropriate to address the outstanding position.

CASLA recommends that CIRO clarify that dealers may take a range of reasonable measures, based on the facts and circumstances, and that the actions listed in the Proposed Amendments are not intended to limit the flexibility of dealers to respond proportionately.

Importantly, in CASLA's view, where a dealer has established, maintains, and applies policies and procedures that identify the types of actions that may be taken to address client delivery failures, such policies and procedures should be sufficient to satisfy the proposed requirement. Dealers should not be required to maintain a separate transaction-by-transaction audit trail explaining why each specific action was or was not taken, provided that the dealer can demonstrate that it has acted in accordance with its policies and procedures and has retained appropriate records evidencing compliance.

B. Question 2 – Responsibility of the Client-Facing Dealer

(a) General

CASLA generally agrees with the proposed approach of assigning responsibility to the investment dealer that is best positioned to engage directly with the client.

In introducing/carrying broker arrangements, the introducing dealer typically maintains the client relationship and is therefore best positioned to communicate with the client regarding settlement obligations and delivery expectations. Similarly, in originating/executing dealer arrangements, the originating dealer maintains the relationship with the underlying client and is generally best placed to engage with the client in the event of a delivery failure.

However, in practice, the dealer responsible for managing a delivery failure may not have direct visibility into all relevant information. Dealers frequently rely on information provided by custodians, carrying brokers, executing brokers, affiliates, clients, or other intermediaries.

CASLA therefore recommends that CIRO confirm that dealers may reasonably rely on information provided by such third parties, absent reason to believe that the information is inaccurate or unreliable.

CASLA also recommends that CIRO provide additional guidance regarding the operation of the proposed framework in more complex market structures, including omnibus accounts, prime brokerage models, introducing/carrying broker relationships, originating/executing dealers, and cross-border trading environments.

(b) *Deemed to Own Exception*

In CASLA's view, the application of the "deemed to own" exception is a key area requiring further clarification. In particular, guidance would be beneficial regarding the evidentiary standards required to support reliance on the exception; whether and on what basis dealers may rely on information obtained from third parties; the governance, supervisory, and documentation expectations associated with determining and approving such status; and how "deemed to own" status should be communicated across market participants and linked to the relevant trade.

Given that the information required to assess the applicability of the exception may reside with third parties, further clarity is necessary to support consistent application across the market.

C. Question 3 – Timeline to Commence Action

In CASLA's view, five business days past settlement date does not provide the most appropriate period within which investment dealers must commence action to address a client failure to deliver where the failure relates to a short sale.

CASLA recommends a period of five to seven business days following settlement date.

A five to seven business-day period would provide a more appropriate balance between timely intervention and operational feasibility. It would allow dealers sufficient time to:

- identify and assess the nature and cause of the delivery failure;
- obtain and validate information from clients, custodians, and other intermediaries;
- determine whether the "deemed to own" exception may apply; and
- initiate an appropriate remedial action under the dealer's policies and procedures.

CASLA further recommends that CIRO adopt a flexible interpretation of "commencing action," recognizing that appropriate steps may include proportionate measures such as client outreach, escalation, enhanced monitoring, or conditional account restrictions, rather than buy-ins.

CASLA also recommends that CIRO clarify that "commencing action" should be understood as the initiation of an appropriate remedial step, and should not be interpreted as requiring resolution of the delivery failure within the prescribed timeframe.

Additionally, CASLA submits that additional clarification would be helpful regarding the treatment of partial settlements, partial fills, and situations where a residual balance remains outstanding but is expected to be delivered within a reasonable timeframe.

D. Question 4 – Extended Failed Trade Reporting Timeline

CASLA recognizes the importance of aligning reporting obligations with intervention timelines.

In this regard, CASLA recommends that, if CIRO shortens the existing extended failed trade reporting timeline, such timeline should be set at **seven business days past settlement date**, in alignment with the recommended intervention timeframe.

A seven-business-day reporting timeline would provide sufficient time for dealers to:

- conduct supervisory review;

- validate information from relevant parties;
- assess whether a failure reflects a routine operational issue or a material concern; and
- determine whether remedial action is required.

CASLA also notes that shortening the reporting timeline may materially increase reporting volumes, including for failures that are in the process of being resolved and do not raise market integrity concerns.

E. <u>Question 5 – Additional Material Impacts</u>

In CASLA's view, the Proposed Amendments may understate the operational, technological, and market impacts associated with implementation.

The proposed framework would require dealers to monitor and address client-level delivery behaviour, including in cases where the securities are not held by or under the control of the dealer. This may necessitate enhancements to existing supervisory frameworks, monitoring systems, escalation protocols, and data collection processes.

CASLA also notes that many firms already have policies and procedures in place to manage settlement failures. Where such frameworks are reasonably designed and effectively applied, CASLA submits that they should be recognized as meeting the objectives of the Proposed Amendments.

The focus should therefore be on the existence and consistent application of an appropriate control framework, rather than requiring granular documentation of each individual decision taken in the course of resolving a delivery failure.

F. <u>Question 6 – Assessment of Benefits and Impacts</u>

CASLA supports CIRO's objective of promoting timely settlement and market integrity, and agrees that a principles-based approach is preferable to a prescriptive regime.

However, CASLA notes that the Proposed Amendments apply only to CIRO dealer members, while many participants involved in the settlement process are not subject to equivalent obligations.

Failures to deliver often originate from parties outside the dealer's control. As a result, the Proposed Amendments may create a framework in which CIRO dealer members are held accountable for outcomes that depend on non-CIRO-regulated entities.

This may introduce regulatory asymmetry and could give rise to unintended consequences.

CASLA therefore encourages CIRO to engage with the Canadian Securities Administrators ("**CSA**") and other stakeholders to consider whether a more coordinated, market-wide approach would better support the intended policy objectives.

G. Question 7 – Implementation Period

In CASLA's view, the proposed implementation period of three months does not provide sufficient time for dealers to implement the required changes.

The Proposed Amendments may require firms to:

- update policies and procedures;
- enhance supervisory frameworks;
- implement processes relating to the "deemed to own" exception;
- coordinate with custodians and intermediaries;
- implement technology and system changes; and
- conduct testing and staff training.

CASLA recommends an implementation period of no less than six months following publication of the final amendments.

II. Conclusion

CASLA is pleased to have the opportunity to comment on the Proposed Amendments. CASLA supports CIRO's objective of strengthening settlement discipline and improving the framework governing client delivery obligations, as well as the move toward a principles-based approach.

To support effective implementation, CASLA recommends that CIRO:

- adopt a five to seven business-day timeline for commencing action;
- align reporting timelines to seven business days;
- recognize that existing policies and procedures may satisfy the requirement;
- avoid requiring decision-by-decision audit trails;
- provide additional guidance on the "deemed to own" exception; and
- engage with the CSA to address regulatory asymmetry.

CASLA also encourage CIRO to further consider the challenges of implementing and evidencing compliance within the proposed timelines. CASLA respectfully submit that an implementation period of no less than six months following publication of the final amendments would be necessary to support consistent, effective, and industry-wide implementation.

CASLA would welcome the opportunity to discuss these comments further with CIRO. Please do not hesitate to contact the undersigned if you have any questions or wish to discuss any of the matters raised in this letter.

Sincerely,

The Canadian Securities Lending Association

	"Roanna Kim"	*"Mathilda Yared"*
By:	**Roanna Kim** President	**Mathilda Yared** Vice-President

cc: Trading and Markets

Ontario Securities Commission

Suite 2200

20 Queen Street West Toronto, Ontario M5H 3S8

e-mail: TradingandMarkets@osc.ca

cc: Market Oversight

Alberta Securities Commission

Suite 600 250-5th Street SW, Calgary, Alberta T2P 0R

e-mail: CIRO-Reporting@asc.ca