

## **Straight Through Processing Request for Comments**

### **Question 1**

STP readiness certificates should be mandatory to ensure senior management commitment to the STP initiative and due to the fact that industry participants currently “overstate” their degree of readiness. A certificate would clearly outline the requirements for all market participants affected by STP.

The subject matter of the certificate should include the following (see response to Q#3):

- Attestation of confirmation/affirmation rates achieved;
- Specification of vendors used to achieve STP and their degree of readiness
- Level of testing performed internally and with market participants

### **Question 2**

Yes. We are already feeling the impact of the US STP initiative as our US institutional clients that trade through our US subsidiary, Peters & Co. Equities, are demanding trade confirmation on trade date within an hour from trade execution. We absolutely must automate our trade confirmation process in order to remain competitive in the US and to provide our US clients with the same level of efficiency they are afforded domestically.

Currently, our practice is to follow-up with the Canadian Investment Managers on T+3 if a trade has not yet been confirmed on CDS as it is simply street practice to not hassle your clients or their custodians with respect to trade details until settlement date. Canadian investment managers must buy into STP in order for it to succeed as dealers have their hands tied if investment managers do not provide allocations in a timely manner. This problem is compounded in the instance where the allocations require the set up of new accounts prior to ticketing and we are not aware of this until settlement date. As attendees at the CCMA one day STP conference in Toronto in April, we noted that a head count of investment managers yielded very few hands whereas the room was filled with custodians and dealers. This is somewhat concerning as it suggests that Investment Managers in general, are not giving STP the attention it requires.

### **Question 3**

Yes. The fact that industry participants are currently overstating their degree of readiness as revealed by the May 2003 STP Readiness Assessment Survey conducted by the CSA clearly indicates that there is not a consensus amongst market participants as to what constitutes true STP. Hence, the CCMA’s involvement in identifying the critical path to STP will ensure that the progress of all parties is measured consistently and fairly and

will ultimately result in greater efficiency and fewer problems in trade matching in the future.

The steps and goals should be consistent with the recommendations of the Group of 30, Global Clearing and Settlement Plan of Action published in January of 2003 (see [www.group30.org](http://www.group30.org)). The STP readiness certificate should encompass these steps and goals.

#### **Question 4**

Yes. The CSA should require matching on trade date primarily due to the fact that T+1 will become a reality some day. As trade matching will be an automated process, there should be no reason to prolong confirmations beyond trade date.

We are of the opinion that an SRO rule would be more effective at monitoring compliance with trade date matching. It seems futile to require that dealers and managers enter “trade matching compliance agreements” unless compliance with these agreements are audited after the fact by SRO’s.

While July 1, 2005 may be achievable within our firm, we have no control over the degree of readiness of our vendors and other participants. It is our opinion that July 1, 2005 is not achievable for the industry as a whole.

#### **Question 5**

Yes. A close of business definition is required and it should be no earlier than 7pm Eastern time. There should be some time allowance for system processing/file transfers. For example, if an Investment Manager confirms the details of a trade at exactly 7pm, it would be unfair to deem the dealer to not have confirmed the trade if there wasn’t sufficient time for the system to process the information. The other option would be to make this an allowable exception to the trade date confirmation rule.

#### **Question 6**

Mandatory trade data elements should be identified and required to ensure consistency across different vendor systems, primarily if a centralized matching utility is not going to be mandated.

#### **Question 7**

Yes.

### Question 8

Yes. The appropriate transactions and types of securities have been identified within the Proposed Instrument and the rule has been appropriately limited to secondary market trades.

### Question 9

The contractual method of requiring all investment managers and dealers to execute a “trade matching compliance agreement” is the most effective way of forcing the buy side to comply with STP requirements. This should be part of the “institutional account application form”.

### Question 10

Yes. Exceptions should be allowed as there will always be human errors and misunderstandings. There will be times when large sums of money are in question and more time is required to research why an error occurred before trade details can be confirmed. System outages may also result in delayed confirmations and should therefore be considered acceptable exceptions.

### Question 11

There should not be a requirement to report all exceptions from matching as exception reporting will be a mandatory requirement for vendors offering matching services. These exception reports can be made available to SRO’s that audit compliance with industry rules. Unless there is going to be a penalty for not confirming on trade date, there is no point reporting exceptions to a central agency (for example, offering reduced rates on clearing trades through CDS for those trades matched on trade date). However, reductions in clearing rates penalize dealers and not investment managers, the latter being the parties that typically delay the matching process.

In addition, registered firms that ultimately fail trades must provide the necessary capital on these transactions as part of the SRO margin rules.

### Question 12

While it may appear necessary to mandate the use of an MU to ensure inter-operability amongst industry participants, it may not be feasible for every party. It is our opinion that mandating an MU would be preferable if there is a high level of industry consensus as a result of the comments obtained from this process. If a MU is mandated, the cost

should not be prohibitive to smaller firms given the high number of introducing firms in the industry today.

### **Question 13**

No. The scope of functions are fine but should be reviewed on an annual basis.

### **Question 14**

If a central matching utility is mandated, then it should be recognized as a clearing agency under provincial securities legislation.

### **Question 15**

Yes. The Canadian capital markets could support more than one matching service utility; however, it is our opinion that a central matching utility would create more efficiency in the matching process as all participants would operate on the same matching platform. Mandatory trade data elements should be required and all trade matching vendors should be required to use compatible system protocols to facilitate electronic communication.

### **Question 16**

The mandating of T+3 is not required as the industry already operates on this basis; hence, T+1 does not require mandating.

### **Question 17**

Yes. The payment of corporate actions into a centralized hub should be required but it would be more effective to impose this at the time of listing on an exchange. The cost of a centralized hub should be absorbed by the issuers of securities.

### **Question 18**

No. Requirements should be imposed prior to the industry developing a hub.

### **Question 19**

Yes. CDS should implement a rule that would force all reporting issuers to agree to make their entitlement payments to CDS in the LVTS system before their securities are made eligible for deposit at CDS.

**Question 20**

No. All entitlements, regardless of size, should be required to be paid via the LVTS if imposed by the implementation of a CDS rule per above.

**Question 21**

While the processing of mutual fund transactions has been significantly improved in the last several years with the use of FUNDSERV, there are still timing issues with respect to the processing and settlement of transactions. As investment funds are key participants in the Canadian capital markets, they should be subject to the STP requirements being implemented industry wide.

**Question 22**

Yes as the risks associated with the handling of physical certificates is extremely high to all market participants.

**Question 23**

Yes. A securities regulatory authority should regulate transfer agents that operate DRS systems to ensure sufficient business continuity plans exist and to ensure that systems can process information in a timely, accurate and efficient manner. Systems must also be secure from internal and external threats.

**Question 24**

Yes, multiple DRS systems could exist but must be inter-operable.

**Question 25**

We currently review segregation requirements daily and therefore, are of the opinion that the current SRO rules are sufficient. Unless there is an industry wide problem with respect to “undersegged” securities, then no CSA intervention is required.