

Canadian Securities Administrators

Notice of amendments

Regulation to amend Regulation 24-101 respecting Institutional Trade Matching and Settlement

Amendments to Policy Statement to Regulation 24-101 respecting Institutional Trade Matching and Settlement

I. Introduction

The Canadian Securities Administrators (the CSA or we) have made amendments to *Regulation 24-101 respecting Institutional Trade Matching and Settlement* (the “Regulation”) and *Policy Statement to Regulation 24-101 respecting Institutional Trade Matching and Settlement* (the “Policy Statement”).

The key amendment to the Regulation will maintain the current requirement to match DAP/RAP trades¹ by no later than noon on the business day following trade date (noon on T+1). Specifically, the Regulation will no longer provide for a transition to a requirement that DAP/RAP trades be matched by no later than midnight on trade date (midnight on T). We are also amending the documentation requirement, the provisions governing non-western hemisphere client trades, certain definitions and other provisions in the Regulation, including Forms 24-101F1, F2 and F5. Corresponding amendments to the Policy Statement have also been made.

We note that we are not implementing other proposals described in our Notice and Request for Comments published on October 30, 2009 (the “CSA Request Notice”),² in particular, a proposal to extend to 2 p.m. on T+1, for a transition period of two years, the current noon on T+1 deadline for matching DAP/RAP trades, and a proposal to simplify the calculation of the 90% target for exception reporting purposes.

Subject to Ministerial approval, the amendments to the Regulation will come into force on July 1, 2010 in all CSA jurisdictions. Additional information regarding the implementation or adoption of the amendments to the Regulation in each province or territory is included in Annex A. A list of the commenters, as well as a summary of comments and our responses to them, are included in Annex B. Annex C contains a report of industry compliance with the Regulation. The regulation to amend the Regulation and the amendments to the Policy Statement are published with this Notice. Local material may also be attached.

The materials are also available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.nbsc-cvmnb.ca
www.osc.gov.on.ca
www.sfsc.gov.sk.ca
www.msc.gov.mb.ca

¹ A DAP/RAP trade is a trade executed for a client account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade. See definition of “DAP/RAP trade” in section 1.1 of the Regulation.

² See Bulletin of the Autorité des marchés financiers, Vol. 6, n° 43.

II. Background

The amendments were published on October 30, 2009 for a 90-day comment period. We received 15 comment letters in response to the request for comments. We have considered the comments received and thank all commenters for their submissions. We briefly discuss below some of the key stakeholder comments and CSA decisions made in respect of the proposed amendments to the Regulation. More detail is provided in Annex B.

III. Discussion

A. Key amendments

The CSA Request Notice had proposed to defer the requirement to match a DAP/RAP trade no later than the end of T by an additional period of five years (that is, from July 1, 2010 to July 1, 2015). We had asked for stakeholders' views on the length of this deferral. We had also asked whether the requirement should be deferred indefinitely until such time as global markets shorten their standard T+3 settlement cycles. We had specifically sought input on the costs and benefits of moving on July 1, 2015 to matching by midnight on T.

Most commenters were of the view that moving to the midnight on T deadline from the current noon on T+1 deadline was not justified from a cost-benefit perspective without a clear indication that the standard T+3 settlement cycle in North American capital markets would be shortened. Many commenters felt that there was no inherent value or benefit from requiring institutional trade matching (ITM) by midnight on T compared to noon on T+1, given the standard T+3 settlement cycle.

While we still encourage industry to work towards a same-day ITM goal, we acknowledge that a regulatory requirement to achieve this goal may no longer be appropriate at this time. Industry stakeholders appear almost unanimous in their view that it will take a compression of the settlement cycle to provide both a strong business and regulatory rationale to invest in the necessary resources and technological upgrades for moving to same-day matching. According to the industry, in the current settlement cycle of T+3, there may be no clear benefit to matching trades 12 hours earlier. While one commenter provided strong arguments that same-day matching would further reduce settlement fails and back-office costs in the Canadian markets, others indicated that it was not clear that matching trades 12 hours earlier would further mitigate any settlement risk or further enhance current settlement efficiency.

As there are no plans to shorten the T+3 settlement cycle in global markets at this time, we have decided to maintain the current ITM noon on T+1 deadline. Therefore, the Regulation will no longer provide for a transition to an ITM deadline of midnight on T. However, we would propose to consider re-introducing the midnight on T matching deadline into the Regulation through subsequent amendments if circumstances were to change. For example, as noted in the CSA Request Notice, a change in circumstances would include a shortening of standard T+3 settlement cycles in global markets.

In the CSA Request Notice, we had also sought input on whether we should extend the current ITM noon on T+1 deadline to 2 p.m. on T+1 for an interim period of two years. We had suggested that extending the current deadline by an additional two hours for two years may provide market participants with additional time to address delays and other ITM challenges that they are currently experiencing. However, most commenters were of the view that, although well intentioned, moving the current deadline to 2 p.m. on T+1 for two years might actually create more hardship than help for market participants to achieve their ITM goals. The commenters were almost unanimous in their view that such a change would require firms to incur additional costs, involve more scarce resources and be disruptive, only to have the industry revert back to noon on T+1 in two years. Most commenters support maintaining the noon on T+1 target. Another commenter noted that a change in the matching deadline, from 12:00 p.m. to 2:00 p.m. on T+1, would not make a material

difference in matching rates for many of the participants. We acknowledge these strong views, and consequently will not implement this proposal.

In addition, the CSA Request Notice had sought input into a number of potential industry-wide infrastructure issues. We noted that a large number of dealers and advisers that actively trade on a DAP/RAP basis in Canada seemed unable to match 90% of their institutional equity trades by noon on T+1 due in part to such industry-wide infrastructure issues, which in turn directly impacted the adequacy of their ITM policies and procedures. For example, we had suggested that if ITM processing could continue beyond the 7:30 p.m. system shutdown time at CDS Clearing and Depository Services Inc. (CDS) until later in the evening, more trade-matching parties and their service providers might be willing to tighten their policies and procedures, including shifting their resources and reconfiguring their systems, to complete the ITM processes in the evening of T rather than in the morning of T+1. In the CSA Request Notice, we had asked what would be the costs and benefits of extending the current industry ITM processing times to allow market participants to process their trades beyond the CDS 7:30 p.m. cut-off time until later in the evening on T.

Most commenters questioned the need to change the current CDS 7:30 p.m. system shutdown time to a later time in the evening. They shared the view expressed by CDS that the closedown of its online system for approximately two hours or less does not have a negative impact on matching rates. CDS stated that, once the system is back up after the closedown period, there is sufficient time to process all trade instructions received during the closedown period and typically well before the 11:59 p.m. deadline for end-of-T matching. It added that there could be many downstream impacts on changing the timing of CDS' current delivery schedule as well as on external participants, service bureaus and vendors. It further suggested that, unless a complete end-to-end review is undertaken by all affected parties in the processing chain to determine the operational impacts and costs associated with changing CDS' processing schedules, it would be difficult to ascertain whether there is an overall benefit to be achieved by the industry.

We had also suggested that the inability to track non-western hemisphere trades may have had an adverse effect on dealers' ITM performance, forcing some to needlessly complete and deliver quarterly exception reports on Form 24-101F1 and that, if specific trade identifiers were made available, certain dealers might be able to demonstrate that at least 90% of their trades in a quarter were matched by the deadline. In the CSA Request Notice, we had asked what would be the costs and benefits of having a specific industry-wide trade identifier to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades.

Most commenters addressing this question were of the view that the cost of building an industry-wide specific trade identifier for distinguishing between western and non-western hemisphere trades may not justify the investment required and other business costs involved. A number of commenters also made the point that, from an operational perspective, in many cases it is unclear how to identify the source of a trade.

B. Other amendments

In the CSA Request Notice, we had proposed a number of other amendments that were intended to:

- lessen the regulatory burden of certain requirements of the Regulation,
- clarify certain provisions as a result of issues that were raised by stakeholders, including during the discussions of the CSA-Industry Working Group on the Regulation (Working Group), and
- modify the ITM reporting requirements of clearing agencies and matching service utilities (MSUs) under the Regulation.

Stakeholders who provided feedback on such other amendments were generally in favour of them, in part because of the above noted considerations. We discuss the final amendments below.

(a) Amending the quarterly exception reporting requirement

Because of our decision to maintain indefinitely the current ITM noon on T+1 deadline, the Regulation's transitional rules will no longer be required. As a result, we are making the following amendments to the Regulation:

- References to “the end of T” and “the end of T+1” in Part 3 of the Regulation are being changed to “12 p.m. (noon) on T+1” and “12 p.m. (noon) on T+2” respectively.
- As proposed in the CSA Request Notice, the references to “95 percent” in Part 4 of the Regulation governing the exception reporting requirement are being changed to “90 per cent”.

In the CSA Request Notice, we had proposed to amend the Regulation, including Exhibit A of Form 24-101F1, to simplify the method for determining the 90 per cent threshold for exception reporting by (i) eliminating the need to determine the threshold based on the total value of equity trades (thus retaining the total number of trades method only for equity trades) and (ii) eliminating the need to determine the threshold based on the total number of debt trades (thus retaining the total value method only for debt trades). While some commenters supported this proposal, others suggested the changes were not useful. The industry is currently using both methods for determining the threshold for both equity and debt securities trades, and have built their reporting processes to measure both volume and value. Some stakeholders suggested that this change will not have a positive effect on most market participants, and may even be counterproductive as many market participants use the processes currently in place for purposes beyond compliance with the Regulation and will continue to calculate both regardless of modifications to the regulatory requirements. As a result of these comments, we have decided not to proceed with these proposed amendments.

However, CSA Staff will, in consultation with the Working Group, consider making further amendments to Exhibits B and C of Form 24-101F1 later this year.

(b) Amending the pre-DAP/RAP trade execution documentation requirements and related key definition

As proposed in the CSA Request Notice, we are making the following amendments to the Regulation:

- The definition of “trade-matching party” in Part 1 of the Regulation is being amended in two ways. First, paragraph (a) of the definition is being amended to include a registered adviser only where it is acting for the institutional investor in *processing* the trade.

Second, paragraph (b) of the definition is being amended by excluding institutional investors that are (i) individuals or (ii) persons with total securities under administration or management not exceeding \$10 million. The language for the latter exclusion is different from the version proposed in the CSA Request Notice. We made a slight modification to ensure that the language is similar to existing paragraph (5) of the definition “Institutional Customer” in the dealer member rules of the Investment Industry Regulatory Organization of Canada (IIROC). One commenter had suggested that, under the proposed language described in the CSA Request Notice, dealers would have an additional responsibility to monitor their clients' accounts or assets “under administration or management of less than \$10 million”. As dealers are already required under IIROC rules to monitor the accounts of non-individuals with total securities under administration or

management exceeding \$10 million, we do not expect this to be an additional burden for dealers.

- Sections 3.2 and 3.4 of the Regulation are being amended to make it clear that the documentation requirements of such sections support, and are part of, the primary ITM policies and procedures requirements of sections 3.1 and 3.3 of the Regulation. The drafting of the amendments to sections 3.2 and 3.4 differs slightly from the text in the CSA Request Notice, but no substantive change is intended.

(c) Amendments to the provisions governing non-western hemisphere institutional investors

As proposed in the CSA Request Notice, we are making amendments to subsections 3.1(2) and 3.3(2) of the Regulation to clarify that they apply to an institutional investor whose *settlement instructions* are usually made in and communicated outside the geographic region specified in those subsections. The geographic region specified in those subsections is presently described as the “western hemisphere”. We agree with a number of commenters that this description is not sufficiently precise. Consequently, we are amending those subsections so that the geographic region is described instead as the “North American region”, comprising Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean. In the context of the Canadian markets, it is appropriate to distinguish trades in this region from trades elsewhere in order to apply the different ITM deadlines of Part 3.

(d) Amendments to clarify certain other definitions and concepts and to modify Forms 24-101F2 and F5

As proposed in the CSA Request Notice, we are making non-substantive amendments to the definitions of “clearing agency”, “institutional investor”, “T+1”, “T+2” and “T+3” in Part 1, paragraph (f) of section 2.1, Forms 24-101F1, 24-101F2 and 24-101F5, and other minor changes.

C. Other stakeholder comments

The summary of comments and responses in Annex B describes other comments made by stakeholders. A number of stakeholders acknowledged the positive impact of the Regulation on ITM and settlement processes in Canada. They support the CSA’s ongoing efforts to implement a framework for the timely and efficient processing and settlement of trades.

We had noted in the CSA Request Notice that the Regulation may have contributed to the overall decline of the fails-to-deliver rates in Canada since April 2007, when the Regulation came into force. We had also noted that the Regulation contains, in addition to the ITM requirements, a principle-based settlement rule that requires registered dealers to establish, maintain and enforce policies and procedures designed to facilitate settlement of trades by no later than the standard settlement date, which is typically T+3. We had explained that, while we are not proposing any amendments at this time to the Regulation’s settlement rule, a working group comprised of staff from a number of CSA jurisdictions and IIROC is assessing, among other things, whether Canada’s trade settlement discipline regime may need to be strengthened in light of recent international developments. We had sought comments in the CSA Request Notice on whether our settlement discipline regime may need to be strengthened, including whether the Regulation’s settlement rule should be amended.

Unfortunately, we received few comments on this topic. However, one commenter suggested that, in their experience, on a daily average over a six month time frame, fully 99% of a given day’s trades are settled by the contractual settlement date. The commenter said that, of the remaining one per cent of unsettled trades (fails), three quarters of these trades were confirmed by their counterparties, but placed on hold by the same counterparties for lack of funds or securities — suggesting that high matching rates do not

necessarily guarantee settlement of any given trade. Another commenter, however, made strong arguments that same-day ITM and improved levels of automation lead to reduced operational risk and improved settlement efficiency.

D. CSA Staff Report

At the same time as we are publishing this notice and the final amendments to the Regulation and Policy Statement, we are publishing in Annex C a report of CSA Staff's findings of an analysis of the data from the quarterly exception reports submitted by registered firms on Form 24-101 F1, and from quarterly reports submitted by CDS and an MSU on Forms 24-101 F2 and F5, respectively. The report also contains some high-level observations of CSA Staff's discussions with stakeholders, including discussions with the Working Group.

E. Repeal or revocation of local transitional rules or orders

The amendments will mean that the extended transitional phase-in periods that were put in place in 2008 by local rules or blanket orders in the various jurisdictions are no longer necessary. Concurrent with the amendments coming into force, each of the jurisdictions will repeal or revoke its local rule or blanket order, as the case may be. Where applicable, full details of the specific rules or blanket orders impacted in each jurisdiction are set out in an Annex to this Notice. In Ontario, this will mean the revocation of Ontario Securities Commission Rule 24-502 *Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 – Institutional Trade Matching and Settlement*. In Québec, Order n° 2008 PDG-0049 will be revoked.

F. CSA Staff Notice 24-305

As a result of the amendments to the Regulation and Policy Statement, CSA Staff propose to amend and republish CSA Staff Notice 24-305 *Frequently Asked Questions About Regulation 24-101 respecting Institutional Trade Matching and Settlement and Related Policy Statement* later this year.

IV. Questions

Please refer your questions to any of the following:

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April 16, 2010

ANNEX A
Implementation of the regulation to amend the Regulation

The regulation to amend the Regulation will be implemented as:

- a rule in each of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario, the Northwest Territories, the Yukon Territory, Nunavut and Prince Edward Island;
- a regulation in Québec; and
- a commission regulation in Saskatchewan.

In Ontario, the amendments and other required materials were delivered to the Minister of Finance on April 15, 2010. The Minister may approve or reject the amendments or return them for further consideration. If the Minister approves the amendments (or does not take any further action), the amendments will come into force on July 1, 2010.

In Québec, the regulation to amend the Regulation is made under section 331.1 of The Securities Act (Québec) and must be approved, with or without amendment, by the Minister of Finance. The regulation to amend the Regulation will come into force on the date of its publication in the *Gazette officielle du Québec* or on any later date specified in the regulation. It is also published in the Bulletin of the Autorité des marchés financiers.

In British Columbia, the implementation of the regulation to amend the Regulation is subject to ministerial approval. Provided all necessary approvals are obtained, British Columbia expects the regulation to amend the Regulation to come into force on July 1, 2010.

Annex B

Summary of Public Comments and CSA Responses on the Regulation and the Policy Statement

List of Commenters

1. Glenn MacPherson
2. Omgeo
3. Northern Trust Company
4. RBC Dexia Investor Services
5. State Street Corporation
6. CIBC Mellon
7. Investment Industry Association of Canada
8. RBC Dominion Securities Inc.
9. CDS Clearing and Depository Services Inc.
10. Mackenzie Financial Corporation
11. Investment Counsel Association of Canada
12. TD Waterhouse
13. CIBC
14. Laurentian Bank
15. B. White

Summary of Comments and Responses

Summary of Comments	CSA Response
General comments	
<p>Nine commenters supported the ongoing efforts of the CSA to enhance the efficiency of institutional trade matching (ITM) processes. They also recognized the positive impact that the Regulation has had on ITM rates since its implementation in 2007.</p> <p>In particular, some commenters acknowledged the benefits of the Regulation, which strives to maintain Canada's market competitiveness, reduce credit risk, decrease operational risk, and increase productivity. During the past five years, significant industry progress has been achieved for both trade entry and trade confirmation rates. The Regulation has made a positive impact on business conduct practices and overall risk management of all counterparties involved. In spite of the dramatic improvements in ITM rates, other commenters stressed that there is more work to be done to meet the current matching rates.</p> <p>One commenter suggested that market turmoil in the past two years has demonstrated that principles-based rules are inadequate and, consequently, the CSA should adopt a new prescriptive approach in this area.</p> <p>Two commenters were of the view that defined penalties for non-compliance with the Regulation should be considered by the CSA. An alternative would be to encourage compliance with the Regulation through public reporting of the names of registered firms that have the lowest matching rates.</p> <p>One commenter encouraged co-operation among the regulators of the trade-matching parties - the CSA for advisers, the Investment Industry Regulatory Organization of Canada (IIROC) for dealers, and the Office of the Superintendent for Financial Institutions (OSFI) for custodians - to ensure that all trade-matching parties are complying with their obligations under the Regulation.</p>	<p>We thank the commenters for their remarks on the CSA's ongoing efforts to implement a framework for the timely and efficient processing and settlement of trades.</p> <p>As a principles-based rule, the Regulation was successful in encouraging market participants to address middle and back office issues and generally improving clearing processes and systems. Statistically, the ITM rates improved significantly for both debt and equity trades since the implementation of the Regulation in 2007.</p> <p>We note that a violation of the requirements of the Regulation is a breach of provincial securities laws, which can lead to, among other things, penalties, fines and administrative costs.</p> <p>We share the commenter's viewpoint that co-operation among the regulators is important, and the CSA will continue to work with IIROC and OSFI where appropriate.</p>

Summary of Comments	CSA Response
<p>Question 1 – For what period should the requirement to match no later than the end of T be deferred? Should the requirement be deferred indefinitely until such time as global markets shorten their standard T+3 settlement cycles? Please provide your reasons.</p>	
<p>Eleven commenters were of the view that the requirement to match no later than the end of T be deferred indefinitely until such time as North American markets shorten their standard T+3 settlement cycles. Reasons cited include:</p> <ul style="list-style-type: none"> • Only a compression of the settlement cycle would provide the business rationale to invest in the necessary allocation of resources for the necessary technological upgrades. In the current settlement cycle there is no clear benefit to matching trades 12 hours earlier: it is unclear how it would mitigate any settlement risk or further enhance current settlement efficiency. • The Regulation was originally intended to address the potential of a shortened settlement cycle; however, the likelihood of such an event has diminished in recent years. An indefinite extension of the current matching requirement would eliminate the need for further deliberations on the effectiveness of matching on T and would allow dealers to utilize their technology resources more efficiently. • The current settlement rate/failure rate does not justify the costs in relation to the benefits. • Efficiencies gained from moving the matching requirement to midnight on T would be outweighed by potential technological and other costs related to advancing the matching deadline. • The Regulation has successfully promoted substantial improvements to the prerequisite trade reporting and subsequent matching rates. As global markets continue to recognize T+3 settlement cycles, the multilateral investments required to advance to trade date targets would be of limited value. • The Regulation loses credibility if it continues to defer the deadline, and therefore it should be tied to the settlement cycle. In the current T+3 environment, the T+1 matching at noon is most appropriate as it is aggressive yet allows for sufficient time for researching unmatched transactions. 	<p>While we still encourage industry to work towards a same-day ITM goal, we acknowledge that a regulatory requirement to achieve this goal may no longer be appropriate at this time. As there are no definite plans to shorten the T+3 settlement cycle in global markets, we have decided to maintain the current ITM noon on T+1 deadline. Therefore, the Regulation will no longer provide for a transition to an ITM deadline of midnight on T. However, we would propose to consider re-introducing the midnight on T matching deadline into the Regulation through subsequent amendments if circumstances were to change. For example, as noted in the CSA Request Notice, a change in circumstances would include a shortening of standard T+3 settlement cycles in global markets.</p>

Summary of Comments	CSA Response
<ul style="list-style-type: none"> As the prime client of the MSUs, the buy-side directs upgrades to processing and will only hasten changes if regulated through assessable penalties or the compression of the settlement period. <p>Two commenters expressed concern that momentum may be lost and lead to a deterioration of the positive impacts of the Regulation.</p> <p>One commenter encouraged the CSA to shorten the proposed five year delay if it can be done without introducing risk into the post-trade process. The five year postponement is viewed as a lengthy delay and introduces the risk that market participants will relax their efforts to make the necessary changes.</p> <p>One commenter supported the amendment of the same-day matching target to 2015 because there is still room to optimize processes and the use of matching engines in the current framework.</p> <p>One commenter recommended an analysis be undertaken by CDS and other parts of the clearing and settlement chain prior to making a decision to defer permanently same-day ITM.</p>	
<p>Question 2 – We seek as much information as possible from stakeholders on the costs and benefits of the requirement to match a DAP/RAP trade no later than the end of T, including any available empirical data. What would be the benefits of moving to matching by midnight on T on July 1, 2015?</p>	
<p>Ten commenters were of the view that there were no benefits to moving to matching by midnight on T in July 2015 for, among others, the following reasons:</p> <ul style="list-style-type: none"> Such a change can only be justified on a cost-benefit basis by the compression of the settlement period in North America. There was little or no benefit to moving to midnight on T, such as no significant improvement to the efficiency of the settlement process or risk mitigation. Moreover, the added costs for technology and manpower will be difficult to justify in the current financial environment. Small and mid-sized firms may be 	<p>We acknowledge the views of many who did not see an advantage to matching by midnight on T in the current financial climate. In addition, we recognize that there is little empirical data available.</p>

Summary of Comments	CSA Response
<p>negatively impacted in their overall budget and ability to remain profitable owing to limited resources. It may be cost prohibitive for such firms to meet the requirements. One commenter was unable to quantify the benefit of moving to matching on T as the majority of risk was already mitigated through the implementation of technology to meet the current target.</p> <ul style="list-style-type: none"> • One commenter cited the low percentage of fails as sufficient reason not to incur added expenses through technology enhancements. <p>One commenter suggested significant savings to date from the Regulation, as well as potential additional savings from further reducing fail rates in the Canadian market, if we moved to same-day ITM. Same-day ITM could contribute cost savings to the industry of a minimum \$173.25 million CAD per year. Speeding up the affirmation rate would bring the following benefits:</p> <ul style="list-style-type: none"> • Fewer fails/reclaims/claims • Reduced operational burden • Reduced operational risk • Reduced market error risk • Lower costs, including FTE costs (via expanded capacity) • Higher rates of STP • Alignment with global regulatory reform • Leverage investment in existing technology • Higher customer satisfaction 	
<p>Question 3 – What are the costs and benefits of extending the current industry ITM processing times to allow market participants to process their trades beyond the CDS 7:30 p.m. cut-off time until late in the evening on T?</p>	
<p>The majority of commenters were not in favour of extending the current processing times. Reasons cited include the following:</p> <ul style="list-style-type: none"> • There is sufficient time to meet the current noon on T+1 trade matching targets. • Costs would be high to implement required technological modifications and increase staffing if CDS trade processing were to extend past the current 7:30 p.m. cut off time. The percentage of trades matched would be small, thus the benefits would be 	<p>We acknowledge the comments stating that there would not be substantial improvements in the current matching rates if the system were shut down later than 7:30 p.m. Consequently, we are not pursuing this matter at this time.</p>

Summary of Comments	CSA Response
<p>minimal.</p> <ul style="list-style-type: none"> • A majority of dealers say that they would be unable to estimate fully the potential costs they would incur if there is an extension of the CDS processing times. Firms are limited by the availability of internal and external systems, the negative impact of having to staff for the extended time frame, and the potential inability to have contact and system availability with both clients and matching participants for the trades. Also, the ability to process trades beyond the CDS 7:30 p.m. cut off time will be dependent on external systems providers, CDS limitations, as well as the assurance of the availability of contacts for all market participants for the transaction. <p>CDS does not expect a substantial improvement in the current matching rates by shutting the system down later in the evening. The current 7:30 p.m. shutdown allows CDS to complete its overnight batch processes on a timely basis and aligns with the timelines of external parties—participants, service bureaus, third party vendors, and exchanges.</p> <p>Two commenters were of the view that more investigation is required because of the multiple dependencies beyond institutional trade matching. One commenter did not see a link between the ITM process and the CDS process. While CDS processing is suspended for batch processing, it does not prevent counterparties from completing the match affirmed process through an MSU.</p>	
<p>Question 4 – What are the costs and benefits of having a specific industry-wide trade identifier to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades?</p>	
<p>The majority of commenters did not see a reason to impose a specific industry-wide trade identifier to segregate the trades. Reasons cited include the following:</p> <ul style="list-style-type: none"> • There would be little benefit as the distinction between these types of trades is done internally at the custodian level. • One commenter built internally the necessary oversight tools to distinguish between these types of trades. The cost of 	<p>Based on the comments received, we do not propose to pursue this matter.</p> <p>However, we agree that the distinction between western hemisphere trades and other trades is confusing. Consequently, we have decided to amend the Regulation to distinguish trades in a defined North American region from trades elsewhere.</p>

Summary of Comments	CSA Response
<p>building an industry specific trade identifier would significantly outweigh any additional benefit.</p> <ul style="list-style-type: none"> • The benefit does not justify the investment required and the related operating costs involved. The majority of trades are within North America and many dealers already have in-house systems and processes to deal with this matter. • Non-western trade-matching parties are generally efficient and thus are confirmed on a timely basis. • CDS functionality may be limited and dependent on participant submissions. • The process would be dependent on the development of a unique identifier at CDS, necessary system enhancements of all participants, and ensuring that the identifier is input on all transactions. Any related costs would be absorbed by all participants for the benefit of only a few. Consequently, an industry wide trade identifier would be of little benefit. <p>CDS proposes to work with its participants to make changes if requested. It is noted that the overall benefit would be more accurate reporting of matching rates.</p> <p>Three of the commenters stated that the classification of western hemisphere and non-western hemisphere trades should be changed to North American and non-North American trades to alleviate confusion.</p> <p>One commenter notes the lack of worldwide standard industry mechanisms to identify location of market participants. The commenter urges regulators to participate in global discussions and work towards an internationally harmonized solution.</p> <p>Only one commenter suggests a possible benefit of cost reduction if registered firms meet the target and do not have to file exception reports.</p>	
<p>Question 5 – Would extending the current requirement to match no later than noon on T+1 to a new deadline of 2 p.m. on T+1 help address current ITM processing delays and problems for the next two years?</p>	
<p>With only one exception, the commenters who responded to this question did not</p>	<p>We acknowledge the strong views that this change, on an interim basis, would necessitate</p>

Summary of Comments	CSA Response
<p>support the extension of the requirement to match no later than noon on T+1 to a new deadline of 2 p.m. on T+1. Reasons cited include the following:</p> <ul style="list-style-type: none"> • The costs to make the system changes, which in any case would be of an interim nature and necessitate further costs for reverting back to the current noon on T+1 standard in July 2012. • The majority of advisers and dealers with significant trading volumes would prefer to use their scarce resources to improve the current matching rates. • The extension to 2 p.m. would not be consistent with the purpose of the Regulation, which is to reduce risk (e.g., earlier detection and correction of erroneous transactions). • Moving the deadline temporarily tarnishes the credibility of the Regulation as it appears to be flexible and ever changing. <p>CDS noted that feedback it received suggested concerns about the costs for the initial technology change and subsequent reversion after the two year period expires. However, it noted that such a change may assist some dealers in meeting the current targets. CDS pledged to work with its participants to implement the changes if necessary and stated that the cost to CDS would be minimal. In addition, CDS would share with the Working Group its analysis of matching rates at both 2:00 p.m. and 7:30 p.m. on T+1.</p> <p>One commenter was of the view that a permanent adjustment of the deadline to 1 p.m. would accommodate smaller firms that are finding the current targets challenging, and not require further technology modifications in two years.</p> <p>Only one commenter viewed the proposed changes as beneficial by providing an interim step to meet the threshold and reduce the incidence of mandatory filings.</p>	<p>further costs, and consequently will not implement this proposal.</p>

Summary of Comments	CSA Response
Other amendments	
<p><i>Exception reporting threshold percentages</i></p> <p>Two commenters maintain that an eventual move to matching at midnight on T should be accompanied by a decrease in the matching threshold to a maximum of 80% to 85%. One commenter is of the view that it would be more economical and equally beneficial to reduce the matching target threshold rates rather than introduce an extended temporary time frame parameter.</p>	<p>See our response to comments on Question 1 above. As proposed in the CSA Request Notice, the references to “95 percent” in Part 4 of the Regulation governing the exception reporting requirement are being changed to “90 per cent”.</p>
<p><i>Method for determining threshold percentages</i></p> <p>A number of commenters who responded to the question noted that they would be able to provide reporting as set out in the proposal. However, many registered firms would continue to measure both the total number of trades and total value of trades for both debt and equity. Reasons cited include the following:</p> <ul style="list-style-type: none"> • Both measurements have merit: volume is an indication of the quality of processing and value is an indication of the impact for exceptions. • It will impede the ability of dealers to focus on clients who process a limited number of equity trades with a large dollar value and a large number of debt trades for a small dollar value. • There will be new challenges in dealing with clients who have few equity trades with a large dollar value or a large number of debt trades with a small dollar value. The current format provides the leverage and momentum to ensure accuracy and efficiency for the timely matching of these transactions. • Certain firms use the processes for purposes other than measuring compliance with the Regulation. • Any changes for reporting to clients would necessitate client re-education which may not be perceived as a progressive use of limited resources. <p>Although one commenter supported the</p>	<p>We have decided not to proceed with these proposed amendments owing to the benefits of the current method for determining threshold percentages, as suggested by stakeholders.</p>

Summary of Comments	CSA Response
<p>amendment with respect to equities, the same method should be applied to debt trades. Trade matching is a transactional process and therefore the value of the trade should be of no significance.</p> <p>One commenter fully concurred with the proposed modifications as value is a better measurement for debt trades as debt trade volumes are generally low and are not good indicators of efficient matching. Conversely, owing to the high number of equity trades, volume is a better indicator of efficient matching than value.</p> <p>Another commenter agreed that the approach was consistent with focusing on the areas of greatest risk. Registered firms should continue to complete all of the reporting as initially required by the Regulation; however, reporting to the regulators should be limited to not meeting the prescribed targets based on the number of equity trades and the volume of debt trades respectively.</p>	
<p><i>Amending the definition of trade-matching party</i></p> <p>Six commenters support the amendment to clarify which parties fall within the definition of trade-matching party.</p> <p>However, two of the commenters believe further explanations may be warranted:</p> <p>(a) Whether a duty is being imposed on dealers to monitor an institutional investor to ensure assets under administration or management are less than \$10,000,000.</p> <p>(b) The definition should be amended to include all accounts for “any person other than an individual”.</p>	<p>Paragraph (a) of the definition is being amended to include a registered adviser only where it is acting for the institutional investor in <i>processing</i> the trade. Paragraph (b) of the definition is being amended by excluding institutional investors that are (i) individuals or (ii) persons with total securities under administration or management not exceeding \$10 million. The language</p> <p>for the latter exclusion is different from the version proposed in the CSA Request Notice.</p> <p>We made a slight modification to ensure that the language is similar to existing paragraph (5) of the definition “Institutional Customer” in the dealer member rules of the Investment Industry Regulatory Organization of Canada (IIROC). As dealers are already required under IIROC rules to monitor the accounts of non-individuals with total securities under administration or management exceeding \$10 million, we do not expect this to be an additional burden for dealers.</p>

Summary of Comments	CSA Response
<p><i>Amending the trade matching documentation requirements</i></p> <p>Three commenters were in agreement with the proposed amendments to the trade matching documentation requirements.</p> <p>One commenter in particular noted the flexibility offered in circumstances where a counterparty has sound practices and but may not understand the importance of completing the trade-matching agreement or providing the trade-matching statement.</p>	<p>Sections 3.2 and 3.4 of the Regulation are being amended to make it clear that the documentation requirements of such sections support, and are part of, the primary ITM policies and procedures requirements of sections 3.1 and 3.3 of the Regulation.</p>
<p><i>Provisions governing non-western hemisphere institutional investors</i></p> <p>Two commenters agreed with the proposed amendments to include an institutional investor whose settlement instructions are usually made in and communicated from a geographical region outside of the western hemisphere.</p>	<p>As proposed in the CSA Request Notice, we are making amendments to subsections 3.1(2) and 3.3(2) of the Regulation to clarify that an institutional investor whose <i>settlement instructions</i> are usually made in and communicated from outside a defined geographical region be included in these subsections.</p> <p>In addition, we are amending these provisions so that the defined geographic region is now described as the “North American region”, which will be defined in the Regulation. We agree with a number of commenters who suggested that the difference between what is western hemisphere and what is non-western hemisphere is not clear.</p>

Annex C

**CSA Staff Report on Industry Compliance with *Regulation 24-101*
respecting *Institutional Trade Matching and Settlement***

Canadian Securities Administrators

I. Purpose

The Canadian Securities Administrators staff (CSA staff or we) have prepared this report to provide an update on the status of the industry's compliance with the institutional trade matching (ITM) requirements of *Regulation 24-101 respecting Institutional Trade Matching and Settlement* (Regulation 24-101 or the Regulation).

II. Background

Regulation 24-101 came into force on April 1, 2007 and became fully effective on October 1, 2007. Regulation 24-101 was developed to encourage more efficient and timely settlement processing of trades in securities, particularly the pre-settlement confirmation and affirmation process – or matching – of an institutional trade.

The Regulation applies to registered dealers and advisers, and establishes certain ITM policies and procedures requirements. This includes the requirement for registered firms¹ to complete and deliver an exception report on Form 24-101 F1 (F1) for any calendar quarter in which less than 90% of their DAP/RAP² trades (ITM target) were matched by noon on the business day following the day of the trade (noon on T+1).

In addition, under the Regulation, clearing agencies (CDS Clearing and Depository Inc., CDS) and matching service utilities (MSUs) are required to submit quarterly data on the ITM activity of their participants.

CSA staff used the information required to be reported under the Regulation to assess the industry's ITM rates, including whether registered firms have been meeting the ITM target.

III. Scope of the CSA Report

This report examines:

- (i) the overall performance of the securities industry in matching 90% of their DAP/RAP trades by noon on T+1, and
- (ii) the challenges faced by the industry in meeting the matching requirements under Regulation 24-101 and how industry has assessed and resolved or addressed them.

IV. Overall Findings

Our review of the data showed that while the industry has made steady progress in meeting the ITM target since 2007, many market participants have reached a significant ceiling in their ability to meet the ITM target.

CSA staff recognize that market participants have made concerted efforts to address the challenges in meeting the ITM target. Based on the information provided by registered firms, it appears that the most important challenge in meeting the ITM target is the communication of trade details between trade-matching parties. This includes the means used by trade-matching parties to transmit trade orders and notices of execution, how the parties send and receive allocations, and the timing of the exchange of trade details between trade-matching parties.

A number of tools may be used to further improve ITM rates, such as the adoption of order management systems (OMS) or the use of MSUs, together with moving from end-of-day batch processing to more frequent intra-day or real-time processing.

For instance, to capture trade allocations from advisers into internal systems, a dealer could use electronic interfaces. An internal system would enrich the account information and trade details, then send the trade details for overnight processing into back office systems and on to CDS for clearing and settlement processing. Similarly, the nature of the money management business practically requires advisers to consider the full spectrum of connectivity to other trade-matching parties. Their ITM rates depend upon their ability to improve electronic communication among all trade-matching parties so that the exchange of information is accurate, timely and involves minimal human intervention.

¹ Part 1 of Regulation 24-101 defines registered firms as a person registered under securities legislation as a dealer or adviser.

² Regulation 24-101 defines a DAP/RAP trade as a trade (a) executed for a client trading account that permits settlement on a delivery or receipt against payment basis through the facilities of a clearing agency, and (b) for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade.

The following are CSA staff's general findings:

1. Challenges remain in achieving the Regulation's current noon on T+1 matching target. In particular, small volume institutional equity dealers and some medium and small value debt dealers are well below the 90% ITM target.
2. For the past 15 months, CDS industry data shows that the average percentage of trades entered (submitted) at noon on T+1 into CDS has remained around 90% and the average percentage of matched trades fluctuated from 80% to 86%. This indicates that market participants have reached a significant ceiling in their ability to meet the current ITM target, or reaching the ITM target has become less of a focus.
3. Dealers have made significant progress in entering their trades at CDS on a timely basis. However, more trades should be reported earlier in the day on T, giving counterparties additional time to match trades before noon on T+1 or to resolve any trade matching issues earlier. CSA staff noted the lack of progress made by small volume equity dealers in both entering their trades into CDS and matching their trades by the ITM target. Among all debt dealers that submitted exception reports, small value debt dealers had the most difficulties in reaching the ITM target.
4. In general, communication of trade details between trade-matching parties seemed to be a major challenge for all registered firms.
5. Many registered firms that submitted exception reports stated that the limitation of internal systems, such as lack of, or insufficient, automation of internal data processing systems, together with poor internal processes were other challenges they had to overcome. Some registered firms mentioned looking at alternatives to acquire new technologies (such as an OMS) or improving connectivity with other trade-matching parties.
6. Our review of the qualitative information provided by registered firms in their F1 exception reports indicates that market participants have made concerted efforts to address the challenges they faced in meeting the ITM rates. Most registered firms reported that they worked with counterparties, improved automation and hired and/or trained existing staff to address many of the challenges.
7. Based on our review of Exhibit B (*Reasons for non-compliance*) and Exhibit C (*Steps to address delays*) of the F1s, most registered firms took meaningful steps toward meeting the ITM target during the first two or three quarters after the implementation of the Regulation. However, responses by registered firms in Exhibits B and C in the last four quarters seemed to be repetitive.

V. Quantitative Analysis

We conducted quantitative analysis to assess:

- 1) Overall industry performance in achieving the ITM target, and
- 2) Progress of registered firms in achieving the ITM target.

a. Methodology

CDS data

To assess overall industry progress, CSA staff used data provided by CDS to monitor ITM rates since the implementation of the Regulation in 2007. CDS ITM rates are commonly accepted as the industry's benchmark. While CDS data does provide individual ITM information for registered dealers that are direct participants of CDS, it does not provide any ITM information for registered advisers.

Table A-1 in the Appendix provides overall CDS ITM rates for both equity and debt based on volume from April 2007 to December 2009.

F1 exception reports

We used F1 exception reports to assess the progress of registered firms (that were required to report) in achieving the ITM target. We structured our analysis by the type of registered firm that submitted the F1 exception report (i.e. dealer or adviser) and the type of security that was reported (i.e. equity or debt).

We created the following four categories of registered firms:

- 1) equity dealer
- 2) debt dealer
- 3) equity adviser
- 4) debt adviser

Each category was divided into three sub-groups, “large”, “medium” and “small”, based on specific criteria. To assign a subgroup to:

- an equity dealer, we used the average number of institutional equity trades entered into CDS for the review period;
- a debt dealer, we used the average value of institutional debt trades entered into CDS for the review period;
- an equity adviser, we used the average number of institutional equity trades matched during the review period; and
- a debt adviser, we used the average value of institutional debt trades matched during the review period.

Table 1. Dealer and adviser categories

Category	Large Volume (Equity)/ Value (Debt)	Medium Volume (Equity)/Value (Debt)	Small Volume (Equity)/Value (Debt)
Equity Dealer	40,000 trades or more	4,000 to less than 40,000 trades	Less than 4,000 trades
Debt Dealer	\$10 billion or more	\$100 million to less than \$10 billion	Less than \$100 million
Equity Adviser	5,000 trades or more	1,000 to less than 5,000 trades	Less than 1,000 trades
Debt Adviser	\$2 billion or more	\$100 million to less than \$2 billion	Less than \$100 million

For each category, we analyzed exception reports from January 2008 to the end of September 2009 (the period under review)³. This analysis is based on the accuracy of the information provided to us through different reporting means.

b. Overall industry performance in achieving the ITM target

Since the implementation of the Regulation in April 2007, CDS quarterly submissions showed that the industry made steady progress toward meeting the ITM target. CDS started measuring the ITM rates at noon on T+1 beginning in June 2007. At that time, the industry’s ITM rate at midnight on T was 23.48% and at noon on T+1 was 61.89%.

Currently, the industry’s ITM rate at midnight on T is 45.24% and at noon on T+1 is 84.65%. (see Table A-1 in the Appendix) The improvement in the ITM rates at midnight on T and at noon on T+1 is notable for both DAP/RAP equity and debt trades.

However, our review of the ITM data indicates that, despite significant progress since 2007, the industry is not achieving the Regulation’s current noon on T+1 matching target of 90%. The data for equity shows that the ITM rate at noon on T+1 fluctuated from 82% to 87% during the past 15 months and the ITM rate for debt remained around 81% to 83% during the same time period. See Tables A-2 and A-3 in the Appendix.

Our review of the MSUs data indicates that the use of MSUs by registered dealers is limited in the existing institutional trading environment. Based on the information we received, MSU subscribers are currently using the services of an MSU for processing equity trades only. Since MSU reports began in October 2007, an average of more than 90% of equity trades processed through the MSU have been

³ Prior to January 1, 2008 the ITM target was 80% of DAP/RAP trades matched by noon on T+1. Consequently, we decided not to include exception reporting data prior to January 1, 2008 into our analysis.

matched and sent to CDS by midnight on T. This suggests that using an MSU can significantly improve ITM performance.

Chart 1. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched midnight on T

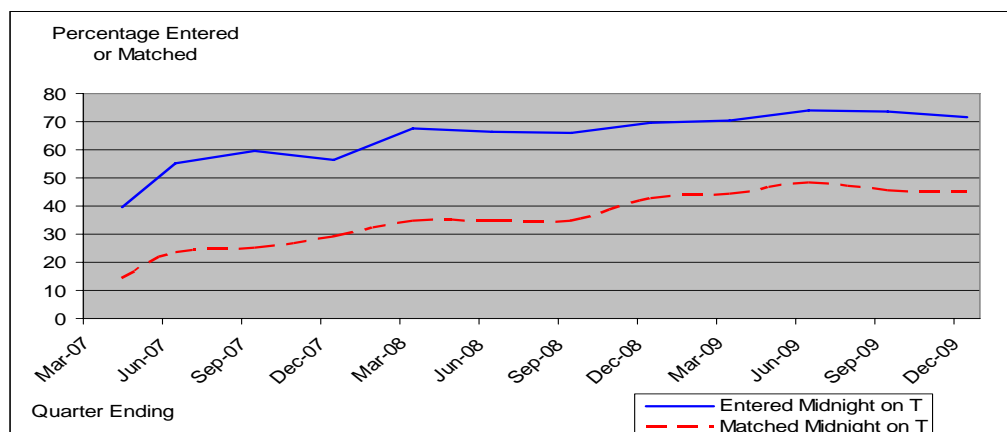
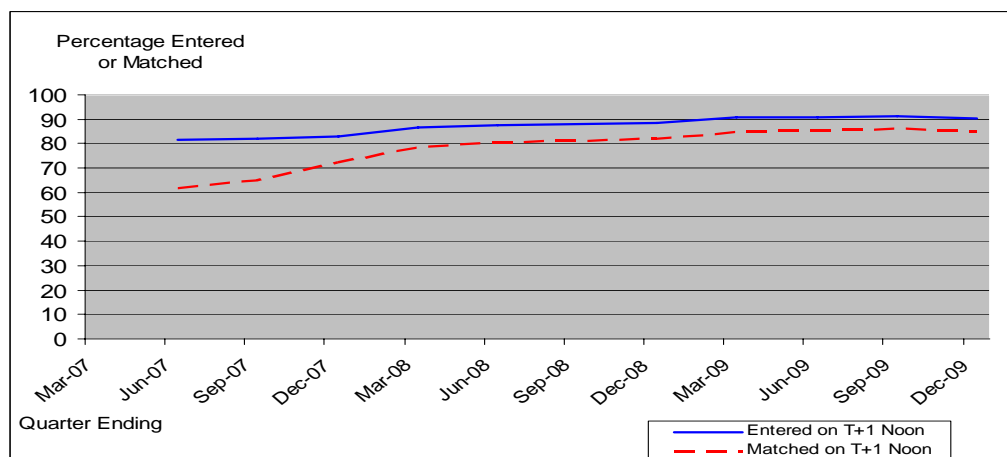


Chart 2. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched noon on T+1



c. Progress of registered firms in achieving the ITM target

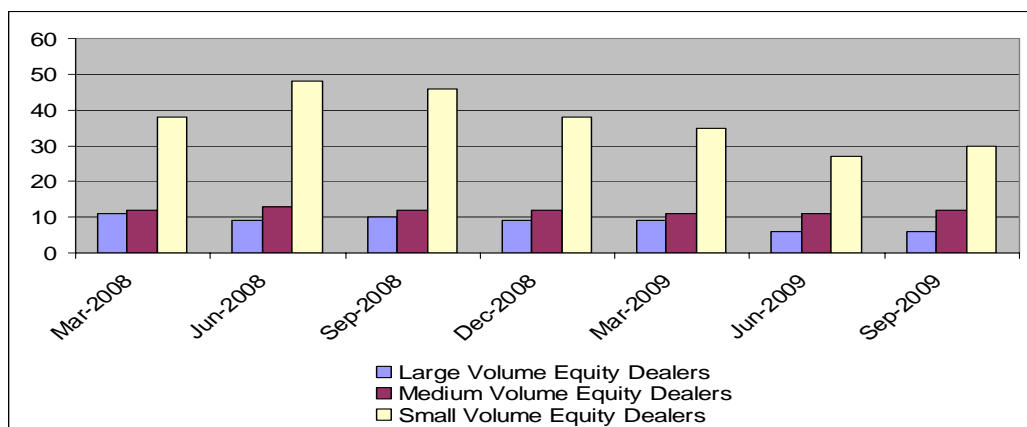
1. Dealers – Equity Trading

The size of the firm appears to have an impact when trades are processed and matched. However, size appears to have less of an impact on the submission of trades into CDS. CSA staff noted the lack of progress made by small volume equity dealers in both entering their trades into CDS and matching their trades by the ITM target.

Table 2. Equity dealers exception reports

The following table shows the number of F1 exception reports submitted by dealers for equity DAP/RAP trades during the review period.

F1s Submitted	Equity Dealers by Volume Entered			
	Large Volume	Medium Volume	Small Volume	Total
Total F1s Submitted	60	83	262	405
Average F1/Quarter	9	12	37	58

Chart 3 – F1 Exception reports submitted by equity dealers (matched by volume)

The data submitted by dealers that execute equity DAP/RAP trades shows that both large and medium volume equity dealers manage to enter (submit) into CDS a similar percentage of their total equity DAP/RAP trades. However, they do not match at similar levels. The matching levels of medium volume equity dealers are approximately 6 per cent less at noon on T+1 than the large volume dealers. Small volume equity dealers entered (submitted) into CDS approximately 83% of their equity DAP/RAP trades. Their matching levels are behind the first two categories, at approximately 62%.

Table 3. F1 ITM equity rates – equity dealers by volume⁴

	Large Volume Equity Dealers		Medium Volume Equity Dealers		Small Volume Equity Dealers	
	Entered	Matched	Entered	Matched	Entered	Matched
Average Entered by Noon T+1	88.14		88.44		82.70	
Average Matched by Noon T+1		82.17		76.43		62.25

Table B in the Appendix provides more details on the ITM equity rates for dealers, showing how the ITM rates changed from quarter to quarter during the review period.

2. Dealers – debt trading

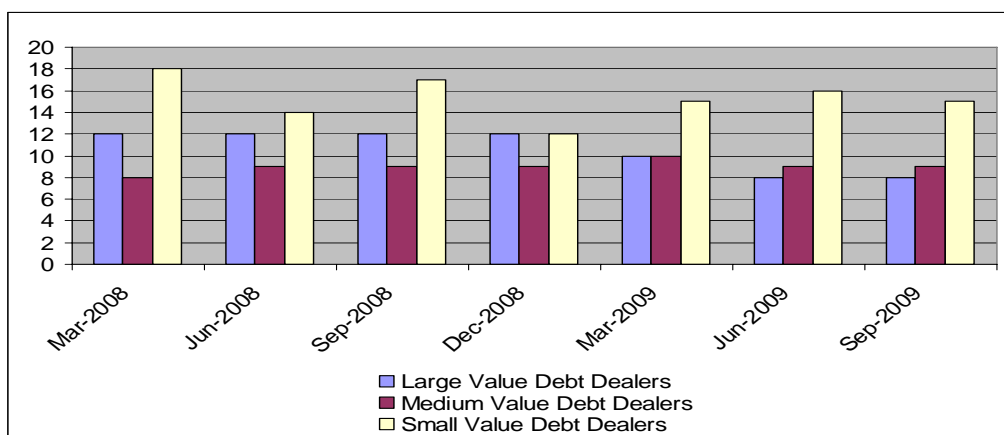
Small and medium value debt dealers have difficulty meeting the noon on T+1 benchmark as their matching rates are well below the 90% ITM target. Among all debt dealers that submitted exception reports, small value debt dealers had the most difficulties in reaching the ITM target.

Table 4. Debt dealers F1 exception reports

The following table shows the number of F1 exception reports submitted by dealers for debt DAP/RAP trades during the review period.

F1s Submitted	Debt Dealers by Value Entered			
	Large Value	Medium Value	Small Value	Total
Total F1s Submitted	74	63	107	244
Average F1/Quarter	11	9	15	35

⁴ The Entered and Matched volumes are calculated as simple averages for the respective category.

Chart 4 – F1 exception reports submitted by debt dealers (matched by value)

The data submitted by dealers that execute debt DAP/RAP trades shows that large value debt dealers entered (submitted) into CDS approximately 90% of their average dollar value traded, and matched approximately 77% of all debt DAP/RAP trades by noon on T+1.

The small and medium value debt dealers reported that approximately 75% of their debt DAP/RAP trades were entered (submitted) into CDS by the deadline. The medium value debt dealers matched approximately 61% of their debt DAP/RAP trades, while the small value debt dealers only matched 41.5%.

Table 5. F1 ITM debt rates – debt dealers by value

	Large Value Debt Dealers		Medium Value Debt Dealers		Small Value Debt Dealers	
	Entered	Matched	Entered	Matched	Entered	Matched
Average Entered by Noon T+1	90.48		75.00		74.19	
Average Matched by Noon T+1		77.03		61.21		41.56

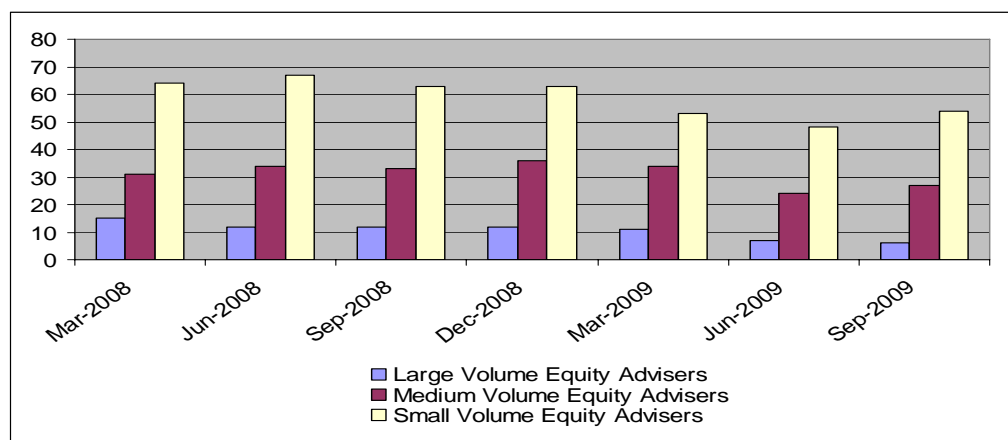
Table C in the Appendix provides more detail on the ITM debt rates for dealers, showing how the ITM rates changed from quarter to quarter during the review period.

3. Advisers – equity trading

Table 6. Equity advisers F1 exception reports

The following table shows the number of F1 exception reports submitted by advisers for equity DAP/RAP trades during the review period.

	Equity Advisers by Volume Matched			
	Large Volume	Medium Volume	Small Volume	Total
Total F1s Submitted	75	219	412	706
Average F1/Quarter	11	31	59	101

Chart 5 – F1 exception reports submitted by equity advisers (matched by volume)

The data provided by equity advisers shows that the ITM rates of large and medium volume equity advisers are around 80%, while the rates of small volume equity advisers are slightly under 70%.

Table 7. F1 ITM equity rates – equity advisers by volume

	Large Volume Equity Advisers	Medium Volume Equity Advisers	Small Volume Equity Advisers
Average Matched by Noon on T+1	83.99	80.67	68.11

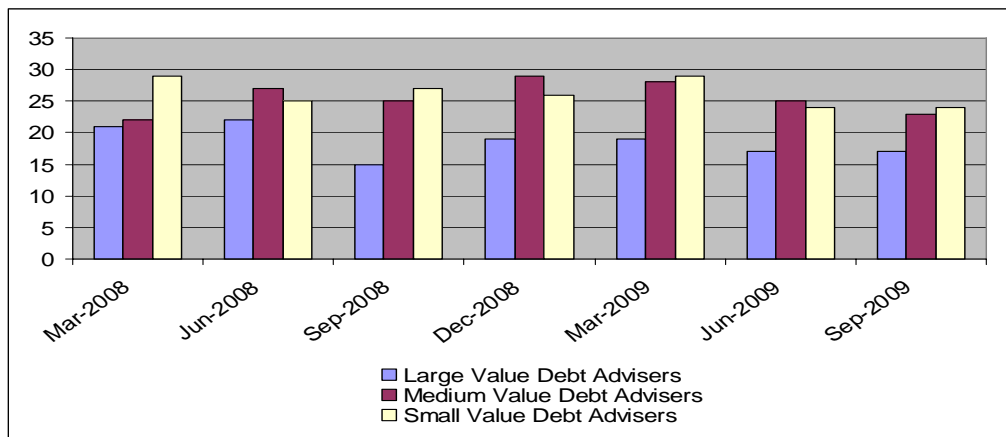
Table D in the Appendix provides more detail on the ITM equity rates for advisers, showing how the ITM rates changed from quarter to quarter during the review period.

4. Advisers – debt trading

Table 8. Debt advisers F1 exception reports

The following table shows the number of F1 exception reports submitted by advisers for debt DAP/RAP trades during the review period.

	Debt Advisers by Value Matched			
	Large Value	Medium Value	Small Value	Total
Total F1s Submitted	130	179	184	493
Average F1/Quarter	18	26	26	70

Chart 6 – F1 exception reports submitted by debt advisers (matched by value)**Table 9. F1 ITM debt rates – debt advisers by value**

	Large Value Debt Advisers	Medium Value Debt Advisers	Small Value Debt Advisers
Average Matched by Noon on T+1	76.90	68.05	59.44

The ITM rates reported by large value debt advisers were around 77%, while medium and small value debt advisers were below 70%.

Table E in the Appendix provides more detail on the ITM debt rates for advisers, showing how the ITM rates changed from quarter to quarter during the review period.

VI. Qualitative Analysis

The qualitative analysis consisted of:

- 1) An analysis of the information registered firms provided in Exhibit B *Reasons for non-compliance* and Exhibit C *Steps to address delays* of their F1 exception reports, and
- 2) Discussions with stakeholders.

a. Methodology

The CSA used information provided in Exhibit B and Exhibit C of the F1 to conduct an in-depth analysis of the reasons why registered firms did not meet the ITM target and how they addressed any challenges relating to their internal and external processes. This analysis looks at the challenges faced by dealers and advisers, irrespective of the type of security reported. We also had discussions with some stakeholders to obtain additional information.

CSA staff developed criteria for categorizing the information in Exhibits B and C of the Form F1. The criteria categorize:

- (i) the reasons why the registered firm was unable to achieve the ITM target for the calendar quarter, and
- (ii) the steps the registered firm took during the quarter to address the delays.

In categorizing the reasons why the registered firms were unable to achieve the ITM target, CSA staff considered internal and external processing issues, internal and external information technology issues and other concerns raised by registered firms in Exhibit B of the F1.

In categorizing the steps taken by registered firms to address delays, CSA staff considered internal and external measures and any other additional information provided by registered firms in Exhibit C of the F1.

This information provided to us in Exhibit B and Exhibit C of the F1 is subjective and may be interpreted subjectively by CSA staff.

b. Analysis of registered firms' discussion of "Reasons for non-compliance" and "Steps to address delays" in their exception reports

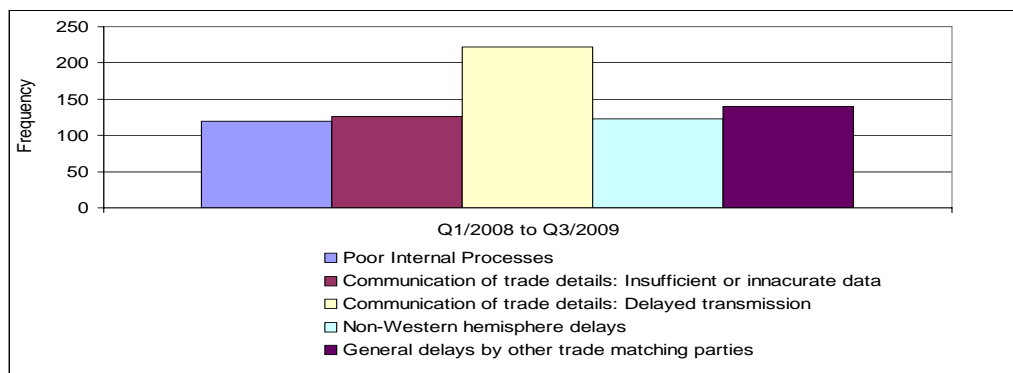
Dealers

Analysis of the "reasons for non-compliance"⁵

In general, dealers indicated that a key challenge in meeting the ITM target is the communication of trade details between trade-matching parties. Many dealers mentioned that the exchange of trade details between parties often contains insufficient or inaccurate data or is received too late to be processed within established timelines.

Another problem noted by dealers was the limitation of internal systems combined with poor processes and procedures that continue to be used within the firm. In particular, some equity dealers stated that the volume of non-western hemisphere trading they execute was an impediment in meeting the ITM target.

Chart 7 – Dealers - Exhibit B – main reasons for not meeting ITM target



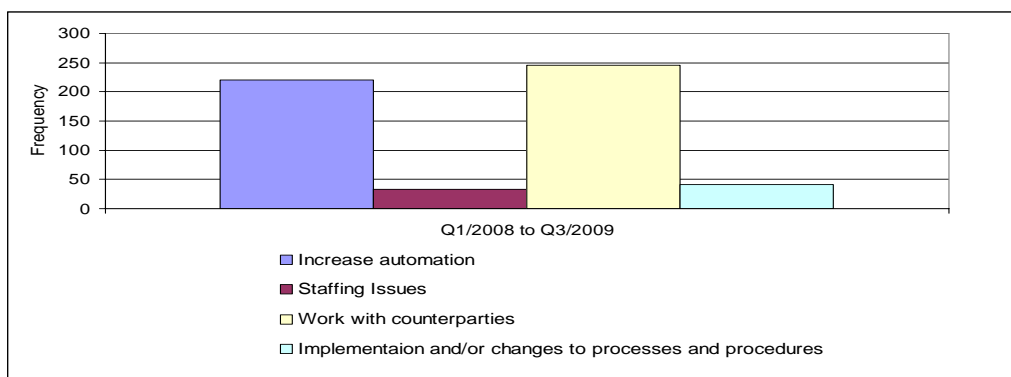
Analysis of the "steps to address delays"

Dealers have taken similar steps to address the delays. Many have worked with counterparties to identify processes that could be improved through either changes in internal systems or in staff behaviour.

Other steps included:

- increasing automation within the firms to eliminate or replace previously manual processes
- training existing staff on Regulation 24-101 requirements or adding new dedicated staff members
- implementing and/or changing processes and procedures.

⁵ The title of Exhibit B of the F1 is "reasons for non-compliance". As discussed in the CSA Notice of Amendments, the title to Exhibit B is being amended to read instead as "reasons for not meeting exception reporting thresholds".

Chart 8 – Dealers – Exhibit C – main steps to address delays**Observations**

Dealers consistently identified communication of trade details between trade-matching parties as an impediment in meeting the 90% matching on T+1 noon. Information they receive from counterparties is often inaccurate, insufficient or transmitted late when compared to their trade processing schedule. A dealer's counterparty is usually an adviser who needs to provide the details of the trade and, after the trade is executed, the allocations for the respective trade and the adviser's designated custodian who needs to confirm all trade details. Many advisers still send trade details and allocations by phone, fax or email. As a result, custodians are late in affirming trade details.

Dealers noted that their internal processes need to be automated. For instance, a firm should use electronic interfaces to capture trade allocations from advisers into internal systems. The internal system enriches the account information and trade details then sends the trade details for overnight processing into back office systems and on to CDS for clearing and settlement.

Another factor for some dealers is the amount of non-western hemisphere trading they execute. One of the concerns expressed is the inability to track or segregate DAP/RAP trades originating from non-western hemisphere clients or counterparties because CDS and back office services providers do not facilitate the tracking of this information. Also, many dealers believe that other trade-matching parties are generally responsible for trades not meeting the noon on T+1 matching threshold.

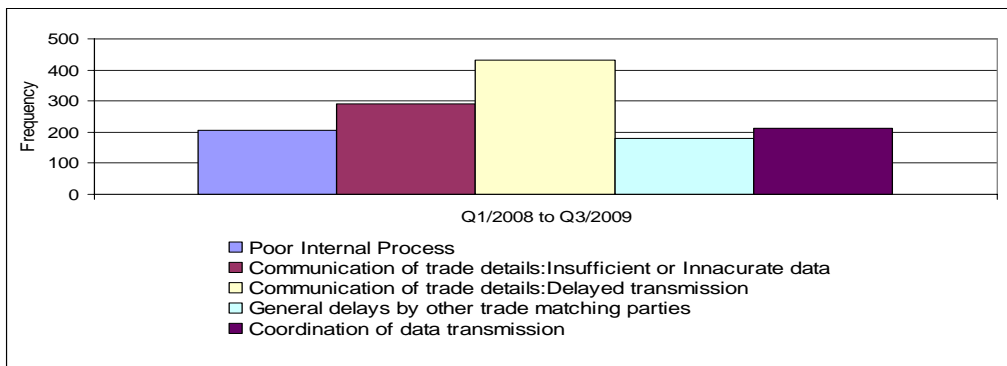
Advisers**Analysis of the "reasons for non-compliance"**

In general, advisers indicated that their main challenge was communication of trade details between trade-matching parties. They also noted that their ability to identify the bottlenecks in the institutional trade process depends on the quality of the information received from the trade-matching parties that provide their ITM performance data.

Many advisers mentioned that without sufficient explanations, they could not investigate delays appropriately. Some stated that insufficient or unclear ITM information provided by counterparties makes it difficult to identify why the trade processing is obstructed.

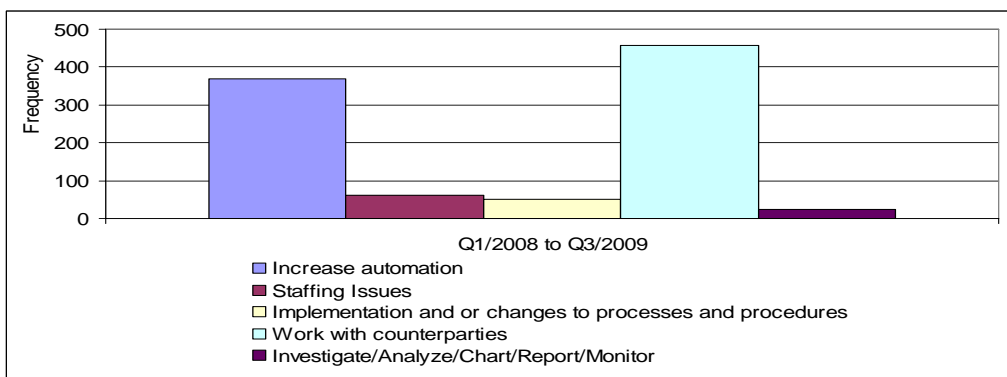
Another challenge for advisers is the coordination of data transmission between trade-matching parties. They remarked that their ability to meet the ITM rate depends on the timeliness of the exchange of trade details between parties that are, in general, outside their control.

Advisers also mentioned that poor internal processes were an issue.

Chart 9 – Advisers – Exhibit B – main reasons for not meeting the ITM target*Analysis of the “steps to address delays”*

Advisers reported working with counterparties to uncover the causes of the delays in the matching process. Some advisers initiated an investigative process where they would analyze the information provided by counterparties and monitor how the matching process takes place to discover any bottlenecks.

Other advisers encouraged counterparties to communicate and solve any issues related to the timeliness of data transmission. Many advisers noted efforts to improve automation through adoption of OMSs or enhancements in existing internal systems. They also reported the implementation of new policies and procedures or changes to existing ones and training or adding new dedicated staff (see Chart 10).

Chart 10 – Advisers – Exhibit C – main steps to address delays*Observations*

Communication of trade details was the most difficult challenge advisers faced. An important step in addressing this challenge was to increase automation of internal processes and improve connectivity with trade-matching parties.

Advisers also noted that identifying existing bottlenecks in data processing was an important item on their agenda. They worked with counterparties to clarify where trades are obstructed and encouraged counterparties or other third-party service providers to communicate and address any issues related to the timeliness of data transmission.

c. Discussions with stakeholders

CSA staff had discussions with market participants, service providers, industry groups and other stakeholders to obtain feedback on the challenges of meeting the ITM target, understand the efforts to improve their ITM performance rates, learn about any ongoing issues/problems with ITM requirements, and generally, to discuss broad issues associated with Regulation 24-101.

In general, we found that Regulation 24-101 has encouraged market participants to improve ITM middle and back office internal functions. For example, many market participants re-engineered and automated their processes.

However, less progress appears to have been made with external connectivity. Dealers noted that a recurrent issue is the high volume of trade information received by phone, fax or email. This may be related to the concern expressed by advisers about the cost of adopting an OMS. Another issue consistently raised by dealers was the delay in receiving allocation of trades.

Some advisers expressed concerns at the lack of use of MSUs, especially among dealers. Certain dealers also noted the high cost of using an MSU, which is similar to the concern of advisers about the high cost of acquiring an OMS.

VII. Conclusion

CSA staff recognize that market participants have made concerted efforts to achieve the Regulation's current noon on T+1 matching target. Our review of the data showed that since 2007, the industry has made steady progress in meeting the ITM target. However, despite these efforts many market participants have reached a significant ceiling in their ability to meet the ITM target. CSA staff will continue to monitor the industry's progress in achieving the ITM target.

Appendix**Table A-1. Overall ITM rates (equity and debt) from CDS data based on volume – percentage entered into CDS and matched during the quarter**

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	39.72	-	14.3	-
Jun-2007	55.32	81.7	23.48	61.9
Sep-2007	59.74	81.8	25.18	64.8
Dec-2007	56.34	82.9	29.28	72.3
Mar-2008	67.69	86.7	34.84	78.4
Jun-2008	66.48	87.5	34.62	80.6
Sep-2008	65.97	88.1	34.96	80.9
Dec-2008	69.78	88.3	42.72	82
Mar-2009	70.55	90.8	44.59	84.8
Jun-2009	73.96	90.7	48.24	85.2
Sep-2009	73.45	91.4	45.47	86.3
Dec-2009	71.43	90.2	45.24	84.7

Table A-2. Overall ITM rates (equity only) from CDS data based on volume – percentage entered into CDS and matched during the quarter

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	39.5	-	13.1	-
Jun-2007	53.5	81.2	21.7	62.9
Sep-2007	58.2	81.2	22.4	65.1
Dec-2007	54.4	82.9	27.2	73.0
Mar-2008	66.5	86.4	32.3	78.4
Jun-2008	65.5	87.5	32.7	81.1
Sep-2008	64.1	87.8	32.0	80.1
Dec-2008	69.2	88.1	41.3	82.2
Mar-2009	69.6	90.9	42.5	85.4
Jun-2009	73.7	90.9	46.6	85.9
Sep-2009	73.0	91.6	43.5	86.8
Dec-2009	70.6	90.3	43.4	85.2

Table A-3. Overall ITM rates (debt only) from CDS data based on volume – percentage entered into CDS and matched during the quarter

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	41.0	-	20.9	-
Jun-2007	63.2	83.5	31.4	57.5
Sep-2007	67.0	84.8	38.6	63.5
Dec-2007	66.0	82.6	39.6	68.8
Mar-2008	74.1	88.4	49.1	78.1
Jun-2008	71.7	87.2	45.6	77.9
Sep-2008	76.5	90.1	51.8	83.0
Dec-2008	73.3	89.3	51.0	80.6
Mar-2009	75.4	90.1	55.4	81.8
Jun-2009	75.5	90.0	55.9	82.1
Sep-2009	78.9	90.8	56.3	83.2
Dec-2009	75.7	89.3	55.5	81.7

Table B. ITM equity rates from FIs – equity dealers by volume⁶

Quarter Ending:	Large Volume Equity Dealers		Medium Volume Equity Dealers		Small Volume Equity Dealers	
	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1
Mar- 2008	87.10	80.49	85.12	69.00	82.20	63.07
Jun- 2008	87.23	80.60	88.88	74.54	87.74	59.55
Sep- 2008	87.15	81.33	87.07	75.63	81.65	61.54
Dec- 2008	81.88	75.73	87.14	75.18	84.49	64.12
Mar- 2009	91.87	86.06	89.76	78.18	82.97	63.21
Jun- 2009	90.14	84.09	90.80	80.56	85.19	65.18
Sep- 2009	91.59	86.90	90.33	81.88	77.64	59.10
Average Entered	88.14		88.44		82.70	
Average Matched		82.17		76.43		62.25

Table C. ITM debt rates from FIs – debt dealers by value

Quarter Ending:	Large Value Debt Dealers		Medium Value Debt Dealers		Small Value Debt Dealers	
	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1
Mar- 2008	89.68	73.27	72.77	59.50	76.96	49.67
Jun- 2008	86.22	72.37	64.38	54.47	76.74	42.65
Sep- 2008	90.74	78.25	83.71	58.40	77.57	53.09
Dec- 2008	88.15	73.08	73.16	62.98	77.83	34.34
Mar- 2009	93.34	78.03	80.09	65.62	80.29	45.74
Jun- 2009	93.23	81.06	76.56	59.71	67.00	33.63
Sep- 2009	92.01	83.16	74.29	67.82	62.98	31.77
Average Entered	90.48		75.00		74.19	
Average Matched		77.03		61.21		41.56

⁶ The Entered and Matched volumes are calculated as simple averages for the respective category.

Table D. ITM equity rates from F1s – equity advisers by volume

Quarter Ending:	Large Volume Equity Advisers	Medium Volume Equity Advisers	Small Volume Equity Advisers
	Matched by noon on T+1	Matched by noon on T+1	Matched by noon on T+1
Mar- 2008	81.14	73.96	64.41
Jun- 2008	84.00	77.95	67.35
Sep- 2008	85.61	82.93	69.09
Dec- 2008	86.07	80.11	65.14
Mar- 2009	86.41	84.91	73.65
Jun- 2009	80.69	79.73	66.34
Sep- 2009	84.05	85.13	70.81
Average Matched	83.99	80.67	68.11

Table E. ITM debt rates from F1s – debt advisers by value

Quarter Ending:	Large Value Debt Advisers	Medium Value Debt Advisers	Small Value Debt Advisers
	Matched by noon on T+1	Matched by noon on T+1	Matched by noon on T+1
Mar- 2008	71.43	65.64	54.18
Jun- 2008	72.16	62.73	52.09
Sep- 2008	76.68	71.77	58.12
Dec- 2008	76.21	66.07	61.01
Mar- 2009	78.75	73.87	59.29
Jun- 2009	80.86	64.65	66.87
Sep- 2009	82.20	71.59	64.51
Average Matched	76.90	68.05	59.44