



STP Initiatives / Institutional Trade Matching

FAS Annual Conference Business Session
September 10, 2004



Presentation Agenda – STP Initiatives

1

- CCMA report including:
 - ➔ Discussion of CCMA milestones
 - ➔ Capco study on STP preparedness and commentary on overall preparedness of Canadian community for STP
 - ➔ Recently revised CCMA STP priorities
- Details of proposed NI 24-101 and CP 24-101
- Responses to 25 Questions set out in DP 24-401
- Development of IDA Monitoring Report to measure compliance with Regulation 800.49
- Next steps





STP Initiatives - CCMA Report

2

- CCMA milestones
- Capco study on STP preparedness and commentary on overall preparedness of Canadian community for STP
- Recently revised CCMA STP priorities



STP Initiatives – CSA Proposals on Straight Through Processing

3

- Details of proposed NI 24-101 and CP 24-101
 - ➔ It is proposed that all dealers who execute depository eligible trades be required to match those trades by the close of business on trade date, effective July 1, 2005 [NI 24-101, Section 3.1]
 - ➔ To ensure institutional clients of the dealer adhere to the match on trade date requirement it is also proposed that a Trade-Matching Compliance Agreement must be signed [NI 24-101, Section 3.2]
 - ➔ Establishment of definition of Matching Service Utility [NI 24-101, Section 3.2]





STP Initiatives – CSA Proposals on Straight Through Processing

4

- Details of proposed NI 24-101 and CP 24-101 (con't)
 - ➔ Establishment of regulatory requirements for Matching Service Utility [NI 24-101, Section 4]
 - ➔ Establishment of CSA requirement to settle on T+3 [NI 24-101, Section 5.1]



STP Initiatives – CSA Proposals on Straight Through Processing

5

- Responses to 25 Questions set out in DP 24-401
 - ➔ 21 commenters responded to the request for comments including the CDS, the CCMA, the IDA, the TSX, and individual dealers, custodians and investment managers
 - ➔ Comments were relatively consistent
 - ➔ The following is a summary of comments by question:
 - Q1 – Should readiness certificates be required?
 - A1 – The vast majority of respondents commented that certificates were not necessary.





STP Initiatives – CSA Proposals on Straight Through Processing

6

- Q2** – Should the Canadian Capital Markets move to STP in tandem with the U.S.?
- A2** – The consensus response was that moving in tandem with the U.S. on STP readiness was not as critical as moving in tandem with the U.S. on T+1 settlement. However, specific to STP readiness, there was a divergence of responses with some commenters suggesting that Canada should move in lockstep with the U.S. and others suggesting that Canada can lag behind the US somewhat as long it does not materially affect our ability to move to T+1 settlement.



STP Initiatives – CSA Proposals on Straight Through Processing

7

- Q3** – Should it be one of the CCMA's tasks to identify the critical path to reach specific STP goals?
- A3** – The consensus response was “yes” and that institutional trade processing was the key initiative
- Q4** – Should the CSA require trade matching on trade date?
- A4** – There was general agreement as to the ultimate objective (trade matching on trade date) but a number of different views as to how to achieve it. A phased-in approach involving SRO rulemaking (either exclusively or in combination with CSA rules) was suggested by most. There was universal agreement that trade matching on T was not achievable by July 1, 2005.





STP Initiatives – CSA Proposals on Straight Through Processing

8

- Q5** – Is a close of business definition required?
- A5** – There was general agreement that either a close of business definition or service cutoff time would be required. Most suggested 7:30 PM, the current CDS cutoff time.
- Q6** – Should trade data elements required be identified in NI?
- A6** – There was general agreement that trade data elements need not be identified in the NI. One commenter suggested that the trade data elements be published by CDS.



STP Initiatives – CSA Proposals on Straight Through Processing

9

- Q7** – Should CSA rely on best practices and standards published by CCMA ITPWG?
- A7** – The consensus response was “yes”.
- Q8** – Is scope of NI appropriate?
- A8** – The consensus response was “yes”.
- Q9** – Is proposed “contractual method” the best method?
- A9** – The consensus response was that the “contractual method” was not favoured due to the policing burden that would be placed on the dealers. Most alternative approaches suggested were those that involved enhancing the contractual method (i.e., tri-party agreement to include custodians, adoption of requirement by all financial regulators)





STP Initiatives – CSA Proposals on Straight Through Processing

10

- Q10** – Should an exception to matching on trade date be granted for trades where the parties are unable to agree on trade details?
- A10** – The consensus response was that a longer timeframe should apply where the parties are unable to agree on trade details. Some commented that trades qualifying for this longer matching timeframe would need to be clearly defined while others commented that a trade reporting standard should still be met for these trades.



STP Initiatives – CSA Proposals on Straight Through Processing

11

- Q11** – Should all exception to matching on trade date be reported?
- A11** – The consensus response was that reporting of exceptions on a trade by trade basis should not be required. A preferred approach suggested by a number of respondents was overall compliance reporting (the IDA approach to broker to broker trade matching was cited as an example of this approach)
- Q12** – Is it necessary to mandate the use of a matching service utility in Canada?
- A12** – The consensus response was “no”.





STP Initiatives – CSA Proposals on Straight Through Processing

12

Q13 – Should the scope of the matching service utility be broader?

A13 – The consensus response was “no” although a number of commenters reiterated that such a utility should not be mandated and therefore they had “no comment” on its scope.



STP Initiatives – CSA Proposals on Straight Through Processing

13

Q14 – Are the filing and reporting requirements for the matching service utility sufficient?

A14 – A consensus response was that a matching service utility should not be required to be recognized as a clearing agency. There was a divergence of responses as to whether a matching service utility should be subject to regulation with some commenters arguing for specific regulatory requirements for matching service utilities, others arguing to treat as third party vendors with regulatory oversight and still others arguing for no regulatory requirements.





STP Initiatives – CSA Proposals on Straight Through Processing

14

- Q15** – Can the Canadian capital markets support more than one matching service utility?
- A15** – The consensus response was that market forces would determine the number of matching service utilities that are established.
- Q16** – Should the CSA mandate a T+3 settlement cycle and in turn a T+1 settlement cycle when the U.S. moves to T+1?
- A16** – The consensus response was that CSA rulemaking was unnecessary although one commenter supported a CSA T+1 rule.



STP Initiatives – CSA Proposals on Straight Through Processing

15

- Q17** – Should the CSA require the reporting of corporate actions into a centralized hub?
- A17** – The consensus response was that a centralized hub was a good idea but many respondents suggested that this was not a priority item.
- Q18** – Should the CSA wait until a hub is developed before imposing any requirements?
- A18** – There was a mixture of responses to this question including: (i) the business case for a centralized hub should be studied further, (ii) imposing rules is necessary to provide the impetus for the development of a hub, and (iii) imposing rules prematurely may unduly add to industry costs.





STP Initiatives – CSA Proposals on Straight Through Processing

16

- Q19** – Should the CSA require issuers and offerors to make LVTS entitlement payments?
- A19** – The consensus response was that issuers and offerors should make LVTS entitlement payments but about half of the respondents suggested that a CSA rule requiring this would not be necessary
- Q20** – Should the LVTS requirement only apply to payments above a certain minimum level?
- A20** – There was a mixture of responses to this question including: (i) no CSA rule was necessary therefore no minimum level should be set, (ii) LVTS should apply to all payments, and (iii) LVTS payments should be gradually phased in through the use of a minimum level.



STP Initiatives – CSA Proposals on Straight Through Processing

17

- Q21** – Should the CSA consider implementing any additional rules?
- A21** – Most responders did not comment or referred the recommendations of the CCMA Retail Trade Processing Working Group.
- Q22** – Should the CSA develop rules that require the immobilization and dematerialization of publicly traded securities in Canada ?
- A22** – Most responders favoured dematerialization but a number also indicated that the low number of physical settlement trades did not justify making this a high priority item.





STP Initiatives – CSA Proposals on Straight Through Processing

18

- Q23** – To the extent DRS systems operate in Canada should a securities regulatory authority regulate them?
- A23** – The consensus response was that DRS systems should be regulated but some responders indicated that regulation by a securities regulatory authority may not be necessary to the extent that another regulator is providing adequate oversight.
- Q24** – Should there be separate DRS systems and should they required to be inter-operable?
- A24** – The consensus response was that direct inter-operability would not be required as long as there was a common interface used by the DRS systems with CDS



STP Initiatives – CSA Proposals on Straight Through Processing

19

- Q25** – Is it sufficient for the Canadian capital markets to rely solely on existing SRO segregation rules?
- A25** – The consensus response was “yes” although one commenter suggested that a review of SRO rules might be warranted in light of recent changes to the Bankruptcy and Insolvency Act





STP Initiatives – IDA Monitoring Report for Broker to Broker Trade Matching

20

- Regulation 800.49 was implemented on June 8, 2004 and made effective in two stages:
 1. The requirement that “each Member must enter the trade into an Acceptable Trade Matching Utility or accept or reject any trade entered into an Acceptable Trade Matching Utility by another Member” was made effective on the first day of operation of the CDS Trade Matching Service, June 14, 2004.
 2. The requirement that trades be reported “within one hour of executing the trade” will made effective one year from the first day of operation of the CDS Trade Matching Service, June 14, 2005.



STP Initiatives – IDA Monitoring Report for Broker to Broker Trade Matching

21

- Development of IDA Monitoring Report – CDS Report

CDS – REPORTING SYSTEM						
TRADE MATCHING COMPLIANCE REPORT						
PARTICIPANT: JII						
PAGE: NNNNN						
YY-MM-DD						
Compliant Trades						
Participant CUID		Total No. Of Transactions	No. Of Transactions Reported Second	Average Lag Time of Transactions Reported Second		
CCCUU		NNNNNNNN	NNNNNNNN	HHMMSS		
CCCUU		NNNNNNNN	NNNNNNNN	HHMMSS		
Non-Compliant Trades						
Participant CUID	Counterparty CUID	Total No. Of Transactions	No. Of Transactions Reported Second	Average Lag Time of Transactions Reported Second	Process Classification Code	Time Classification Code
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	M1	H
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	M2	H
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	MC	H
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	DK	H
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	M1	A
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	M2	A
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	MC	A
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	DK	A
CCCUU	CCCUU	NNNNNNNN	NNNNNNNN	HHMMSS	L1	A
END OF REPORT						





STP Initiatives – IDA Monitoring Report for Broker to Broker Trade Matching

22

- Development of IDA Monitoring Report – IDA Summary
 - ➔ IDA staff focus will be on Member firms with a high percentage of “non-compliant” trades for which they are responsible (i.e., second to report)

IDA SUMMARY REPORT (FOR EACH PARTICIPANT)				
PARTICIPANT:		CCCUU		
Total No. Of Transactions	No. Of Transactions Reported Second	Average Lag Time of Transactions Reported Second	Percentage of Transactions Reported Second	
Compliant	NNN,NNN,NNN	NNN,NNN,NNN	HH:MM:SS	NNN.NN%
Non-compliant	NNN,NNN,NNN	NNN,NNN,NNN	HH:MM:SS	NNN.NN%
Total	NNN,NNN,NNN	NNN,NNN,NNN	HH:MM:SS	NNN.NN%
Participant non-compliant percentage	NNN.NN%			



STP Initiatives – Next steps

23

- Panel discussion

