

## **Appendix 3 – Impact Assessment**

### **I. Impact Assessment Table**

In the impact assessment table below, we list:

- the major policy elements of the Proposed Amendments,
- a description of the intended policy benefits of each element, and
- an assessment of its impact on clients, investors, investment dealers, and marketplaces.

As part of the comment process, we are requesting comments on the following aspects of the Proposed Amendments:

- the implementation impacts
- the potential costs and resources that would be needed to implement the Proposed Amendments
- any alternative approaches to consider that may reduce impacts.

### **II. Cost Estimate**

We do not know the dollar magnitude of the collective impacts of the Proposed Amendments, and we cannot determine it without detailed stakeholder feedback.

<b>Description of proposed amendment</b>	<p><i>Investment dealers must establish, maintain and apply policies and procedures that are reasonably designed to detect and address failures to deliver by a client following the sale of a listed security on a marketplace where that security is neither held by or under the control of the investment dealer.</i></p> <p><i>Where the failure to deliver relates to the sale of a listed security on a marketplace that resulted in a short sale, the investment dealer must commence action to address the failure to deliver by no later than five business days following settlement date.</i></p>
<b>Related intended benefits</b>	<p>The purpose of Proposed Amendments is to reduce failures to deliver by requiring investment dealers to implement processes to identify and address delivery issues, even where no settlement failure arises at CDS. Persistent client delivery failures may negatively affect shareholders and deter prospective investors by contributing to adverse perceptions of a security and the market more broadly.</p> <p>The Proposed Amendments are intended to enhance investor confidence by reducing concerns about abusive short selling linked to failures to deliver.</p>
<b>Impact on clients</b>	<p>The Proposed Amendments would strengthen investor confidence by helping ensure sellers deliver securities in a timely manner in connection with a sale of a listed security on a marketplace.</p> <p>The Proposed Amendment would only increase costs for clients that fail to deliver securities by the intended settlement date, as investment dealers may pass on to the client any costs related to buying back or borrowing shares to remedy the failures to deliver.</p>
<b>Impact on investment dealers</b>	<p>The Proposed Amendments would supplement and reinforce the existing regulatory framework on short selling and settlement discipline.</p> <p>Investment dealers already have processes and systems in place to ensure that, at the time of order entry, all clients have a reasonable expectation to settle on settlement date. The Proposed Amendments bolster the current framework by adding structure and strengthening controls at the post-trade level. Based on our industry consultations, the impact from the Proposed Amendments should not be high as most investment dealers already maintain escalation processes to target and resolve failures to deliver by a client, regardless of whether this results in a CDS settlement failure.</p>

<b>Impact on marketplaces</b>	<p>We do not expect this proposal to have a negative impact on marketplaces, as the Proposed Amendments do not impose any additional requirements on marketplaces.</p> <p>Where the investment dealer decides to buy back shares on a marketplace to resolve a failure to deliver, this may lead to more trades being conducted on a marketplace. We expect these trades to be executed under reasonable commercial terms that would not exacerbate market volatility.</p>
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