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INSTITUTIONAL TRADE MATCHING: A UTILITY PERSPECTIVE

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Shaping STP™

Institutional Trade Matching: A Utility Perspective

*FAS Annual Conference
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Lee Cutrone, Managing Director

THE PROMISE OF STRAIGHT THROUGH PROCESSING

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



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The Case for Same Day Affirmation?

- The faster you affirm, the lower your fails
 - Higher SDA = 50% fewer fails
- Current STP rates are very low
 - SDA Canada = 8% vs SDA US = 26%
 - T+1 Affirmation = 53% (Canada) Vs 80% (US)
- T+1 – No!; Central Matching – No!; SDA - Yes!
- SDA (ITM) necessitates electronic allocations
 - Gateway to STP
- SDA puts focus on desired result, not how you get there
- SDA is the right first step to other post-trade efficiencies

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The Case for an SDA Regulatory Mandate



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- SDA (ITM) won't happen without it
 - Best Practices alone won't cut it
- For brokers, full compliance is necessary
- A mandate gets attention & resources
 - Tower Research: \$250 million to be spent on STP
 - Use the mandate to your advantage
- Process & behavioral change is hard to accomplish
 - The drivers of change

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Only Three Things Can Drive Fundamental Change in Our Industry:

Crisis

Economics

Regulation



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Does Crisis Drive Change?



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- Yes, but it's always painful!
 - Examples:
 - “Paper Crisis” of late 1960's (creation of DTCC, NSCC)
 - '87 market Crash (e.g., Trading reforms, Circuit Breakers, move to shorter settlement)
 - 9/11 (e.g., Disaster Recovery; BCP)
- The Good News: No imminent crises to drive change
- The Bad News: Is a crisis looming (e.g., Algos, Derivatives trade processing)?

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Will Economics Drive Change?????



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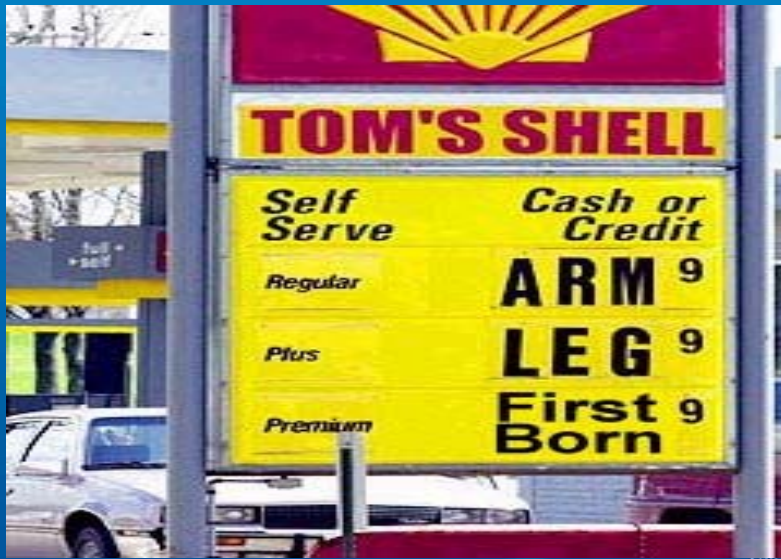


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Yes, Economics will Drive Change!!



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Emerging Trends Driven by Economics



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- Single point of access for IMs
- Investment Manager Outsourcing (IMO)
- Electronic trading
- FIX – executions and post-trade processing
- What about SDA (ITM)????
 - Business model for IMs, Brokers and Banks differ
 - Inconsistent economics will not drive change
 - Economics alone will not drive SDA

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Will Regulation Drive Change?



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- YES! YES! YES!
- Focuses industry-wide attention
- Economic biases become secondary
 - The economics of non-compliance
- Avoids Crisis Management mode
- Is it risky? YES!
 - Be careful what you wish for
 - Not a Panacea
- Is it necessary for SDA? YES!

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The Pros & Cons of NI 24-101



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PROS

- Well informed market regulation drives change
 - Phased implementation - 2006 through 2008
- SDA vs. Central Matching - Focus on goal and not means
 - Affirm trades faster to Improve processing efficiency implementation - 2006 through 2008
 - Central Matching is the most effective means to that end
- Best Practice alone will not get it done
- The whole world is watching!

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The Pros & Cons of NI 24-101



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CONS

- Regulatory teeth
- Global consistency
- Regulatory burden
 - Reporting
 - Interoperability

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Two Kinds of Interoperability



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- Complementary interoperability
 - Matching Utility - to - vendors
 - linking front, middle and back office service providers
 - Omgeo STP Partners
- Competitive interoperability
 - MU - to - MU - (to MU?)
 - Creating a single “Virtual Matching Utility”

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Implications for the sell-side?



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- Necessitates Real-time vs. batch processing
- EOD allocations from buy-side are problematic
- Responsibility for reporting late affirmations
- Complying with an SDA mandate goes beyond automation... You also need to review processes & behaviors (front office & back office)



Review entire back-office infrastructure

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Omgeo CTM in Canada

Preparing to Meet Canada's STP Challenges



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Investment Manager solution for Canadian domestic and cross-border trade management

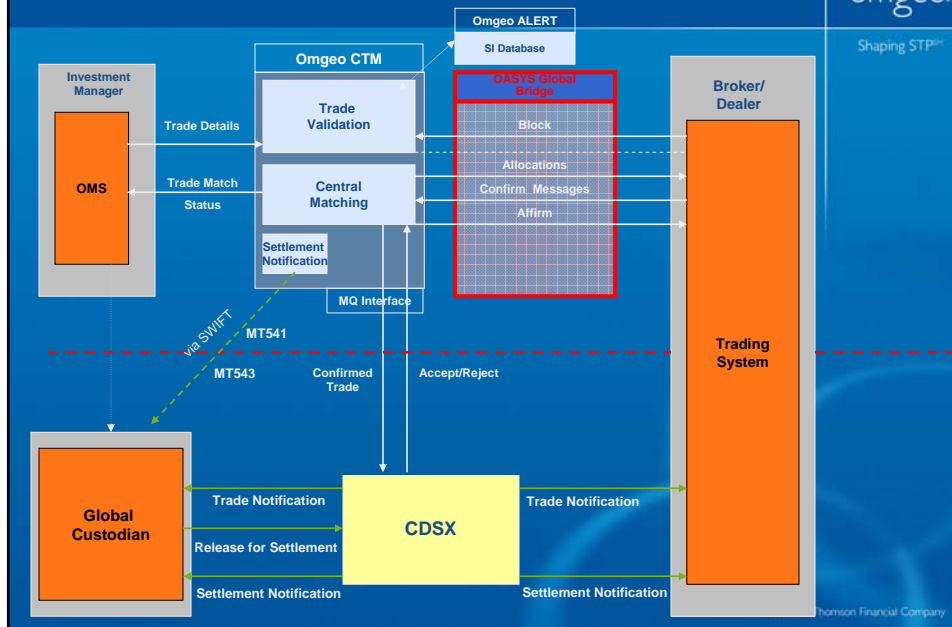
- 152 IMs and outsourcers across the globe live on CTM today → Looking to grow Canadian IM community
- Day 1 Canadian IMs will have access to extensive global Omgeo counterparty community, including...
 - 38 Canadian Brokers utilizing Omgeo X-border solutions today → NO ADDITIONAL DEVELOPMENT WORK FOR YOU!
- Proposed link to CDSX to facilitate SDA pursuant to 24-101
 - Goal: Streamline the Canadian trade workflow and shorten the trade matching (affirmation) cycle, in pursuit of STP efficiency

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Post-trade and Settlement Process



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A Proven STP Model



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- Benefits of moving from low levels of automation to central matching are enormous*:
 - Operating costs reduced by up to 70%
 - Trade failures reduced by up to 70%
 - SDA rates increase to 80% and higher
 - Affirmation rates jump as high as 94% by noon on T+2
 - Relationship with trading counterparties dramatically improved
 - Ability to handle volume peaks is substantially increased
- Protect market liquidity
- Enhance global competitiveness of Canada's capital markets

* Based on a recently conducted survey of Omgeo clients operating in a central trade management environment

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