My Reply - Glenn MacPherson

Key Proposed Amendments

N.I. 24-101 was cooperatively developed by the CSA and the CCMA with a staged implementation plan. The initial stages have served the Canadian securities industry well. ITM rates have dramatically improved although there is still work to be done to meet the current matching rate target of 90% by noon on T+1. There is also now a much clearer picture of the high costs and the limited benefits of moving the ITM targets to midnight on T. Therefore, I provide the following comments based on the framework of the CSA's presentation to the Industry Working Group.

1. **Defer transition to *midnight on T* deadline to July 1, 2015 (from July 1, 2010)**

   This is a good but not optimum proposition. Making any compression from T+1 at Noon should be predicated upon a reduction in the settlement period, and the remainder of the pending schedule for T+0 to be removed as a requirement.

   I suggest that it will take the compression of the settlement cycle to justify the allocation of resources by the trade matching parties – human and capital – to enable upgrades to facilitate a compressed settlement period. Having more immediate trade matching involves moving from overnight batch processes to real-time or near real-time processing. Such upgrades will require major investments on proprietary systems and/or vendor provided solutions by all trade matching parties.

   The firms making these upgrades will most probably pass any incremental costs involved to their clients in some form of increased pricing and therefore, only a change of major impact will make the increased costs acceptable. It must benefit the originator of the trade instructions, for the facilitators of trade matching to get paid for their services.

   The trade matching utilities are only as good as the usage demanded by their prime client – buy-side firms. If the buy-side insists upon intra-day matching from their broker/dealers and custodians, it will happen – but at a price.

   The big buy-side firms have large value trades which must be price-averaged in terms of how the order is filled, and then the allocations must be based on the unit price determined for the security. The trades of medium and small buy-side firms will mostly be on a one-to-one basis, but still require allocations. The buy-side firms will only speed up this process if it is regulated with assessable penalties or if required by the compression of the settlement period.

2. **<u>Adjust current *noon on T+1* deadline to *2:00 p.m. on T+1* until July 1, 2012 and</u>**
3. **<u>Revert back to *noon on T+1* deadline on July 1, 2012</u>**

   This change, if deemed necessary, should be a one-time change – i.e.; to 1 PM and leave it at this time interval going forward. The programming changes required will need to be priced and budgeted, and the amount approved. If it is only an interim measurement, the cost in theory doubles – once to implement, and once more to revert back. This will not be seen as a good use of scarce funds.

4. **<u>*Midnight on T* deadline kicks in on July 1 2015</u>**

   As explained in 1, this is not needed, nor can it be justified on a cost-benefit basis, unless the settlement period is compressed in North America.

<u>Method for determining *exception reporting* threshold percentages:</u>

- **<u>for equity trades: total number of trades only</u>**
- **<u>for debt trades: total value of trades only</u>**

The measurement tools/facilities for trade matching require no change. This is a simplification in reporting.

I don't think this is a major item, and from having watched the matching statistics for almost 2 years, I do think most firms will continue to measure both and inform their clients of both, regardless of the reporting requirement for NI 24-101. Quantity is an indication of the quality of processing, and value is an indication of impact for exceptions.

<u>Definition of *trade-matching party*:</u>

- **<u>Adviser is a *trade-matching party* if acting for institutional investor in *processing* the trade;</u>** and
- **<u>Excludes individuals and any entity with less than $10 million in assets under management</u>**

This is a clarification which will be well received.

<u>Trade-matching documentation requirement:</u>

- **<u>Intended to support primary ITM policies and procedures requirement</u>**
- **<u>Must document efforts to obtain statement or agreement from client/counterparty</u>**

This is a clarification which will be well received.

Non-western hemisphere clients:

- **Currently: only when investment decisions made in and communicated from non-western hemisphere office**
- **Amendment: *or* when settlement instructions made in and communicated from non-western hemisphere office**

In my opinion and based on my previous involvement, this aspect would be clearer if the definition read North American including Mexico, and outside North America.

New clearing agency/MSU reporting timeline-intervals for entered and matched trades:
• T – 7:30 p.m., T – midnight, T+1 – noon, T+1 – 2:00 p.m., T+1 – midnight, T+2 – midnight, T+3 – midnight, > T+3

I think that reporting should be based on the depository's capabilities.

Costs and benefits of moving to *midnight on T* deadline on July 1, 2015

- **Should we defer indefinitely until global markets shorten T+3 settlement cycles?**
  Yes, as already discussed. Any future changes should be market driven, not be dependent on an event that is part of a schedule that has been in a passive state for over 5 years.
- **Costs and benefits of moving the CDS *7:30 p.m. cut-off time* to later in evening on T**
  I think that there are multiple dependencies beyond institutional trade matching that must be investigated before asking CDS and its shareholders to make the investments required to facilitate such a change, without impacting any other dependency.
- **Costs and benefits of specific trade identifier to track separately western vs. non western hemisphere trades**
  I think that there are sufficient means to do this without imposing such a requirement, which if imposed, will impact each CDS member firm.
- **Proposal to adjust current deadline to 2:00 p.m. on T+1 for next two years**
  I don't think that the majority see this as a needed change. I think it should only be considered if it will reduce firms reporting by 20%.
  Or if there is to be another measurement point on T+1, move the time to 4 PM when the exchange of payments is effected. This is a more meaningful and critical point in the processing day.
  And as I mentioned earlier, if it is to be an accommodation to smaller reporting firms, change it once - i.e.; to 1 PM and leave it at this trigger point going forward.

Impact Analysis of Trades after Noon on T+1

Entered					
Based on 3 Month Cumulative Volumes		Equity Percentages	Cumulative Percentage	Debt Percentages	Cumulative Percentage
T+Midnight	A	75.20	75.20	81.62	81.62
T+1 Noon	B	20.93	96.14	14.75	96.38
Sub at T+1 Noonfor Trades					
Entered on T and T+1		96.14		96.38	
T+1 Midnight	C	3.86	100.00	3.62	100.00
Total Entered		**100.00**		**100.00**	
Up to EOD T+1					
Confirmed					
Based on 3 Month Cumulative Volumes		Equity Percentages	Cumulative Percentage	Debt Percentages	Cumulative Percentage
T+Midnight	A	47.80	47.80	63.21	63.21
T+1 Noon	B	45.91	93.71	29.97	93.18
Sub at T+1 Noon for Trades					
Confirmed on T and T+1		93.71		93.18	
T+1 Midnight	C	6.29	100.00	6.82	100.00
Total Confirmed		**100.00**		**100.00**	
Up to EOD T+1					
		Equity		**Debt**	
Differential that can possibly be impacted After Noon on T+1		**2.43**		**3.20**	

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