

**13.3.2 CDS Clearing and Depository Services Inc. – Notice and Request for Comment – Material Amendments to CDS Procedures – Locked-In Trade Reconciliation Service and the NSCC Trade File Pass-Through Service**

**CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)**

**NOTICE AND REQUEST FOR COMMENT  
MATERIAL AMENDMENTS TO CDS PROCEDURES**

**LOCKED-IN TRADE RECONCILIATION SERVICE AND THE NSCC TRADE FILE PASS-THROUGH SERVICE**

**A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The proposed amendments will add descriptive information related to the Locked-in Trade Reconciliation service and the National Securities Clearing Corporation (NSCC) Trade File Pass-through service to CDS' procedures.

A description of the process followed by CDS to clean-up 'When Issued Trades' will also be added to the description of the International Trade Reconciliation service within CDS' procedures.

**B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

Universal Trade Capture (UTC) is a multi-year/multi-phase initiative that has been undertaken by NSCC. UTC will replace NSCC's four legacy trade capture systems (i.e. Correspondent Clearing, OTC, New York Stock Exchange, and Regional Interface Operation) with a single trade capture system. As part of this initiative, NSCC will be discontinuing production of their legacy trade capture machine readable output (MRO) files on July 12, 2013. These MRO files will be replaced with UTC equivalents. The files contain trade information reported to NSCC (for clearing/settlement purposes) by the various U.S. marketplaces.

NSCC's legacy trade capture MRO files are used as input to provide CDS's International Trade Reconciliation service (ITRS), Locked-in Trade Reconciliation service (LTRS), and the NSCC Trade File Pass through service. In order to continue to provide these services to participants, CDS will need to switch over to NSCC's new UTC Contract MRO data files.

A description of ITRS is currently documented in the New York Link participant procedures guide. There is, however, no mention, or description, of LTRS or the NSCC Trade File Pass-through service. The purpose of the amendments proposed in this Notice and Request for Comments is to introduce these services to the procedures guide.

**International Trade Reconciliation Service (ITRS)**

Trade information that is reported to NSCC by the various U.S. marketplaces associated with CDS' sponsored participants is received throughout the day/evening in files that are provided to CDS by NSCC. This trade information is compared by CDS to corresponding trade information that is received in files from the participants' service bureaus. Subsequent to the comparison process, information related to trades that could not be matched is reported daily to participants within the CDS Trading Blotter – Unmatched Trade report (RMS ID#933). Unmatched trades remain on the CDS Trading Blotter – Unmatched Trade Report until their Value Dates are reached or until the trades are subsequently matched. Trades that remain unmatched on their Value Dates are dropped from the report and their details are displayed to participants on the CDS Trading Blotter – Dropped Trade report (RMS ID#267) for one day.

Securities trade on a 'when issued' basis when they have been announced, but not yet issued. 'When Issued Trades' are reported to CDS by NSCC with Value Dates equal to '9999-12-31'. These discrepancies remain on the participant's CDS Trading Blotter – Unmatched Trade report until their Value Dates are reached.

A process will be added to ITRS that will 'clean-up' these discrepancies. These discrepancies will be dropped from the CDS Trading Blotter – Unmatched Trade report and listed on the CDS Trading Blotter – Dropped Trade report when the current business date is equal to or greater than thirty calendar days beyond their Trade Dates.

ITRS is an optional service that is available to participants that subscribe to CDS' New York Link service. CDS' New York Link service provides subscribers with access to the products and services offered by NSCC and the Depository Trust Company (DTC) through accounts that are sponsored by CDS.

### **Locked-in Trade Reconciliation Service (LTRS)**

Trade information that is reported to NSCC by the U.S. OTC marketplaces associated with CDS' sponsored participants is received throughout the day/evening in files from NSCC. This trade information is compared by CDS to corresponding trade information that is received in files from the participants' service bureaus. Subsequent to the comparison process, information related to trades that could not be matched is reported daily to participants within the Locked-in Trade Exception Report (RMS ID#1890).

LTRS is an optional service that is available to participants that subscribe to CDS' New York Link service. Generally, participants who subscribe to the LTRS service only conduct trading activity on the U.S. OTC marketplaces, whereas participants who subscribe to CDS' ITRS service conduct trading activity on U.S. OTC marketplaces as well as other U.S. marketplaces such as Correspondent Clearing and Direct Edge.

### **NSCC Trade File Pass-through Service**

Trade information reported to NSCC by the various U.S. marketplaces that are associated with CDS' sponsored participants is received throughout the day/evening in files from NSCC. This trade information is consolidated and portions of these files are extracted and passed through to participants for information and reconciliation purposes. This service, like ITRS and LTRS, is an optional service that is available to the participants that subscribe to CDS' New York Link service.

## **C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The ITRS, LTRS, and NSCC Trade File Pass through services are currently provided by CDS. Descriptions of the LTRS and the NSCC Trade File Pass through service will be added to the New York Link participant procedures.

The impact to participants of the proposed CDS procedure amendments is limited to some development effort on the part of subscribers to the NSCC Trade File Pass through service. Files and reports exchanged between CDS and participants for ITRS and LTRS will not change. However, the participants that subscribe to CDS' NSCC Trade File Pass through service will be required to make the necessary arrangements to receive and process these files in the new UTC Contract MRO data file format.

### **C.1 Competition**

The proposed CDS procedure amendments are not expected to impact competition. Participants have, and will continue to have, the option to perform their own trade reconciliation or to use a third party service provider to provide them with reconciliation services. Participants will also have, and will continue to have, the option of receiving the NSCC trade files directly from NSCC rather than through CDS.

### **C.2 Risks and Compliance Costs**

CDS Risk Management has determined that the changes associated with NSCC's initiative to replace their four existing trade capture systems with a single trade capture system will not affect CDS's Financial Risk Model.

C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

### **C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty**

No relative comparisons to international standards were identified. These are unique services related specifically to the New York Link service, an arrangement between CDS and The Depository Trust & Clearing Corporation (DTCC).

## **D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS**

### **D.1 Development Context**

CDS's participant procedures were reviewed by CDS staff. References to ITRS, LTRS and the NSCC Trade File Pass through service were added or updated, as required. The proposed amendments to CDS's participant procedures were subsequently reviewed and approved by CDS management.

## D.2 Procedure Drafting Process

CDS Procedure Amendments are reviewed and approved by CDS's Strategic Development Review Committee ("SDRC"). The SDRC determines or reviews, prioritizes and oversees CDS-related systems development and other changes proposed by participants and CDS. The SDRC's membership includes representatives from the CDS Participant community and it meets on a monthly basis.

The proposed amendments were reviewed and approved by the SDRC on 02/28/2013.

## D.3 Issues Considered

No issues were identified or considered.

## D.4 Consultation

CDS Bulletins were released on September 18, 2012 and February 5, 2013 advising participants of the discontinuation of NSCC's legacy trade capture MRO files and that the participants currently receiving the legacy trade capture MRO files through CDS will be required to make the necessary arrangements to receive and process this information in a different format.

NSCC Important Notices related to the discontinuation of their legacy trade capture MRO files were released on May 4, 2012 and January 8, 2013.

The Debt & Equity Subcommittee of the SDRC have also been kept apprised of the activities CDS has undertaken to ensure a smooth transition from the NSCC's legacy trade capture MRO files to the new file formats. The SDRC agreed that CDS should pursue the necessary development to preserve current service levels.

In addition to communications through the SDRC, CDS has contacted all of the impacted participants directly to ensure that each participant is aware of the impending discontinuation of the NSCC legacy trade capture MRO files and to ensure that participants are making the necessary arrangements to receive and process these files in UTC Contract MRO data file format.

## D.5 Alternatives Considered

### Discontinuation of the CDS services associated with NSCC's legacy trade capture MRO files

The alternative considered to engaging development resources to migrate to the UTC Contract MRO data files was to discontinue providing ITRS, LTRS and the NSCC trade file pass through service.

Were CDS services to be discontinued, subscribing participants would have been required to engage directly with NSCC to receive their trade information and to develop internal ITRS and LTRS facilities.

This alternative was presented to the Debt & Equity subcommittee of the SDRC for their consideration. CDS also indicated that it may consider levying a fee in the future for the LTRS and the NSCC trade file pass through service. Notwithstanding, the SDRC agreed that CDS pursue development activities since these services are important and of value to the participants that subscribe to them.

Thirty participants currently subscribe to ITRS, nineteen participants subscribe to LTRS and the NSCC trade files are passed through to ten participants.

## D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act* and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act*. The *Autorité des marchés financiers* has authorized CDS to carry on clearing activities in Québec pursuant to sections 169 and 170 of the Québec *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX<sup>®</sup>, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*. The Ontario Securities Commission, the British Columbia Securities Commission, the *Autorité des marchés financiers* and the Bank of Canada will hereafter be collectively referred to as the "Recognizing Regulators".

The amendments to the participant procedures may become effective on or after date of approval of the amendments by the Recognizing Regulators following public notice and comment.

**E. TECHNOLOGICAL SYSTEMS CHANGES**

**E.1 CDS**

CDS will be required to make system changes in order to preserve the ITRS and LTRS services for its participants. Specifically, CDS will be required to process a new set of input files from NSCC.

System changes are also required by CDS to add a process to ITRS that will clean-up discrepancies related to 'When Issued Trades'.

**E.2 CDS Participants**

CDS systems changes relative to ITRS and LTRS will be transparent to participants. However, those participants subscribing to the NSCC trade file pass through service will be required to make the necessary changes within their systems to process the new file layouts. The layout of the UTC contract MRO data file and a document mapping the fields of the legacy trade capture MRO files to the UTC contract MRO data files is available from NSCC.

Participants will also be required to conduct testing exercises around the receipt and processing of these files in UTC Contract MRO data file format prior to processing them in their production environments.

**E.3 Other Market Participants**

No technological systems changes were identified for any other market participants.

**F. COMPARISON TO OTHER CLEARING AGENCIES**

NSCC does not offer trade reconciliation services and no comparisons to other clearing agencies were identified. These are unique services related specifically to the New York Link service, an arrangement between CDS and DTCC.

**G. PUBLIC INTEREST ASSESSMENT**

CDS has determined that the proposed amendments to the CDS procedures are not contrary to the public interest.

**H. COMMENTS**

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin, the British Columbia Securities Commission Bulletin or the Autorité des marchés financiers Bulletin to:

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Copies should also be provided to the Autorité des marchés financiers, the British Columbia Securities Commission, and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

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CDS will make available to the public, upon request, all comments received during the comment period.

**I. PROPOSED CDS PROCEDURE AMENDMENTS**

Access the proposed amendments to the CDS Procedures on the User documentation revisions web page (<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open>).