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INSTITUTIONAL TRADE MATCHING: VMU SOLUTIONS

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Automation and Measurement: Ideas for operational efficiency and NI 24-101 success

FAS Annual Conference, September 28, 2007
Keith Walsh, Omgeo

THE PROMISE OF STRAIGHT THROUGH PROCESSING

- > COMPETITIVE EDGE
- > INCREASED PROFITABILITY
- > REDUCED RISK





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Agenda

- About Omgeo
- Canadian market overview
 - Market trends
 - NI 24-101
 - Why trade date match? Why SDA?
- Omgeo's offerings
 - *Automate* to promote trade date match: Omgeo CTM, OASYS Global
 - *Measure* your operational efficiency: Omgeo Benchmarks
- To learn more



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Omgeo & Our Mission

Omgeo is the market leader in post-trade, pre-settlement solutions. We work with clients to streamline their post-trade process, connecting partners and systems across the globe.

Our Mission

To increase operational effectiveness in the financial community.

By improving levels of efficiency, operations professionals can:

- reduce risk and costs
- better manage trade processing exceptions
- contribute to their organizations' profitability



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Our Background

A unique partnership between the industry's leading utility and the commercial sector, Omgeo is industry-backed and market-oriented.

- Equally owned by DTCC and Thomson Financial
 - DTCC: Clearance, settlement and information services for equities, fixed income, OTC credit derivatives, emerging market debt
 - Thomson Financial: Canada-based leading global provider of information and technology solutions to the worldwide financial community
- Industry-driven entity with U.S. SEC oversight & regulation on a number of offerings
- Nearly 30 years of experience servicing the world's securities industry, 20 within Canada



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A Powerful Community

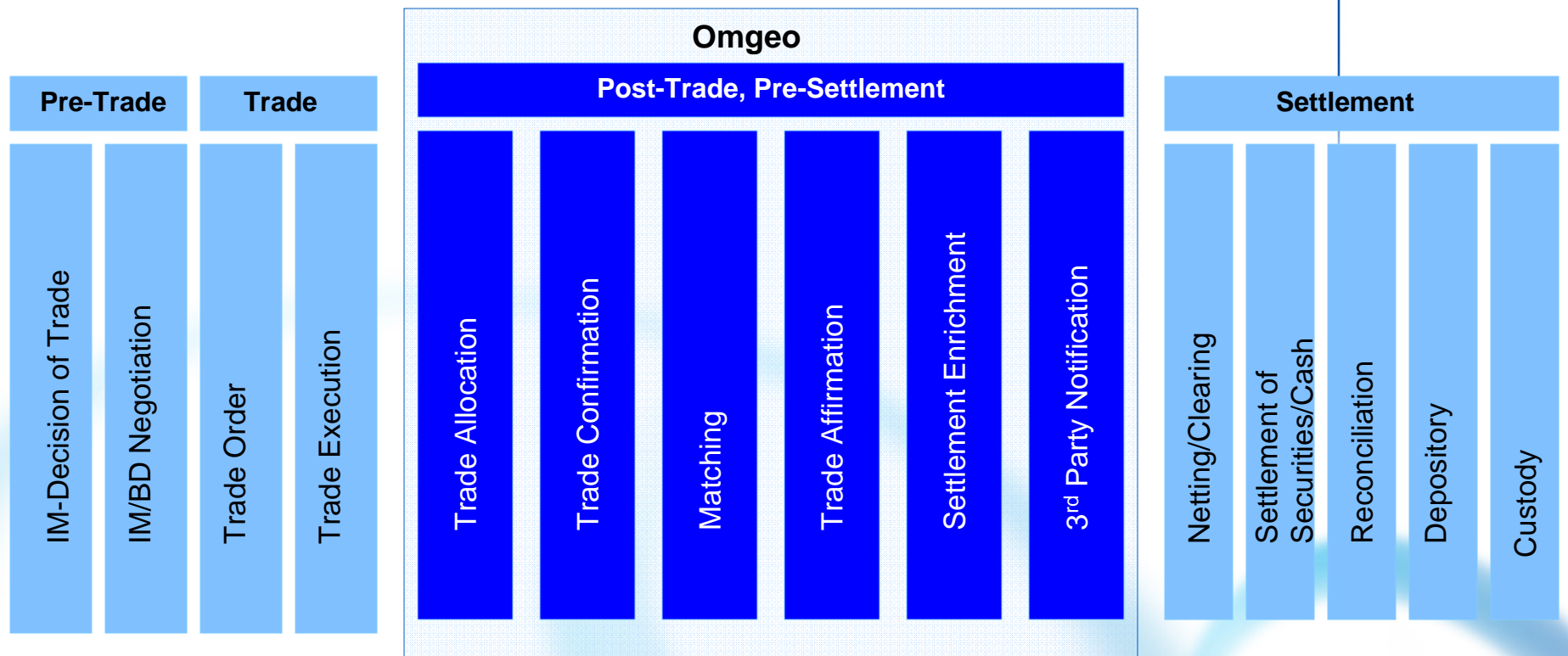
- Managing over 1.3 million transactions per day
 - Exceeded 2m fixed income transactions, EOY 2006
- Managing over 3.5m settlement instructions
- Servicing over 6,000 users in 42 countries around the world
 - Over 60 active Canadian clients
- Industry Participation
 - Board of Managers, Advisory Board, Working Parties
 - Established partnerships with leading technology providers worldwide
 - Charles River, Bloomberg, Macgregor, LatentZero, Advent, and more
- Regulatory/Depository Relationships

Omgeo

Where do we fit in the trade process?



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Canada Market Drivers and National Instrument (NI) 24-101

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Canada

Market Drivers



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- **Research confirms STP rates in Canada are not as high as in the US**
 - Approximately 53% on T+1 in Canada vs. 80% on T+1 in the U.S.
 - More than half of Canadian institutions process trades manually
 - Inefficient securities settlement processes cost industry \$140 million per year*
- **Market drivers & regulatory pressures**
 - Canadian regulatory mandates on achieving institutional trade matching (ITM)
 - Canadian Capital Markets Association (CCMA) published milestones to accelerate ITM growth

**Source: Capco*

Canadian Securities Administrators' *National Instrument 24-101*



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- Canada is at the forefront of an **evolving regulatory landscape**
 - NI 24-101 initially developed by the CSA in 2004 to promote efficient and timely processing and settlement of institutional trades.
- Primary requirements of this mandate include:
 - Providing a Trade Matching Statement or a Trade Matching Agreement before execution
 - Implementing procedures that **accelerate the trade process, enabling parties to meet trade date match** requirements within specified timelines
 - **Delivering exception reporting** for those trades that do not meet trade matching requirements

Why Trade Date Match (ITM/SDA)?

Why Regulation?



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ITM Bottom Line: Faster affirms = fewer fails

- Higher ITM = 50% fewer fails
- ITM necessitates electronic allocations – which is the critical first step in the STP chain
- “If I get an electronic allocation, it seems like I never fail on that trade”
– Omgeo broker client
- **SDA will focus industry on the real end game**
 - Reduced market risk
 - Fewer failed trades
 - Revenue increases through efficiency
 - Satisfied clients that provide profitable trading relationships for brokers
- **ITM won't happen without a regulatory mandate**
 - Best Practices alone won't cut it
 - NI 24-101 is the catalyst

Industry Perspectives



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- ***TowerGroup: The World Is Watching***
 - “Broad behavioral and technological changes will occur, particularly if the regulators specify penalties for noncompliance”
 - IM focus: trade automation
 - B/D focus: move from batch to real-time processing
 - Bank focus: react to all of the changes
 - “Financial institutions and vendors can learn from the best practices that emerge in the trading life cycle”

* *Source: TowerGroup, June 2006*



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Where do we go from here?

- ***Automate the trading process***
 - Leverage proven solutions that streamline your trading process by accelerating your post trade process and promoting ITM
 - Investment managers: Omgeo Central Trade Manager (Omgeo CTM)
 - Broker/dealers: Omgeo OASYS Global
- ***Measure your performance***
 - Take advantage of performance measurement solutions to measure your operational efficiency as well as compare your results with your peers.
 - Omgeo Benchmarks

Omgeo Central Trade Manager (Omgeo CTM)

Benefits of Automation



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- **Single platform** for cross-border and domestic trade management, fixed income and equity instruments
- **Central trade matching and automated exceptions-only processing:** minimal manual intervention for reduction of costs and risks
- **Customizable matching profiles:** identify mandatory and optional fields eligible for matching, set tolerances
- Automated **real-time SSI enrichment** from Omgeo ALERT
- **Instant counterparty connectivity**
- **Automated settlement notification** via SWIFT
- Adherence to **industry messaging standards** (SWIFT MT54x, ISITC)
- **“Follow the sun” processing capabilities** to increase productivity and reduce trade fails
- **Browser-based user interface** for exception viewing, processing and repairs



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Why Central Trade Management?

- Benefits of moving from low levels of automation to central trade management are enormous:
 - Operating costs reduced by up to **70%***
 - Trade failures reduced by up to **70%***
 - ITM rates increase to **80% and higher***
 - Relationship with trading counterparties dramatically improved
 - Ability to handle volume peaks is substantially increased

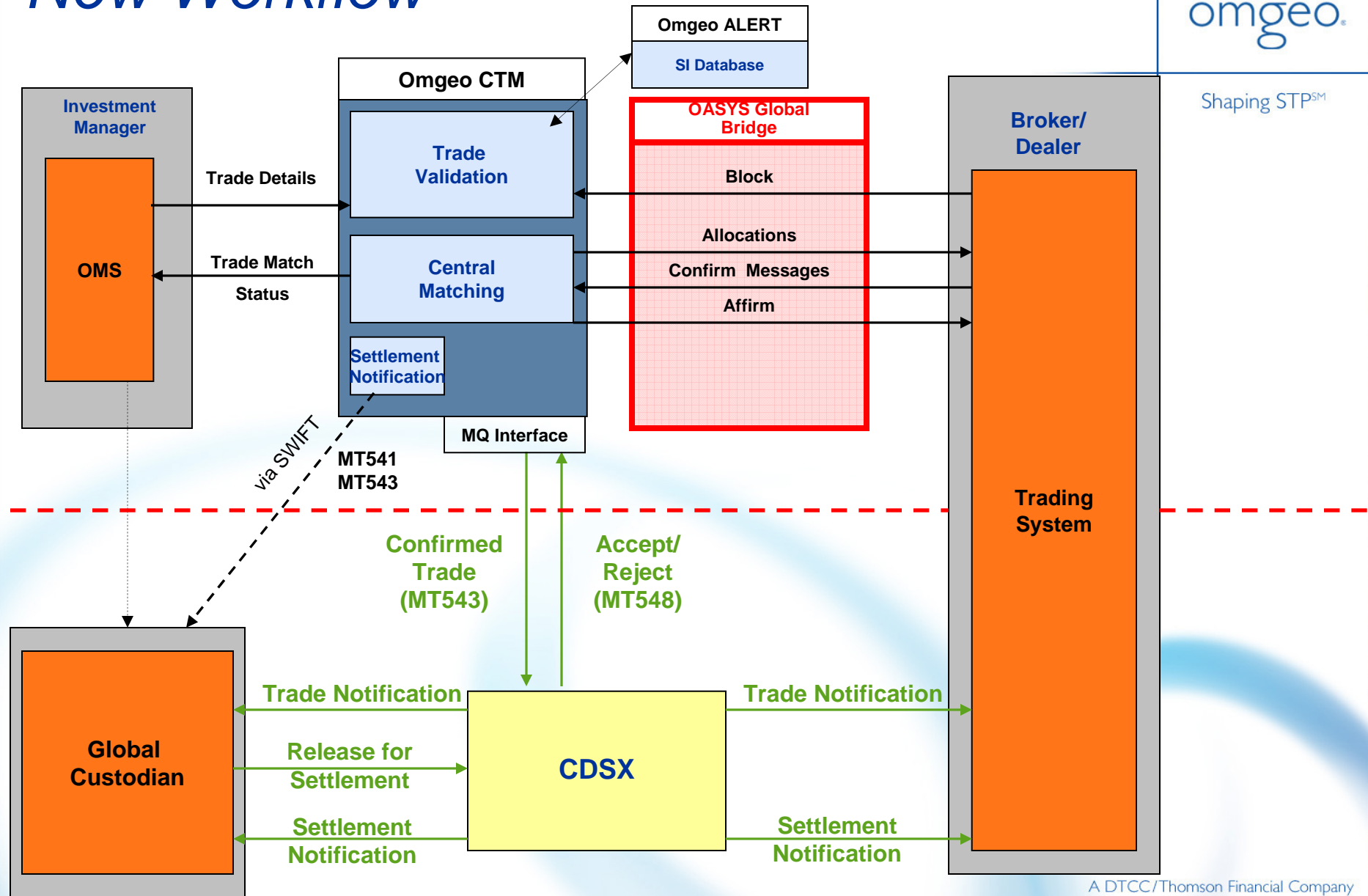
** Omgeo best in class clients*

Omgeo CTM with CDS Link

New Workflow



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In light of NI 24-101...

Value of Measuring Performance



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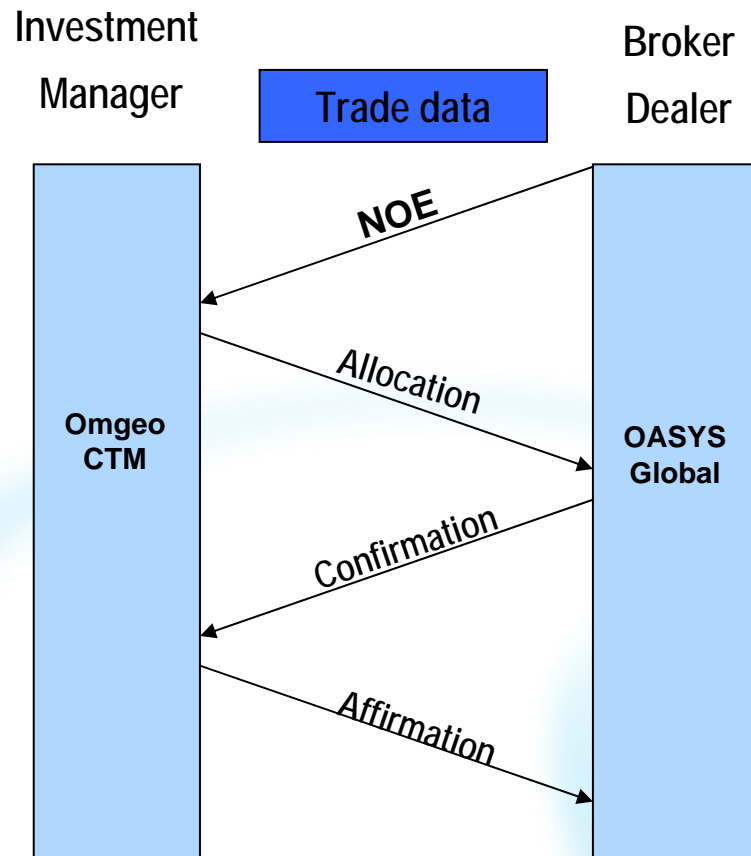
- How do you monitor and assess the performance of new systems and processes?
- How do you get the most from your investment?
- How do you identify any operational inefficiencies or areas for improvement?
- How do you track and assess the operational efficiency of your counterparties?
- How do you compare how you are performing compared to market averages and your peers?

Omgeo Benchmarks

What can your trading data tell you?



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Data extracted for Omgeo Benchmarks

- Market close to Omgeo OASYS Global Receipt
- Allocation to Contract timelines
- Same Day Confirmation %
- Same Day Affirmation (ITM) %
- Error rate %

Omgeo Benchmarks

Benefits of Performance Measurement



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- **Broker/dealers**

- Monitor and assess how you are performing for your clients
- Identify potential areas for improvement in post-trade processes
- Gain competitive edge by continually monitoring performance and taking the steps to improve beyond your peers

- **Investment managers**

- Assess efficiency of your operational performance and identify areas for improvement
- Track and assess broker performance identifying areas for investigation
- Use impartial data in management meetings and broker review meetings

Omgeo Benchmarks Summary



Omgeo Benchmarks Module	Key Elements	Delivery Timings	Delivery Mechanism	Audience
Omgeo Benchmarks Trade Analytics	Trading data Excel GUI front-end Counterparty Report	Weekly & monthly Tool provided on signing Monthly & Quarterly (as specified by the client)	Excel format via FTP site Download from www.omgeo.com Excel format via FTP site	Tiers 1, 2 and 3 investment managers, and tier 1 and 2 for brokers/dealers
Omgeo Benchmarks Peer-to-Peer Scorecard	Graphical representation of performance compared to 12 peers for key metrics	Quarterly	Excel format via FTP site	Investment managers and broker/dealers Tier 1 and Upper Tier 2
Omgeo Benchmarks Business Intelligence	Comprehensive written and face-to-face review with a consultant	Quarterly	Written presentation via email Consultancy provided in clients office	Broker/dealers Tier 1

In Summary



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- **NI 24-101 is the catalyst for change within the Canadian trading community**
 - Regulation promotes behaviorial and technological changes
 - Assessment of internal systems, capabilities and processes is a must
 - By increasing levels of operational efficiencies, as well as measuring performance, clients can reduce risks and costs while positioning their firm to meet the deadlines.
 - The time to act is now!

Thank you!



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APPENDIX

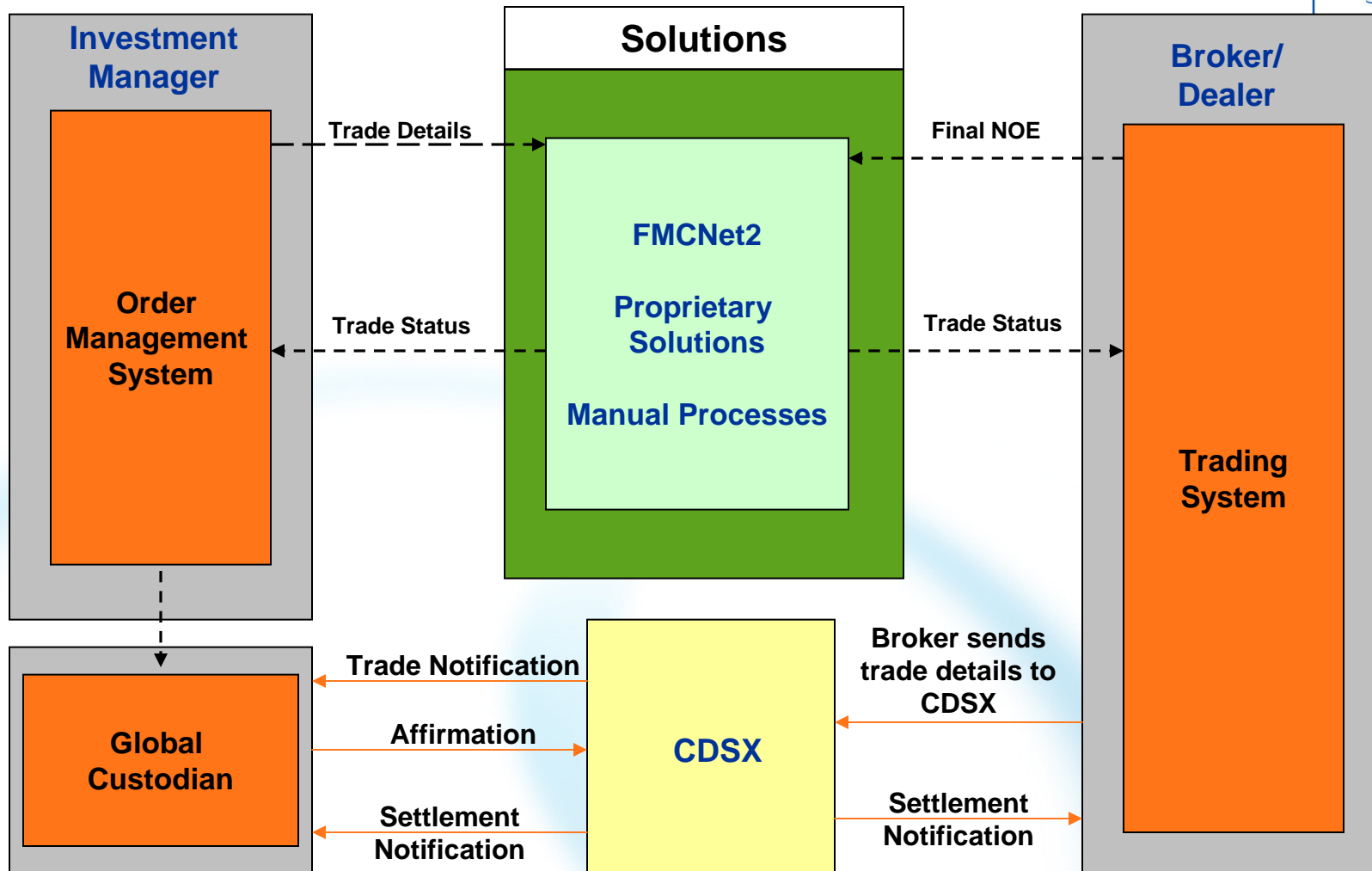


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Canadian Domestic Market Current Workflow



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National Instrument 24-101

Phased Targets



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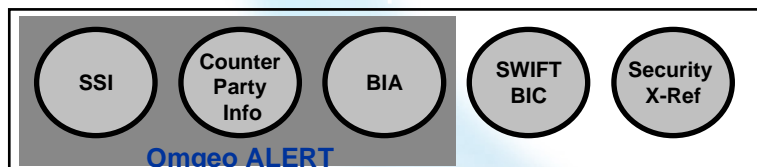
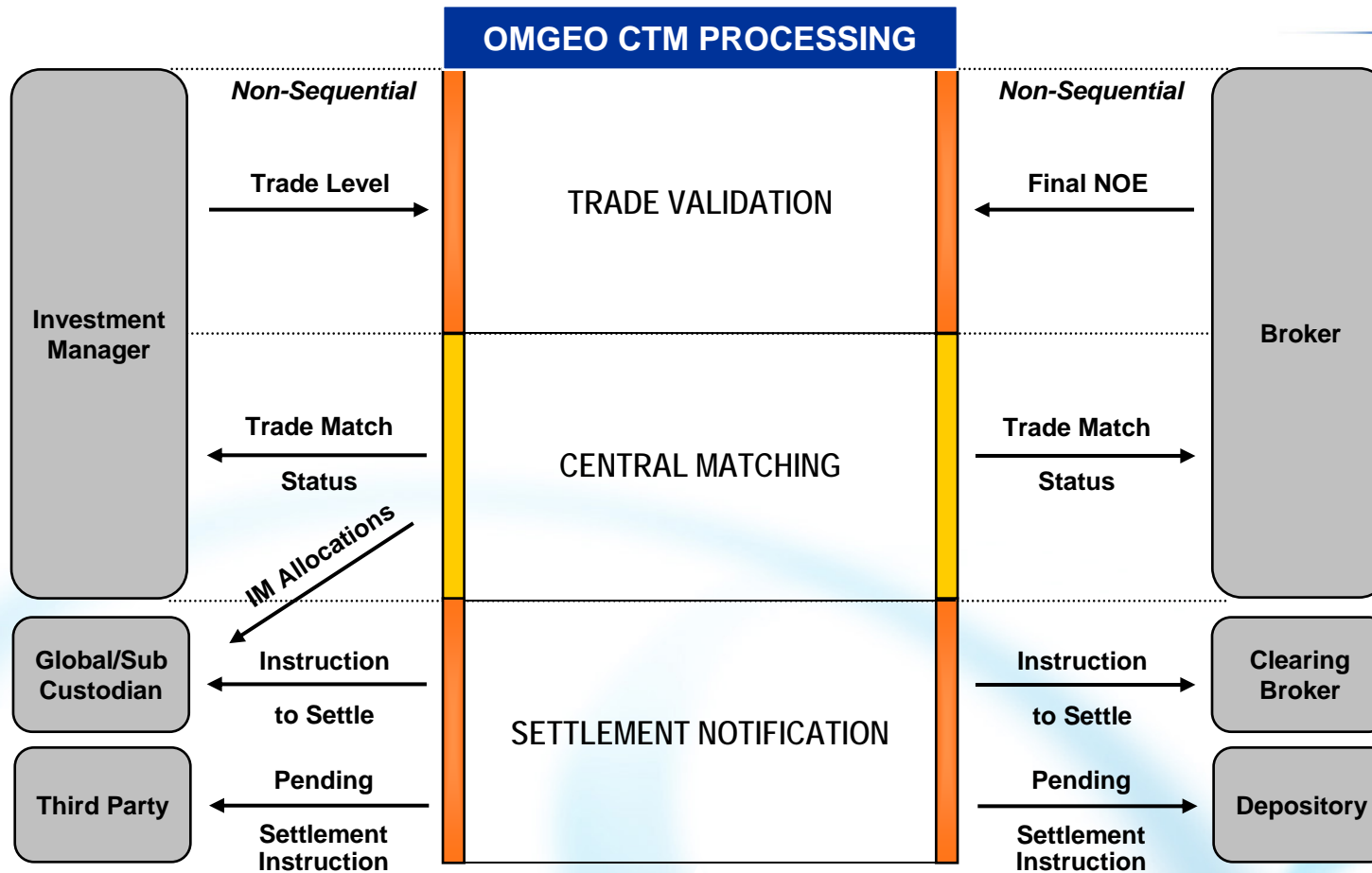
For trades executed during quarters shown	Matching deadline for trades executed before 4:30 p.m.	Performance targets to avoid exception reporting
Q2 & Q3, 2007	12:00PM (noon) on T+1	N/A (exception reporting not required)
Q4 2007	12:00PM (noon) on T+1	80% matched by deadline
Q1 & Q2, 2008	12:00PM (noon) on T+1	90% matched by deadline
Q3 & Q4, 2008	11:59PM on T	70% matched by deadline
Q1 & Q2, 2009	11:59PM on T	80% matched by deadline
Q3 & Q4, 2009	11:59PM on T	90% matched by deadline
Q1 2010 and beyond	11:59PM on T	95% matched by deadline

Source: Canadian Capital Markets Association, January 15, 2007 Final Notice

Omgeo CTM Workflow



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Trade Level (TL) = Block
Trade Detail (TD) = Allocation