

# Chapter 5

## Rules and Policies

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### 5.1.1 CSA Notice of Amendments to NI 24-101 Institutional Trade Matching and Settlement and Companion Policy 24-101CP Institutional Trade Matching and Settlement

#### CANADIAN SECURITIES ADMINISTRATORS

#### NOTICE OF AMENDMENTS TO NATIONAL INSTRUMENT 24-101 *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT* AND COMPANION POLICY 24-101CP *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

#### I. Introduction

The Canadian Securities Administrators (the CSA or we) have made amendments to National Instrument 24-101 *Institutional Trade Matching and Settlement* (NI 24-101 or the Instrument) and Companion Policy 24-101CP *Institutional Trade Matching and Settlement* (Companion Policy or CP).

The key amendment to the Instrument will maintain the current requirement to match DAP/RAP trades<sup>1</sup> by no later than noon on the business day following trade date (noon on T+1). Specifically, NI 24-101 will no longer provide for a transition to a requirement that DAP/RAP trades be matched by no later than midnight on trade date (midnight on T). We are also amending the documentation requirement, the provisions governing non-western hemisphere client trades, certain definitions and other provisions in the Instrument, including Forms 24-101F1, F2 and F5. Corresponding amendments to the CP have also been made.

We note that we are not implementing other proposals described in our Notice and Request for Comments published on October 30, 2009 (the CSA Request Notice),<sup>2</sup> in particular, a proposal to extend to 2 p.m. on T+1, for a transition period of two years, the current noon on T+1 deadline for matching DAP/RAP trades, and a proposal to simplify the calculation of the 90% target for exception reporting purposes.

Subject to Ministerial approval, the amendments to the Instrument will come into force on July 1, 2010 in all CSA jurisdictions. Additional information regarding the implementation or adoption of the amendments to the Instrument in each province or territory is included in Annex A. A list of the commenters, as well as a summary of comments and our responses to them, are included in Annex B. Annex C contains a report of industry compliance with NI 24-101. The amending instrument for NI 24-101 is in Annex D, with the corresponding blackline in Annex E. The amending instrument for the Companion Policy is in Annex F, with the corresponding blackline in Annex G. Where applicable, Annex H contains local material.

The materials are also available on websites of CSA jurisdictions, including:

[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.albertasecurities.com](http://www.albertasecurities.com)  
[www.bcsc.bc.ca](http://www.bcsc.bc.ca)  
[www.gov.ns.ca/nssc](http://www.gov.ns.ca/nssc)  
[www.nbsc-cvmnb.ca](http://www.nbsc-cvmnb.ca)  
[www.osc.gov.on.ca](http://www.osc.gov.on.ca)  
[www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca)  
[www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)

#### II. Background

The amendments were published on October 30, 2009 for a 90-day comment period. We received 15 comment letters in response to the request for comments. We have considered the comments received and thank all commenters for their

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<sup>1</sup> A DAP/RAP trade is a trade executed for a client account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade. See definition of "DAP/RAP trade" in section 1.1 of the Instrument.

<sup>2</sup> See (2009) 32 OSCB 9059.

submissions. We briefly discuss below some of the key stakeholder comments and CSA decisions made in respect of the proposed amendments to NI 24-101. More detail is provided in Annex B.

### **III. Discussion**

#### **A. Key amendments**

The CSA Request Notice had proposed to defer the requirement to match a DAP/RAP trade no later than the end of T by an additional period of five years (that is, from July 1, 2010 to July 1, 2015). We had asked for stakeholders' views on the length of this deferral. We had also asked whether the requirement should be deferred indefinitely until such time as global markets shorten their standard T+3 settlement cycles. We had specifically sought input on the costs and benefits of moving on July 1, 2015 to matching by midnight on T.

Most commenters were of the view that moving to the midnight on T deadline from the current noon on T+1 deadline was not justified from a cost-benefit perspective without a clear indication that the standard T+3 settlement cycle in North American capital markets would be shortened. Many commenters felt that there was no inherent value or benefit from requiring institutional trade matching (ITM) by midnight on T compared to noon on T+1, given the standard T+3 settlement cycle.

While we still encourage industry to work towards a same-day ITM goal, we acknowledge that a regulatory requirement to achieve this goal may no longer be appropriate at this time. Industry stakeholders appear almost unanimous in their view that it will take a compression of the settlement cycle to provide both a strong business and regulatory rationale to invest in the necessary resources and technological upgrades for moving to same-day matching. According to the industry, in the current settlement cycle of T+3, there may be no clear benefit to matching trades 12 hours earlier. While one commenter provided strong arguments that same-day matching would further reduce settlement fails and back-office costs in the Canadian markets, others indicated that it was not clear that matching trades 12 hours earlier would further mitigate any settlement risk or further enhance current settlement efficiency.

As there are no plans to shorten the T+3 settlement cycle in global markets at this time, we have decided to maintain the current ITM noon on T+1 deadline. Therefore, NI 24-101 will no longer provide for a transition to an ITM deadline of midnight on T. However, we would propose to consider re-introducing the midnight on T matching deadline into the Instrument through subsequent amendments if circumstances were to change. For example, as noted in the CSA Request Notice, a change in circumstances would include a shortening of standard T+3 settlement cycles in global markets.

In the CSA Request Notice, we had also sought input on whether we should extend the current ITM noon on T+1 deadline to 2 p.m. on T+1 for an interim period of two years. We had suggested that extending the current deadline by an additional two hours for two years may provide market participants with additional time to address delays and other ITM challenges that they are currently experiencing. However, most commenters were of the view that, although well intentioned, moving the current deadline to 2 p.m. on T+1 for two years might actually create more hardship than help for market participants to achieve their ITM goals. The commenters were almost unanimous in their view that such a change would require firms to incur additional costs, involve more scarce resources and be disruptive, only to have the industry revert back to noon on T+1 in two years. Most commenters support maintaining the noon on T+1 target. Another commenter noted that a change in the matching deadline, from 12:00 p.m. to 2:00 p.m. on T+1, would not make a material difference in matching rates for many of the participants. We acknowledge these strong views, and consequently will not implement this proposal.

In addition, the CSA Request Notice had sought input into a number of potential industry-wide infrastructure issues. We noted that a large number of dealers and advisers that actively trade on a DAP/RAP basis in Canada seemed unable to match 90% of their institutional equity trades by noon on T+1 due in part to such industry-wide infrastructure issues, which in turn directly impacted the adequacy of their ITM policies and procedures. For example, we had suggested that if ITM processing could continue beyond the 7:30 p.m. system shutdown time at CDS Clearing and Depository Services Inc. (CDS) until later in the evening, more trade-matching parties and their service providers might be willing to tighten their policies and procedures, including shifting their resources and reconfiguring their systems, to complete the ITM processes in the evening of T rather than in the morning of T+1. In the CSA Request Notice, we had asked what would be the costs and benefits of extending the current industry ITM processing times to allow market participants to process their trades beyond the CDS 7:30 p.m. cut-off time until later in the evening on T.

Most commenters questioned the need to change the current CDS 7:30 p.m. system shutdown time to a later time in the evening. They shared the view expressed by CDS that the closedown of its online system for approximately two hours or less does not have a negative impact on matching rates. CDS stated that, once the system is back up after the closedown period, there is sufficient time to process all trade instructions received during the closedown period and typically well before the 11:59 p.m. deadline for end-of-T matching. It added that there could be many downstream impacts on changing the timing of CDS' current delivery schedule as well as on external participants, service bureaus and vendors. It further suggested that, unless a complete end-to-end review is undertaken by all affected parties in the processing chain to determine the operational impacts

and costs associated with changing CDS' processing schedules, it would be difficult to ascertain whether there is an overall benefit to be achieved by the industry.

We had also suggested that the inability to track non-western hemisphere trades may have had an adverse effect on dealers' ITM performance, forcing some to needlessly complete and deliver quarterly exception reports on Form 24-101F1 and that, if specific trade identifiers were made available, certain dealers might be able to demonstrate that at least 90% of their trades in a quarter were matched by the deadline. In the CSA Request Notice, we had asked what would be the costs and benefits of having a specific industry-wide trade identifier to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades.

Most commenters addressing this question were of the view that the cost of building an industry-wide specific trade identifier for distinguishing between western and non-western hemisphere trades may not justify the investment required and other business costs involved. A number of commenters also made the point that, from an operational perspective, in many cases it is unclear how to identify the source of a trade.

**B. Other amendments**

In the CSA Request Notice, we had proposed a number of other amendments that were intended to:

- lessen the regulatory burden of certain requirements of the Instrument,
- clarify certain provisions as a result of issues that were raised by stakeholders, including during the discussions of the CSA-Industry Working Group on NI 24-101 (Working Group), and
- modify the ITM reporting requirements of clearing agencies and matching service utilities (MSUs) under the Instrument.

Stakeholders who provided feedback on such other amendments were generally in favour of them, in part because of the above noted considerations. We discuss the final amendments below.

**(a) Amending the quarterly exception reporting requirement**

Because of our decision to maintain indefinitely the current ITM noon on T+1 deadline, NI 24-101's transitional rules will no longer be required. As a result, we are making the following amendments to the Instrument:

- References to "the end of T" and "the end of T+1" in Part 3 of the Instrument are being changed to "12 p.m. (noon) on T+1" and "12 p.m. (noon) on T+2" respectively.
- As proposed in the CSA Request Notice, the references to "95 percent" in Part 4 of the Instrument governing the exception reporting requirement are being changed to "90 per cent".

In the CSA Request Notice, we had proposed to amend the Instrument, including Exhibit A of Form 24-101F1, to simplify the method for determining the 90 per cent threshold for exception reporting by (i) eliminating the need to determine the threshold based on the total value of equity trades (thus retaining the total number of trades method only for equity trades) and (ii) eliminating the need to determine the threshold based on the total number of debt trades (thus retaining the total value method only for debt trades). While some commenters supported this proposal, others suggested the changes were not useful. The industry is currently using both methods for determining the threshold for both equity and debt securities trades, and have built their reporting processes to measure both volume and value. Some stakeholders suggested that this change will not have a positive effect on most market participants, and may even be counterproductive as many market participants use the processes currently in place for purposes beyond compliance with NI 24-101 and will continue to calculate both regardless of modifications to the regulatory requirements. As a result of these comments, we have decided not to proceed with these proposed amendments.

However, CSA Staff will, in consultation with the Working Group, consider making further amendments to Exhibits B and C of Form 24-101F1 later this year.

**(b) Amending the pre-DAP/RAP trade execution documentation requirements and related key definition**

As proposed in the CSA Request Notice, we are making the following amendments to the Instrument:

- The definition of “trade-matching party” in Part 1 of the Instrument is being amended in two ways. First, paragraph (a) of the definition is being amended to include a registered adviser only where it is acting for the institutional investor in *processing* the trade.

Second, paragraph (b) of the definition is being amended by excluding institutional investors that are (i) individuals or (ii) persons and companies with total securities under administration or management not exceeding \$10 million. The language for the latter exclusion is different from the version proposed in the CSA Request Notice. We made a slight modification to ensure that the language is similar to existing paragraph (5) of the definition “Institutional Customer” in the dealer member rules of the Investment Industry Regulatory Organization of Canada (IIROC). One commenter had suggested that, under the proposed language described in the CSA Request Notice, dealers would have an additional responsibility to monitor their clients’ accounts or assets “under administration or management of less than \$10 million”. As dealers are already required under IIROC rules to monitor the accounts of non-individuals with total securities under administration or management exceeding \$10 million, we do not expect this to be an additional burden for dealers.

- Sections 3.2 and 3.4 of the Instrument are being amended to make it clear that the documentation requirements of such sections support, and are part of, the primary ITM policies and procedures requirements of sections 3.1 and 3.3 of the Instrument. The drafting of the amendments to sections 3.2 and 3.4 differs slightly from the text in the CSA Request Notice, but no substantive change is intended.

**(c) Amendments to the provisions governing non-western hemisphere institutional investors**

As proposed in the CSA Request Notice, we are making amendments to subsections 3.1(2) and 3.3(2) of the Instrument to clarify that they apply to an institutional investor whose *settlement instructions* are usually made in and communicated outside the geographic region specified in those subsections. The geographic region specified in those subsections is presently described as the “western hemisphere”. We agree with a number of commenters that this description is not sufficiently precise. Consequently, we are amending those subsections so that the geographic region is described instead as the “North American region”, comprising Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean. In the context of the Canadian markets, it is appropriate to distinguish trades in this region from trades elsewhere in order to apply the different ITM deadlines of Part 3.

**(d) Amendments to clarify certain other definitions and concepts and to modify Forms 24-101F2 and F5**

As proposed in the CSA Request Notice, we are making non-substantive amendments to the definitions of “clearing agency”, “institutional investor”, “T+1”, “T+2” and “T+3” in Part 1, paragraph (f) of section 2.1, Forms 24-101F1, 24-101F2 and 24-101F5, and other minor changes. Blackline versions of the Instrument and CP reflecting these amendments are in Annexes E and G.

**C. Other stakeholder comments**

The summary of comments and responses in Annex B describes other comments made by stakeholders. A number of stakeholders acknowledged the positive impact of NI 24-101 on ITM and settlement processes in Canada. They support the CSA’s ongoing efforts to implement a framework for the timely and efficient processing and settlement of trades.

We had noted in the CSA Request Notice that NI 24-101 may have contributed to the overall decline of the fails-to-deliver rates in Canada since April 2007, when the Instrument came into force. We had also noted that NI 24-101 contains, in addition to the ITM requirements, a principle-based settlement rule that requires registered dealers to establish, maintain and enforce policies and procedures designed to facilitate settlement of trades by no later than the standard settlement date, which is typically T+3. We had explained that, while we are not proposing any amendments at this time to NI 24-101’s settlement rule, a working group comprised of staff from a number of CSA jurisdictions and IIROC is assessing, among other things, whether Canada’s trade settlement discipline regime may need to be strengthened in light of recent international developments. We had sought comments in the CSA Request Notice on whether our settlement discipline regime may need to be strengthened, including whether NI 24-101’s settlement rule should be amended.

Unfortunately, we received few comments on this topic. However, one commenter suggested that, in their experience, on a daily average over a six month time frame, fully 99% of a given day’s trades are settled by the contractual settlement date. The commenter said that, of the remaining one per cent of unsettled trades (fails), three quarters of these trades were confirmed by their counterparties, but placed on hold by the same counterparties for lack of funds or securities – suggesting that high matching rates do not necessarily guarantee settlement of any given trade. Another commenter, however, made strong arguments that same-day ITM and improved levels of automation lead to reduced operational risk and improved settlement efficiency.

**D. CSA Staff Report**

At the same time as we are publishing this notice and the final amendments to the Instrument and CP, we are publishing in Annex C a report of CSA Staff's findings of an analysis of the data from the quarterly exception reports submitted by registered firms on Form 24-101 F1, and from quarterly reports submitted by CDS and an MSU on Forms 24-101 F2 and F5, respectively. The report also contains some high-level observations of CSA Staff's discussions with stakeholders, including discussions with the Working Group.

**E. Repeal or revocation of local transitional rules or orders**

The amendments will mean that the extended transitional phase-in periods that were put in place in 2008 by local rules or blanket orders in the various jurisdictions are no longer necessary. Concurrent with the amendments coming into force, each of the jurisdictions will repeal or revoke its local rule or blanket order, as the case may be. Where applicable, full details of the specific rules or blanket orders impacted in each jurisdiction are set out in Annex H to this Notice. In Ontario, this will mean the revocation of Ontario Securities Commission Rule 24-502 *Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 – Institutional Trade Matching and Settlement*.

**F. CSA Staff Notice 24-305**

As a result of the amendments to the Instrument and CP, CSA Staff propose to amend and republish CSA Staff Notice 24-305 *Frequently Asked Questions About NI 24-101 -- Institutional Trade Matching and Settlement and Related Companion Policy* later this year.

**IV. Questions**

Please refer your questions to any of the following:

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**April 16, 2010**

**ANNEX A**  
**IMPLEMENTATION OF AMENDMENTS TO NI 24-101**

The amendments to NI 24-101 will be implemented as:

- a rule in each of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario, the Northwest Territories, the Yukon Territory, Nunavut and Prince Edward Island;
- a regulation in Québec; and
- a commission regulation in Saskatchewan.

In Ontario, the amendments and other required materials were delivered to the Minister of Finance on April 15, 2010. The Minister may approve or reject the amendments or return them for further consideration. If the Minister approves the amendments (or does not take any further action), the amendments will come into force on July 1, 2010.

In Québec, the amending instrument is a regulation made under section 331.1 of The Securities Act (Québec) and must be approved, with or without amendment, by the Minister of Finance. The amending instrument will come into force on the date of its publication in the Gazette officielle du Québec or on any later date specified in the regulation. It is also published in the Bulletin of the Autorité des marchés financiers.

In British Columbia, the implementation of the amending instrument is subject to ministerial approval. Provided all necessary approvals are obtained, British Columbia expects the amending instrument to come into force on July 1, 2010.

**ANNEX B  
SUMMARY OF PUBLIC COMMENTS AND CSA RESPONSES  
ON NI 24-101 AND THE COMPANION POLICY**

**List of Commenters**

1. Glenn MacPherson
2. Omgeo
3. Northern Trust Company
4. RBC Dexia Investor Services
5. State Street Corporation
6. CIBC Mellon
7. Investment Industry Association of Canada
8. RBC Dominion Securities Inc.
9. CDS Clearing and Depository Services Inc.
10. Mackenzie Financial Corporation
11. Investment Counsel Association of Canada
12. TD Waterhouse
13. CIBC
14. Laurentian Bank
15. B. White

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Summary of Comments and Responses

Summary of Comments	CSA Response
<b>General comments</b>	
<p>Nine commenters supported the ongoing efforts of the CSA to enhance the efficiency of institutional trade matching (ITM) processes. They also recognized the positive impact that NI 24-101 has had on ITM rates since its implementation in 2007.</p> <p>In particular, some commenters acknowledged the benefits of the Instrument, which strives to maintain Canada's market competitiveness, reduce credit risk, decrease operational risk, and increase productivity. During the past five years, significant industry progress has been achieved for both trade entry and trade confirmation rates. The Instrument has made a positive impact on business conduct practices and overall risk management of all counterparties involved. In spite of the dramatic improvements in ITM rates, other commenters stressed that there is more work to be done to meet the current matching rates.</p> <p>One commenter suggested that market turmoil in the past two years has demonstrated that principles-based rules are inadequate and, consequently, the CSA should adopt a new prescriptive approach in this area.</p> <p>Two commenters were of the view that defined penalties for non-compliance with NI 24-101 should be considered by the CSA. An alternative would be to encourage compliance with the Instrument through public reporting of the names of registered firms that have the lowest matching rates.</p> <p>One commenter encouraged co-operation among the regulators of the trade-matching parties - the CSA for advisers, the Investment Industry Regulatory Organization of Canada (IIROC) for dealers, and the Office of the Superintendent for Financial Institutions (OSFI) for custodians - to ensure that all trade-matching parties are complying with their obligations under NI 24-101.</p>	<p>We thank the commenters for their remarks on the CSA's ongoing efforts to implement a framework for the timely and efficient processing and settlement of trades.</p> <p>As a principles-based rule, NI 24-101 was successful in encouraging market participants to address middle and back office issues and generally improving clearing processes and systems. Statistically, the ITM rates improved significantly for both debt and equity trades since the implementation of the Instrument in 2007.</p> <p>We note that a violation of the requirements of NI 24-101 is a breach of provincial securities laws, which can lead to, among other things, penalties, fines and administrative costs.</p> <p>We share the commenter's viewpoint that co-operation among the regulators is important, and the CSA will continue to work with IIROC and OSFI where appropriate.</p>
<p><b>Question 1 – For what period should the requirement to match no later than the end of T be deferred? Should the requirement be deferred indefinitely until such time as global markets shorten their standard T+3 settlement cycles? Please provide your reasons.</b></p>	
<p>Eleven commenters were of the view that the requirement to match no later than the end of T be deferred indefinitely until such time as North American markets shorten their standard T+3 settlement cycles. Reasons cited include:</p>	<p>While we still encourage industry to work towards a same-day ITM goal, we acknowledge that a regulatory requirement to achieve this goal may no longer be appropriate at this time. As there are no definite plans to shorten the T+3 settlement cycle in global markets, we</p>

Summary of Comments	CSA Response
<ul style="list-style-type: none"> <li>● Only a compression of the settlement cycle would provide the business rationale to invest in the necessary allocation of resources for the necessary technological upgrades. In the current settlement cycle there is no clear benefit to matching trades 12 hours earlier: it is unclear how it would mitigate any settlement risk or further enhance current settlement efficiency.</li> <li>● The Instrument was originally intended to address the potential of a shortened settlement cycle; however, the likelihood of such an event has diminished in recent years. An indefinite extension of the current matching requirement would eliminate the need for further deliberations on the effectiveness of matching on T and would allow dealers to utilize their technology resources more efficiently.</li> <li>● The current settlement rate / failure rate does not justify the costs in relation to the benefits.</li> <li>● Efficiencies gained from moving the matching requirement to midnight on T would be outweighed by potential technological and other costs related to advancing the matching deadline.</li> <li>● The Instrument has successfully promoted substantial improvements to the prerequisite trade reporting and subsequent matching rates. As global markets continue to recognize T+3 settlement cycles, the multilateral investments required to advance to trade date targets would be of limited value.</li> <li>● The Instrument loses credibility if it continues to defer the deadline, and therefore it should be tied to the settlement cycle. In the current T+3 environment, the T+1 matching at noon is most appropriate as it is aggressive yet allows for sufficient time for researching unmatched transactions.</li> <li>● As the prime client of the MSUs, the buy-side directs upgrades to processing and will only hasten changes if regulated through assessable penalties or the compression of the settlement period.</li> </ul> <p>Two commenters expressed concern that momentum may be lost and lead to a deterioration of the positive impacts of the Instrument.</p> <p>One commenter encouraged the CSA to shorten the proposed five year delay if it can be done without introducing risk into the post-trade process. The five year postponement is viewed as a lengthy delay and introduces the risk that market participants will relax their efforts to make the necessary changes.</p>	<p>have decided to maintain the current ITM noon on T+1 deadline. Therefore, NI 24-101 will no longer provide for a transition to an ITM deadline of midnight on T. However, we would propose to consider re-introducing the midnight on T matching deadline into the Instrument through subsequent amendments if circumstances were to change. For example, as noted in the CSA Request Notice, a change in circumstances would include a shortening of standard T+3 settlement cycles in global markets.</p>

Summary of Comments	CSA Response
<p>One commenter supported the amendment of the same-day matching target to 2015 because there is still room to optimize processes and the use of matching engines in the current framework.</p> <p>One commenter recommended an analysis be undertaken by CDS and other parts of the clearing and settlement chain prior to making a decision to defer permanently same-day ITM.</p>	
<p><b>Question 2 – We seek as much information as possible from stakeholders on the costs and benefits of the requirement to match a DAP/RAP trade no later than the end of T, including any available empirical data. What would be the benefits of moving to matching by midnight on T on July 1, 2015?</b></p>	
<p>Ten commenters were of the view that there were no benefits to moving to matching by midnight on T in July 2015 for, among others, the following reasons:</p> <ul style="list-style-type: none"> <li>• Such a change can only be justified on a cost-benefit basis by the compression of the settlement period in North America.</li> <li>• There was little or no benefit to moving to midnight on T, such as no significant improvement to the efficiency of the settlement process or risk mitigation. Moreover, the added costs for technology and manpower will be difficult to justify in the current financial environment.</li> <li>• Small and mid-sized firms may be negatively impacted in their overall budget and ability to remain profitable owing to limited resources. It may be cost prohibitive for such firms to meet the requirements. One commenter was unable to quantify the benefit of moving to matching on T as the majority of risk was already mitigated through the implementation of technology to meet the current target.</li> <li>• One commenter cited the low percentage of fails as sufficient reason not to incur added expenses through technology enhancements.</li> </ul> <p>One commenter suggested significant savings to date from the Instrument, as well as potential additional savings from further reducing fail rates in the Canadian market, if we moved to same-day ITM. Same-day ITM could contribute cost savings to the industry of a minimum \$173.25 million CAD per year. Speeding up the affirmation rate would bring the following benefits:</p> <ul style="list-style-type: none"> <li>• Fewer fails/reclaims/claims</li> <li>• Reduced operational burden</li> <li>• Reduced operational risk</li> <li>• Reduced market error risk</li> </ul>	<p>We acknowledge the views of many who did not see an advantage to matching by midnight on T in the current financial climate. In addition, we recognize that there is little empirical data available.</p>

Summary of Comments	CSA Response
<ul style="list-style-type: none"> <li>• Lower costs, including FTE costs (via expanded capacity)</li> <li>• Higher rates of STP</li> <li>• Alignment with global regulatory reform</li> <li>• Leverage investment in existing technology</li> <li>• Higher customer satisfaction</li> </ul>	
<p><b>Question 3 – What are the costs and benefits of extending the current industry ITM processing times to allow market participants to process their trades beyond the CDS 7:30 p.m. cut-off time until late in the evening on T?</b></p>	
<p>The majority of commenters were not in favour of extending the current processing times. Reasons cited include the following:</p> <ul style="list-style-type: none"> <li>• There is sufficient time to meet the current noon on T+1 trade matching targets.</li> <li>• Costs would be high to implement required technological modifications and increase staffing if CDS trade processing were to extend past the current 7:30 p.m. cut off time. The percentage of trades matched would be small, thus the benefits would be minimal.</li> <li>• A majority of dealers say that they would be unable to estimate fully the potential costs they would incur if there is an extension of the CDS processing times. Firms are limited by the availability of internal and external systems, the negative impact of having to staff for the extended time frame, and the potential inability to have contact and system availability with both clients and matching participants for the trades. Also, the ability to process trades beyond the CDS 7:30 p.m. cut off time will be dependent on external systems providers, CDS limitations, as well as the assurance of the availability of contacts for all market participants for the transaction.</li> </ul> <p>CDS does not expect a substantial improvement in the current matching rates by shutting the system down later in the evening. The current 7:30 p.m. shutdown allows CDS to complete its overnight batch processes on a timely basis and aligns with the timelines of external parties—participants, service bureaus, third party vendors, and exchanges.</p> <p>Two commenters were of the view that more investigation is required because of the multiple dependencies beyond institutional trade matching. One commenter did not see a link between the ITM process and the CDS process. While CDS processing is suspended for batch processing, it does not prevent counterparties from completing the match affirmed process through an MSU.</p>	<p>We acknowledge the comments stating that there would not be substantial improvements in the current matching rates if the system were shut down later than 7:30 p.m. Consequently, we are not pursuing this matter at this time.</p>

Summary of Comments	CSA Response
<p><b>Question 4 – What are the costs and benefits of having a specific industry-wide trade identifier to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades?</b></p>	
<p>The majority of commenters did not see a reason to impose a specific industry-wide trade identifier to segregate the trades. Reasons cited include the following:</p> <ul style="list-style-type: none"> <li>• There would be little benefit as the distinction between these types of trades is done internally at the custodian level.</li> <li>• One commenter built internally the necessary oversight tools to distinguish between these types of trades. The cost of building an industry specific trade identifier would significantly outweigh any additional benefit.</li> <li>• The benefit does not justify the investment required and the related operating costs involved. The majority of trades are within North America and many dealers already have in-house systems and processes to deal with this matter.</li> <li>• Non-western trade-matching parties are generally efficient and thus are confirmed on a timely basis.</li> <li>• CDS functionality may be limited and dependent on participant submissions.</li> <li>• The process would be dependent on the development of a unique identifier at CDS, necessary system enhancements of all participants, and ensuring that the identifier is input on all transactions. Any related costs would be absorbed by all participants for the benefit of only a few. Consequently, an industry wide trade identifier would be of little benefit.</li> </ul> <p>CDS proposes to work with its participants to make changes if requested. It is noted that the overall benefit would be more accurate reporting of matching rates.</p> <p>Three of the commenters stated that the classification of western hemisphere and non-western hemisphere trades should be changed to North American and non-North American trades to alleviate confusion.</p> <p>One commenter notes the lack of worldwide standard industry mechanisms to identify location of market participants. The commenter urges regulators to participate in global discussions and work towards an internationally harmonized solution.</p> <p>Only one commenter suggests a possible benefit of cost reduction if registered firms meet the target and do not have to file exception reports.</p>	<p>Based on the comments received, we do not propose to pursue this matter.</p> <p>However, we agree that the distinction between western hemisphere trades and other trades is confusing. Consequently, we have decided to amend the Instrument to distinguish trades in a defined North American region from trades elsewhere.</p>

Summary of Comments	CSA Response
<p><b>Question 5 – Would extending the current requirement to match no later than noon on T+1 to a new deadline of 2 p.m. on T+1 help address current ITM processing delays and problems for the next two years?</b></p>	
<p>With only one exception, the commenters who responded to this question did not support the extension of the requirement to match no later than noon on T+1 to a new deadline of 2 p.m. on T+1. Reasons cited include the following:</p> <ul style="list-style-type: none"> <li>• The costs to make the system changes, which in any case would be of an interim nature and necessitate further costs for reverting back to the current noon on T+1 standard in July 2012.</li> <li>• The majority of advisers and dealers with significant trading volumes would prefer to use their scarce resources to improve the current matching rates.</li> <li>• The extension to 2 p.m. would not be consistent with the purpose of the Instrument, which is to reduce risk (e.g., earlier detection and correction of erroneous transactions).</li> <li>• Moving the deadline temporarily tarnishes the credibility of the Instrument as it appears to be flexible and ever changing.</li> </ul> <p>CDS noted that feedback it received suggested concerns about the costs for the initial technology change and subsequent reversion after the two year period expires. However, it noted that such a change may assist some dealers in meeting the current targets. CDS pledged to work with its participants to implement the changes if necessary and stated that the cost to CDS would be minimal. In addition, CDS would share with the Working Group its analysis of matching rates at both 2:00 p.m. and 7:30 p.m. on T+1.</p> <p>One commenter was of the view that a permanent adjustment of the deadline to 1 p.m. would accommodate smaller firms that are finding the current targets challenging, and not require further technology modifications in two years.</p> <p>Only one commenter viewed the proposed changes as beneficial by providing an interim step to meet the threshold and reduce the incidence of mandatory filings.</p>	<p>We acknowledge the strong views that this change, on an interim basis, would necessitate further costs, and consequently will not implement this proposal.</p>

Summary of Comments	CSA Response
<p><b>Other amendments</b></p>	
<p><i>Exception reporting threshold percentages</i></p> <p>Two commenters maintain that an eventual move to matching at midnight on T should be accompanied by a decrease in the matching threshold to a maximum of 80% to 85%. One commenter is of the view that it would be more economical and equally beneficial to reduce the matching target threshold rates rather than introduce an extended temporary time frame parameter.</p>	<p>See our response to comments on Question 1 above. As proposed in the CSA Request Notice, the references to “95 percent” in Part 4 of the Instrument governing the exception reporting requirement are being changed to “90 per cent”.</p>
<p><i>Method for determining threshold percentages</i></p> <p>A number of commenters who responded to the question noted that they would be able to provide reporting as set out in the proposal. However, many registered firms would continue to measure both the total number of trades and total value of trades for both debt and equity. Reasons cited include the following:</p> <ul style="list-style-type: none"> <li>• Both measurements have merit: volume is an indication of the quality of processing and value is an indication of the impact for exceptions.</li> <li>• It will impede the ability of dealers to focus on clients who process a limited number of equity trades with a large dollar value and a large number of debt trades for a small dollar value.</li> <li>• There will be new challenges in dealing with clients who have few equity trades with a large dollar value or a large number of debt trades with a small dollar value. The current format provides the leverage and momentum to ensure accuracy and efficiency for the timely matching of these transactions.</li> <li>• Certain firms use the processes for purposes other than measuring compliance with NI 24-101.</li> <li>• Any changes for reporting to clients would necessitate client re-education which may not be perceived as a progressive use of limited resources.</li> </ul> <p>Although one commenter supported the amendment with respect to equities, the same method should be applied to debt trades. Trade matching is a transactional process and therefore the value of the trade should be of no significance.</p>	<p>We have decided not to proceed with these proposed amendments owing to the benefits of the current method for determining threshold percentages, as suggested by stakeholders.</p>

Summary of Comments	CSA Response
<p>One commenter fully concurred with the proposed modifications as value is a better measurement for debt trades as debt trade volumes are generally low and are not good indicators of efficient matching. Conversely, owing to the high number of equity trades, volume is a better indicator of efficient matching than value.</p> <p>Another commenter agreed that the approach was consistent with focusing on the areas of greatest risk. Registered firms should continue to complete all of the reporting as initially required by the Instrument; however, reporting to the regulators should be limited to not meeting the prescribed targets based on the number of equity trades and the volume of debt trades respectively.</p>	
<p><i>Amending the definition of trade-matching party</i></p> <p>Six commenters support the amendment to clarify which parties fall within the definition of trade-matching party.</p> <p>However, two of the commenters believe further explanations may be warranted:</p> <p>(a) Whether a duty is being imposed on dealers to monitor an institutional investor to ensure assets under administration or management are less than \$10,000,000.</p> <p>(b) The definition should be amended to include all accounts for “any person or company other than an individual”.</p>	<p>Paragraph (a) of the definition is being amended to include a registered adviser only where it is acting for the institutional investor in <i>processing</i> the trade. Paragraph (b) of the definition is being amended by excluding institutional investors that are (i) individuals or (ii) persons and companies with total securities under administration or management not exceeding \$10 million. The language for the latter exclusion is different from the version proposed in the CSA Request Notice.</p> <p>We made a slight modification to ensure that the language is similar to existing paragraph (5) of the definition “Institutional Customer” in the dealer member rules of the Investment Industry Regulatory Organization of Canada (IIROC). As dealers are already required under IIROC rules to monitor the accounts of non-individuals with total securities under administration or management exceeding \$10 million, we do not expect this to be an additional burden for dealers.</p>
<p><i>Amending the trade matching documentation requirements</i></p> <p>Three commenters were in agreement with the proposed amendments to the trade matching documentation requirements.</p> <p>One commenter in particular noted the flexibility offered in circumstances where a counterparty has sound practices and but may not understand the importance of completing the trade-matching agreement or providing the trade-matching statement.</p>	<p>Sections 3.2 and 3.4 of the Instrument are being amended to make it clear that the documentation requirements of such sections support, and are part of, the primary ITM policies and procedures requirements of sections 3.1 and 3.3 of the Instrument.</p>

Summary of Comments	CSA Response
<p><i>Provisions governing non-western hemisphere institutional investors</i></p> <p>Two commenters agreed with the proposed amendments to include an institutional investor whose settlement instructions are usually made in and communicated from a geographical region outside of the western hemisphere.</p>	<p>As proposed in the CSA Request Notice, we are making amendments to subsections 3.1(2) and 3.3(2) of the Instrument to clarify that an institutional investor whose <i>settlement instructions</i> are usually made in and communicated from outside a defined geographical region be included in these subsections.</p> <p>In addition, we are amending these provisions so that the defined geographic region is now described as the "North American region", which will be defined in the Instrument. We agree with a number of commenters who suggested that the difference between what is western hemisphere and what is non-western hemisphere is not clear.</p>

**ANNEX C**  
**CSA Staff Report on Industry Compliance with NI 24-101**

**CSA STAFF REPORT ON**  
**INDUSTRY COMPLIANCE WITH THE INSTITUTIONAL TRADE MATCHING REQUIREMENTS**  
**OF NATIONAL INSTRUMENT 24-101**

Canadian Securities Administrators

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**CSA STAFF REPORT ON INDUSTRY COMPLIANCE WITH THE  
INSTITUTIONAL TRADE MATCHING REQUIREMENTS  
OF NATIONAL INSTRUMENT 24-101**

**I. Purpose**

The Canadian Securities Administrators staff (CSA staff or we) have prepared this report to provide an update on the status of the industry's compliance with the institutional trade matching (ITM) requirements of National Instrument 24-101 – *Institutional Trade Matching and Settlement* (NI 24-101 or the Instrument).

**II. Background**

NI 24-101 came into force on April 1, 2007 and became fully effective on October 1, 2007. NI 24-101 was developed to encourage more efficient and timely settlement processing of trades in securities, particularly the pre-settlement confirmation and affirmation process – or matching – of an institutional trade.

The Instrument applies to registered dealers and advisers, and establishes certain ITM policies and procedures requirements. This includes the requirement for registered firms<sup>3</sup> to complete and deliver an exception report on Form 24-101 F1 (F1) for any calendar quarter in which less than 90% of their DAP/RAP<sup>4</sup> trades (ITM target) were matched by noon on the business day following the day of the trade (noon on T+1).

In addition, under the Instrument, clearing agencies (CDS Clearing and Depository Inc., CDS) and matching service utilities (MSUs) are required to submit quarterly data on the ITM activity of their participants.

CSA staff used the information required to be reported under the Instrument to assess the industry's ITM rates, including whether registered firms have been meeting the ITM target.

**III. Scope of the CSA Report**

This report examines:

- (i) the overall performance of the securities industry in matching 90% of their DAP/RAP trades by noon on T+1, and
- (ii) the challenges faced by the industry in meeting the matching requirements under NI 24-101 and how industry has assessed and resolved or addressed them.

**IV. Overall Findings**

Our review of the data showed that while the industry has made steady progress in meeting the ITM target since 2007, many market participants have reached a significant ceiling in their ability to meet the ITM target.

CSA staff recognize that market participants have made concerted efforts to address the challenges in meeting the ITM target. Based on the information provided by registered firms, it appears that the most important challenge in meeting the ITM target is the communication of trade details between trade-matching parties. This includes the means used by trade-matching parties to transmit trade orders and notices of execution, how the parties send and receive allocations, and the timing of the exchange of trade details between trade-matching parties.

A number of tools may be used to further improve ITM rates, such as the adoption of order management systems (OMS) or the use of MSUs, together with moving from end-of-day batch processing to more frequent intra-day or real-time processing.

For instance, to capture trade allocations from advisers into internal systems, a dealer could use electronic interfaces. An internal system would enrich the account information and trade details, then send the trade details for overnight processing into back office systems and on to CDS for clearing and settlement processing. Similarly, the nature of the money management business practically requires advisers to consider the full spectrum of connectivity to other trade- matching parties. Their ITM rates depend upon their ability to improve electronic communication among all trade- matching parties so that the exchange of information is accurate, timely and involves minimal human intervention.

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<sup>3</sup> Part 1 of NI 24-101 defines registered firms as a person or company registered under securities legislation as a dealer or adviser.

<sup>4</sup> NI 24-101 defines a DAP/RAP trade as a trade (a) executed for a client trading account that permits settlement on a delivery or receipt against payment basis through the facilities of a clearing agency, and (b) for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade.

The following are CSA staff's general findings:

1. Challenges remain in achieving the Instrument's current noon on T+1 matching target. In particular, small volume institutional equity dealers and some medium and small value debt dealers are well below the 90% ITM target.
2. For the past 15 months, CDS industry data shows that the average percentage of trades entered (submitted) at noon on T+1 into CDS has remained around 90% and the average percentage of matched trades fluctuated from 80% to 86%. This indicates that market participants have reached a significant ceiling in their ability to meet the current ITM target, or reaching the ITM target has become less of a focus.
3. Dealers have made significant progress in entering their trades at CDS on a timely basis. However, more trades should be reported earlier in the day on T, giving counterparties additional time to match trades before noon on T+1 or to resolve any trade matching issues earlier. CSA staff noted the lack of progress made by small volume equity dealers in both entering their trades into CDS and matching their trades by the ITM target. Among all debt dealers that submitted exception reports, small value debt dealers had the most difficulties in reaching the ITM target.
4. In general, communication of trade details between trade-matching parties seemed to be a major challenge for all registered firms.
5. Many registered firms that submitted exception reports stated that the limitation of internal systems, such as lack of, or insufficient, automation of internal data processing systems, together with poor internal processes were other challenges they had to overcome. Some registered firms mentioned looking at alternatives to acquire new technologies (such as an OMS) or improving connectivity with other trade-matching parties.
6. Our review of the qualitative information provided by registered firms in their F1 exception reports indicates that market participants have made concerted efforts to address the challenges they faced in meeting the ITM rates. Most registered firms reported that they worked with counterparties, improved automation and hired and/or trained existing staff to address many of the challenges.
7. Based on our review of Exhibit B (*Reasons for non-compliance*) and Exhibit C (*Steps to address delays*) of the F1s, most registered firms took meaningful steps toward meeting the ITM target during the first two or three quarters after the implementation of the Instrument. However, responses by registered firms in Exhibits B and C in the last four quarters seemed to be repetitive.

**V. Quantitative Analysis**

We conducted quantitative analysis to assess:

- 1) Overall industry performance in achieving the ITM target, and
- 2) Progress of registered firms in achieving the ITM target.

**a. Methodology**

**CDS data**

To assess overall industry progress, CSA staff used data provided by CDS to monitor ITM rates since the implementation of the Instrument in 2007. CDS ITM rates are commonly accepted as the industry's benchmark. While CDS data does provide individual ITM information for registered dealers that are direct participants of CDS, it does not provide any ITM information for registered advisers.

Table A-1 in the Appendix provides overall CDS ITM rates for both equity and debt based on volume from April 2007 to December 2009.

**F1 exception reports**

We used F1 exception reports to assess the progress of registered firms (that were required to report) in achieving the ITM target. We structured our analysis by the type of registered firm that submitted the F1 exception report (i.e. dealer or adviser) and the type of security that was reported (i.e. equity or debt).

We created the following four categories of registered firms:

## Rules and Policies

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- 1) equity dealer
- 2) debt dealer
- 3) equity adviser
- 4) debt adviser

Each category was divided into three sub-groups, “large”, “medium” and “small”, based on specific criteria. To assign a subgroup to:

- an equity dealer, we used the average number of institutional equity trades entered into CDS for the review period;
- a debt dealer, we used the average value of institutional debt trades entered into CDS for the review period;
- an equity adviser, we used the average number of institutional equity trades matched during the review period; and
- a debt adviser, we used the average value of institutional debt trades matched during the review period.

**Table 1. Dealer and adviser categories**

Category	Large Volume (Equity)/ Value (Debt)	Medium Volume (Equity)/Value (Debt)	Small Volume (Equity)/Value (Debt)
Equity Dealer	40,000 trades or more	4,000 to less than 40,000 trades	Less than 4,000 trades
Debt Dealer	\$10 billion or more	\$100 million to less than \$10 billion	Less than \$100 million
Equity Adviser	5,000 trades or more	1,000 to less than 5,000 trades	Less than 1,000 trades
Debt Adviser	\$2 billion or more	\$100 million to less than \$2 billion	Less than \$100 million

For each category, we analyzed exception reports from January 2008 to the end of September 2009 (the period under review)<sup>5</sup>. This analysis is based on the accuracy of the information provided to us through different reporting means.

**b. Overall industry performance in achieving the ITM target**

Since the implementation of the Instrument in April 2007, CDS quarterly submissions showed that the industry made steady progress toward meeting the ITM target. CDS started measuring the ITM rates at noon on T+1 beginning in June 2007. At that time, the industry's ITM rate at midnight on T was 23.48% and at noon on T+1 was 61.89%.

Currently, the industry's ITM rate at midnight on T is 45.24% and at noon on T+1 is 84.65%. (see Table A-1 in the Appendix) The improvement in the ITM rates at midnight on T and at noon on T+1 is notable for both DAP/RAP equity and debt trades.

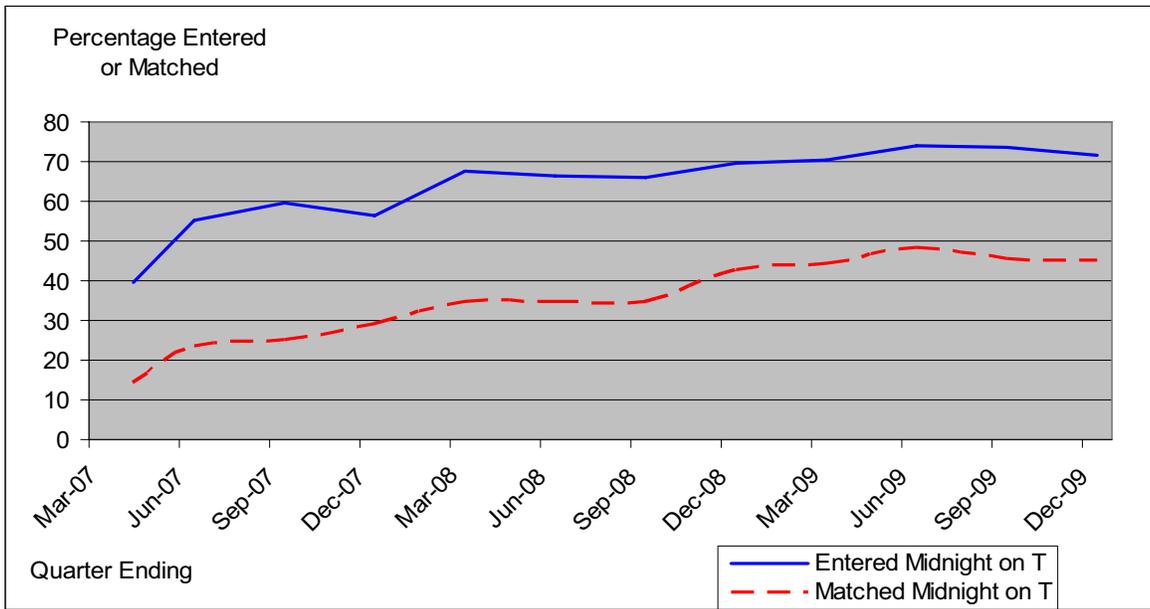
However, our review of the ITM data indicates that, despite significant progress since 2007, the industry is not achieving the Instrument's current noon on T+1 matching target of 90%. The data for equity shows that the ITM rate at noon on T+1 fluctuated from 82% to 87% during the past 15 months and the ITM rate for debt remained around 81% to 83% during the same time period. See Tables A-2 and A-3 in the Appendix.

Our review of the MSUs data indicates that the use of MSUs by registered dealers is limited in the existing institutional trading environment. Based on the information we received, MSU subscribers are currently using the services of an MSU for processing equity trades only. Since MSU reports began in October 2007, an average of more than 90% of equity trades processed through the MSU have been matched and sent to CDS by midnight on T. This suggests that using an MSU can significantly improve ITM performance.

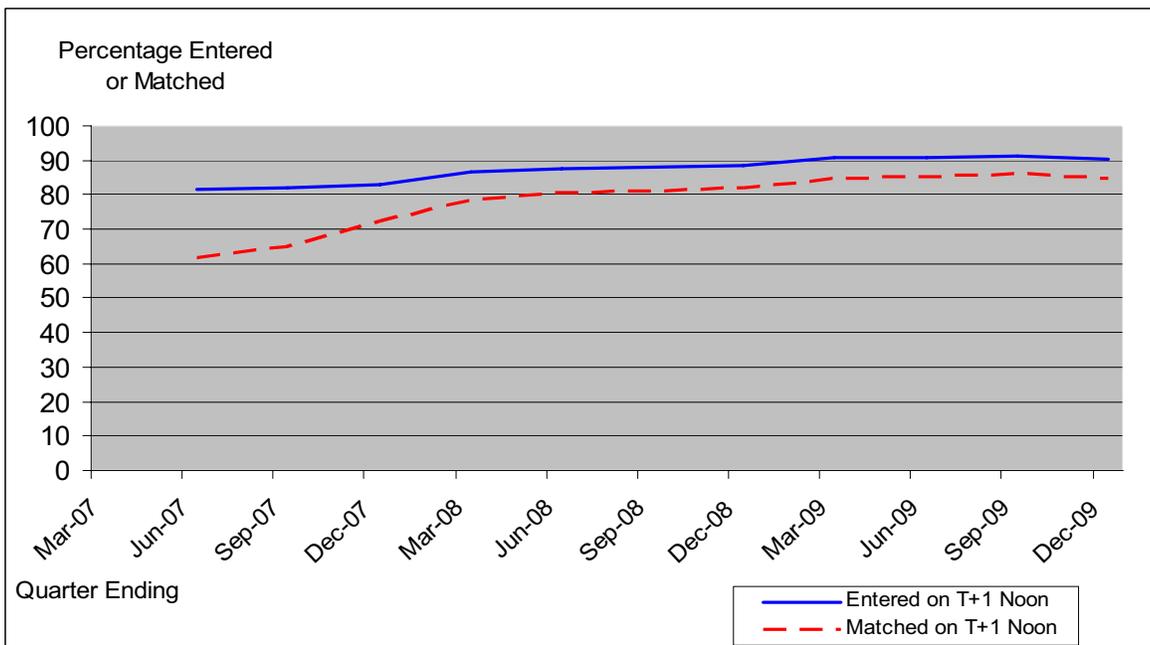
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<sup>5</sup> Prior to January 1, 2008 the ITM target was 80% of DAP/RAP trades matched by noon on T+1. Consequently, we decided not to include exception reporting data prior to January 1, 2008 into our analysis.

**Chart 1. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched midnight on T**



**Chart 2. Overall equity and debt ITM rates from CDS data based on volume – entered vs. matched noon on T+1**



**c. Progress of registered firms in achieving the ITM target**

**1. Dealers – Equity Trading**

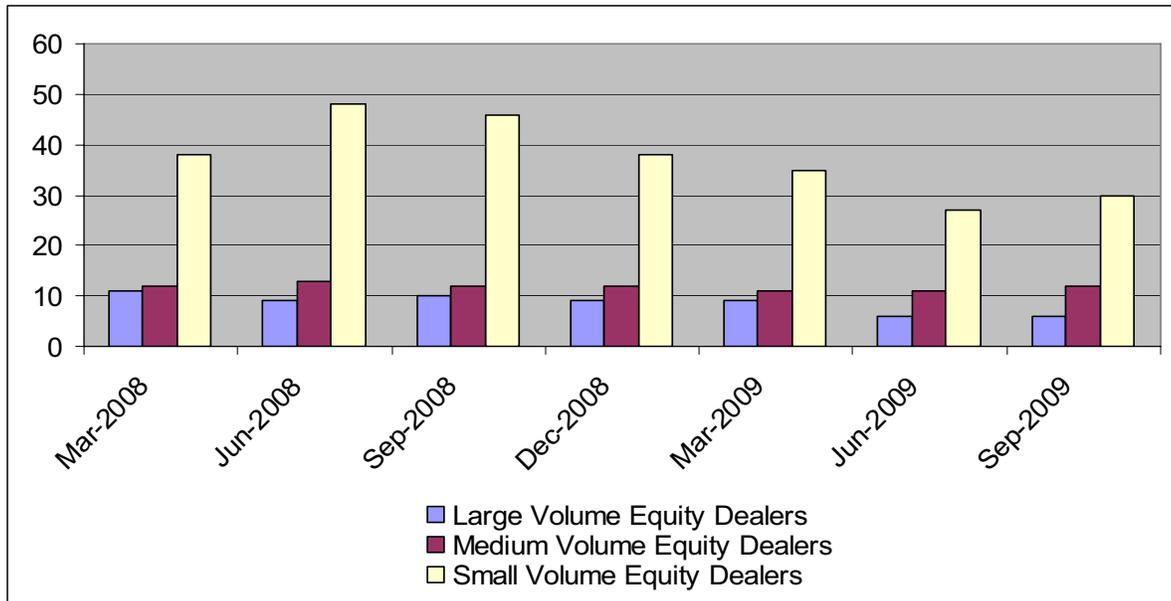
The size of the firm appears to have an impact when trades are processed and matched. However, size appears to have less of an impact on the submission of trades into CDS. CSA staff noted the lack of progress made by small volume equity dealers in both entering their trades into CDS and matching their trades by the ITM target.

**Table 2. Equity dealers exception reports**

The following table shows the number of F1 exception reports submitted by dealers for equity DAP/RAP trades during the review period.

F1s Submitted	Equity Dealers by Volume Entered			
	Large Volume	Medium Volume	Small Volume	Total
Total F1s Submitted	60	83	262	405
Average F1/Quarter	9	12	37	58

**Chart 3 – F1 Exception reports submitted by equity dealers (matched by volume)**



The data submitted by dealers that execute equity DAP/RAP trades shows that both large and medium volume equity dealers manage to enter (submit) into CDS a similar percentage of their total equity DAP/RAP trades. However, they do not match at similar levels. The matching levels of medium volume equity dealers are approximately 6 per cent less at noon on T+1 than the large volume dealers. Small volume equity dealers entered (submitted) into CDS approximately 83% of their equity DAP/RAP trades. Their matching levels are behind the first two categories, at approximately 62%.

**Table 3. F1 ITM equity rates – equity dealers by volume<sup>6</sup>**

	Large Volume Equity Dealers		Medium Volume Equity Dealers		Small Volume Equity Dealers	
	Entered	Matched	Entered	Matched	Entered	Matched
Average Entered by Noon T+1	88.14		88.44		82.70	
Average Matched by Noon T+1		82.17		76.43		62.25

Table B in the Appendix provides more details on the ITM equity rates for dealers, showing how the ITM rates changed from quarter to quarter during the review period.

<sup>6</sup> The Entered and Matched volumes are calculated as simple averages for the respective category.

2. **Dealers – debt trading**

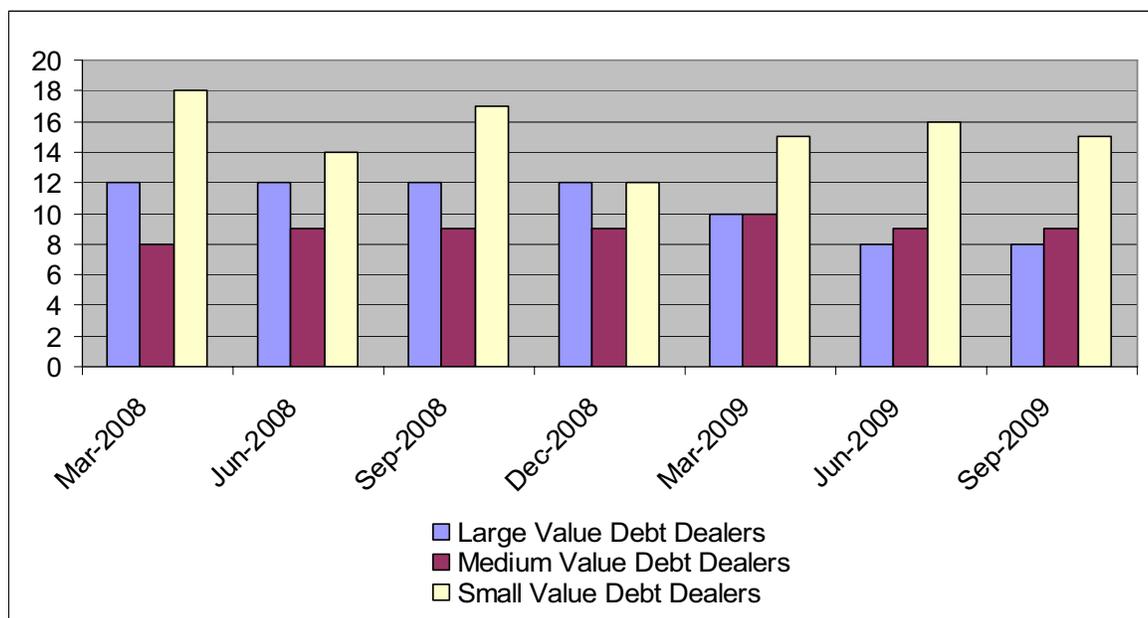
Small and medium value debt dealers have difficulty meeting the noon on T+1 benchmark as their matching rates are well below the 90% ITM target. Among all debt dealers that submitted exception reports, small value debt dealers had the most difficulties in reaching the ITM target.

**Table 4. Debt dealers F1 exception reports**

The following table shows the number of F1 exception reports submitted by dealers for debt DAP/RAP trades during the review period.

F1s Submitted	Debt Dealers by Value Entered			
	Large Value	Medium Value	Small Value	Total
Total F1s Submitted	74	63	107	244
Average F1/Quarter	11	9	15	35

**Chart 4 – F1 exception reports submitted by debt dealers (matched by value)**



The data submitted by dealers that execute debt DAP/RAP trades shows that large value debt dealers entered (submitted) into CDS approximately 90% of their average dollar value traded, and matched approximately 77% of all debt DAP/RAP trades by noon on T+1.

The small and medium value debt dealers reported that approximately 75% of their debt DAP/RAP trades were entered (submitted) into CDS by the deadline. The medium value debt dealers matched approximately 61% of their debt DAP/RAP trades, while the small value debt dealers only matched 41.5%.

**Table 5. F1 ITM debt rates – debt dealers by value**

	Large Value Debt Dealers		Medium Value Debt Dealers		Small Value Debt Dealers	
	Entered	Matched	Entered	Matched	Entered	Matched
Average Entered by Noon T+1	90.48		75.00		74.19	
Average Matched by Noon T+1		77.03		61.21		41.56

Table C in the Appendix provides more detail on the ITM debt rates for dealers, showing how the ITM rates changed from quarter to quarter during the review period.

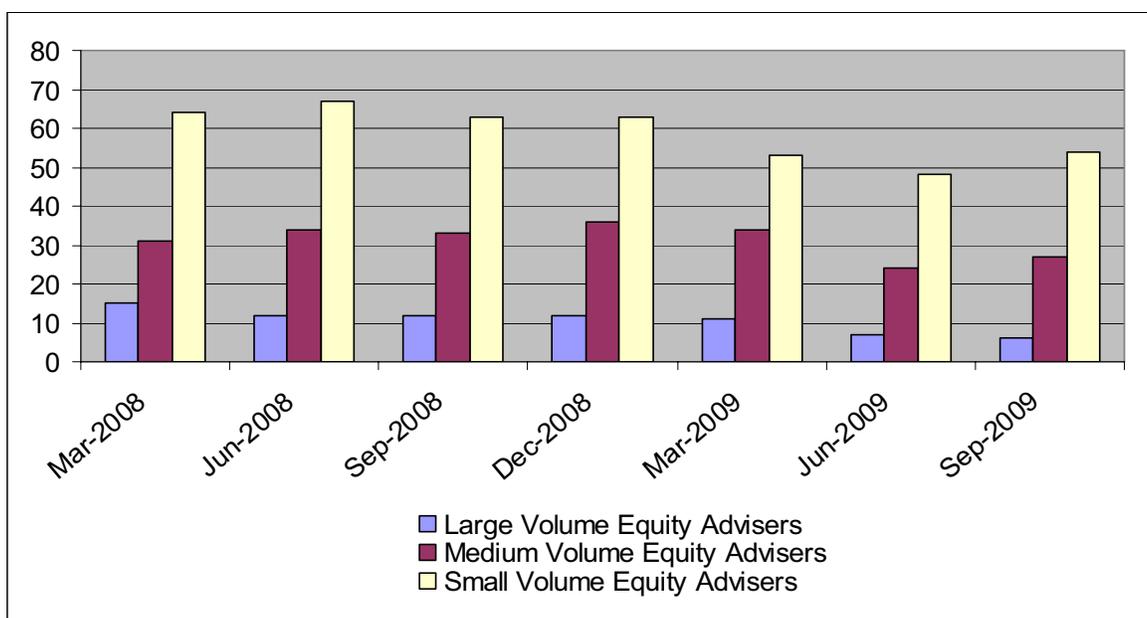
3. **Advisers – equity trading**

**Table 6. Equity advisers F1 exception reports**

The following table shows the number of F1 exception reports submitted by advisers for equity DAP/RAP trades during the review period.

	Equity Advisers by Volume Matched			
	Large Volume	Medium Volume	Small Volume	Total
Total F1s Submitted	75	219	412	706
Average F1/Quarter	11	31	59	101

**Chart 5 – F1 exception reports submitted by equity advisers (matched by volume)**



The data provided by equity advisers shows that the ITM rates of large and medium volume equity advisers are around 80%, while the rates of small volume equity advisers are slightly under 70%.

**Table 7. F1 ITM equity rates – equity advisers by volume**

	Large Volume Equity Advisers	Medium Volume Equity Advisers	Small Volume Equity Advisers
Average Matched by Noon on T+1	83.99	80.67	68.11

Table D in the Appendix provides more detail on the ITM equity rates for advisers, showing how the ITM rates changed from quarter to quarter during the review period.

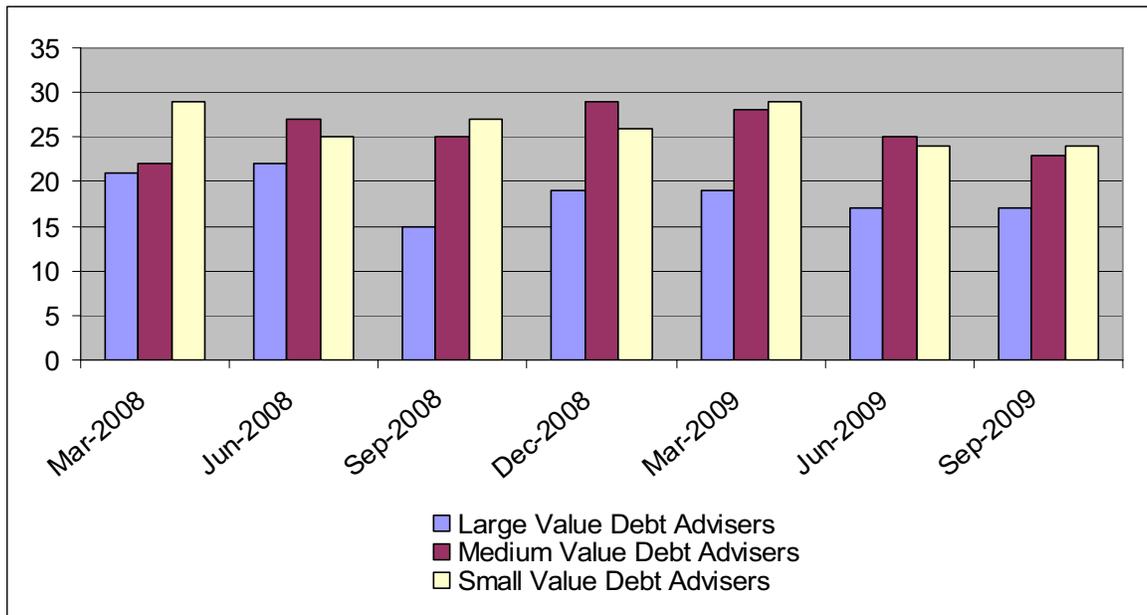
4. **Advisers – debt trading**

**Table 8. Debt advisers F1 exception reports**

The following table shows the number of F1 exception reports submitted by advisers for debt DAP/RAP trades during the review period.

	Debt Advisers by Value Matched			
	Large Value	Medium Value	Small Value	Total
Total F1s Submitted	130	179	184	493
Average F1/Quarter	18	26	26	70

**Chart 6 – F1 exception reports submitted by debt advisers (matched by value)**



**Table 9. F1 ITM debt rates – debt advisers by value**

	Large Value Debt Advisers	Medium Value Debt Advisers	Small Value Debt Advisers
Average Matched by Noon on T+1	76.90	68.05	59.44

The ITM rates reported by large value debt advisers were around 77%, while medium and small value debt advisers were below 70%.

Table E in the Appendix provides more detail on the ITM debt rates for advisers, showing how the ITM rates changed from quarter to quarter during the review period.

**VI. Qualitative Analysis**

The qualitative analysis consisted of:

- 1) An analysis of the information registered firms provided in Exhibit B *Reasons for non-compliance* and Exhibit C *Steps to address delays* of their F1 exception reports, and
- 2) Discussions with stakeholders.

**a. Methodology**

The CSA used information provided in Exhibit B and Exhibit C of the F1 to conduct an in-depth analysis of the reasons why registered firms did not meet the ITM target and how they addressed any challenges relating to their internal and external processes. This analysis looks at the challenges faced by dealers and advisers, irrespective of the type of security reported. We also had discussions with some stakeholders to obtain additional information.

CSA staff developed criteria for categorizing the information in Exhibits B and C of the Form F1. The criteria categorize:

- (i) the reasons why the registered firm was unable to achieve the ITM target for the calendar quarter, and
- (ii) the steps the registered firm took during the quarter to address the delays.

In categorizing the reasons why the registered firms were unable to achieve the ITM target, CSA staff considered internal and external processing issues, internal and external information technology issues and other concerns raised by registered firms in Exhibit B of the F1.

In categorizing the steps taken by registered firms to address delays, CSA staff considered internal and external measures and any other additional information provided by registered firms in Exhibit C of the F1.

This information provided to us in Exhibit B and Exhibit C of the F1 is subjective and may be interpreted subjectively by CSA staff.

**b. Analysis of registered firms' discussion of "Reasons for non-compliance" and "Steps to address delays" in their exception reports**

**Dealers**

Analysis of the "reasons for non-compliance"<sup>7</sup>

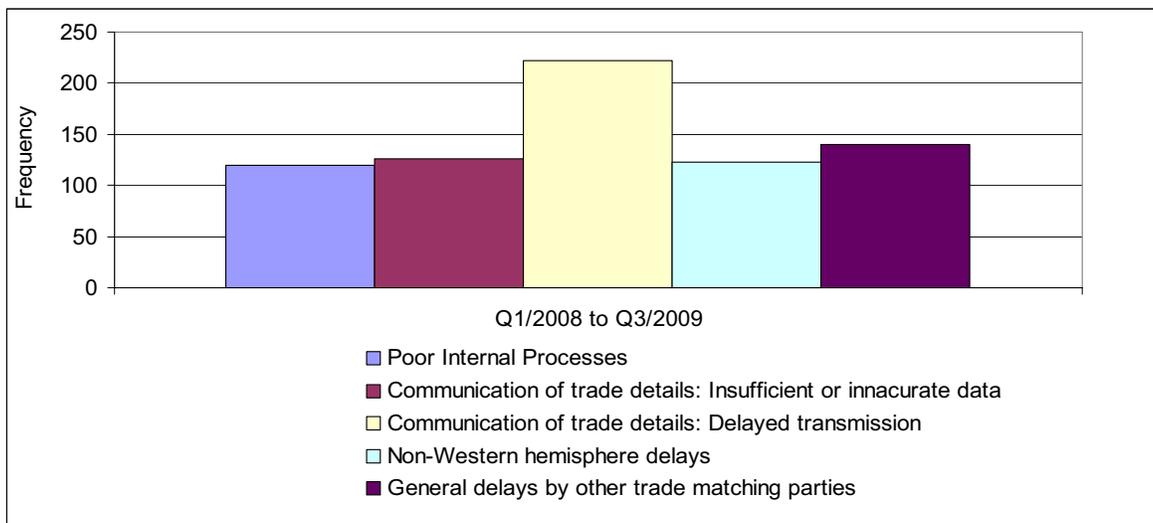
In general, dealers indicated that a key challenge in meeting the ITM target is the communication of trade details between trade-matching parties. Many dealers mentioned that the exchange of trade details between parties often contains insufficient or inaccurate data or is received too late to be processed within established timelines.

Another problem noted by dealers was the limitation of internal systems combined with poor processes and procedures that continue to be used within the firm. In particular, some equity dealers stated that the volume of non-western hemisphere trading they execute was an impediment in meeting the ITM target.

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<sup>7</sup> The title of Exhibit B of the F1 is "reasons for non-compliance". As discussed in the CSA Notice of Amendments, the title to Exhibit B is being amended to read instead as "reasons for not meeting exception reporting thresholds".

**Chart 7 – Dealers - Exhibit B – main reasons for not meeting ITM target**



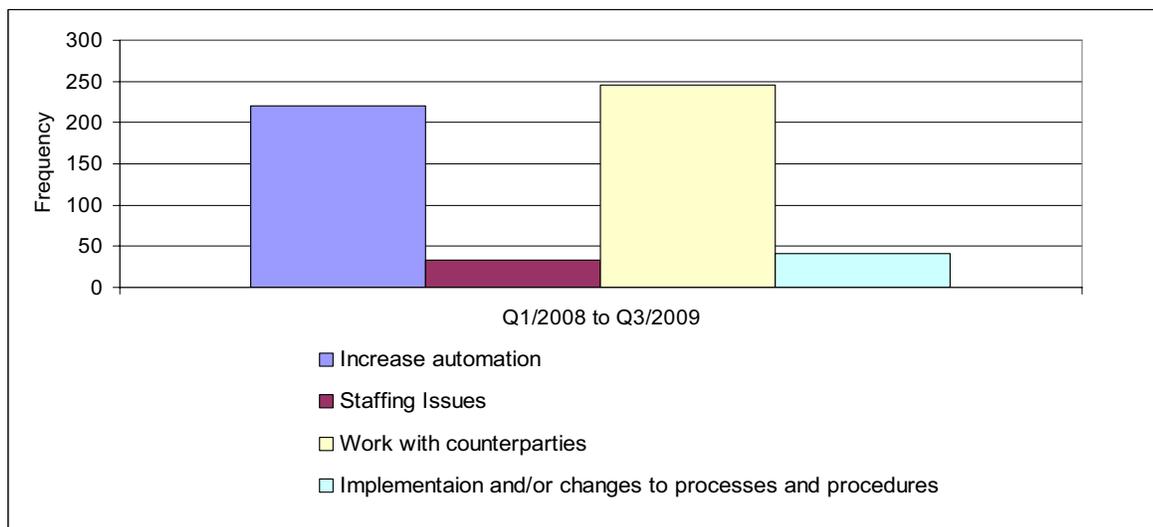
Analysis of the “steps to address delays”

Dealers have taken similar steps to address the delays. Many have worked with counterparties to identify processes that could be improved through either changes in internal systems or in staff behaviour.

Other steps included:

- increasing automation within the firms to eliminate or replace previously manual processes
- training existing staff on NI 24-101 requirements or adding new dedicated staff members
- implementing and/or changing processes and procedures.

**Chart 8 – Dealers – Exhibit C – main steps to address delays**



Observations

Dealers consistently identified communication of trade details between trade-matching parties as an impediment in meeting the 90% matching on T+1 noon. Information they receive from counterparties is often inaccurate, insufficient or transmitted late when compared to their trade processing schedule. A dealer’s counterparty is usually an adviser who needs to provide the

details of the trade and, after the trade is executed, the allocations for the respective trade and the adviser's designated custodian who needs to confirm all trade details. Many advisers still send trade details and allocations by phone, fax or email. As a result, custodians are late in affirming trade details.

Dealers noted that their internal processes need to be automated. For instance, a firm should use electronic interfaces to capture trade allocations from advisers into internal systems. The internal system enriches the account information and trade details then sends the trade details for overnight processing into back office systems and on to CDS for clearing and settlement.

Another factor for some dealers is the amount of non-western hemisphere trading they execute. One of the concerns expressed is the inability to track or segregate DAP/RAP trades originating from non-western hemisphere clients or counterparties because CDS and back office services providers do not facilitate the tracking of this information. Also, many dealers believe that other trade-matching parties are generally responsible for trades not meeting the noon on T+1 matching threshold.

**Advisers**

*Analysis of the "reasons for non-compliance"*

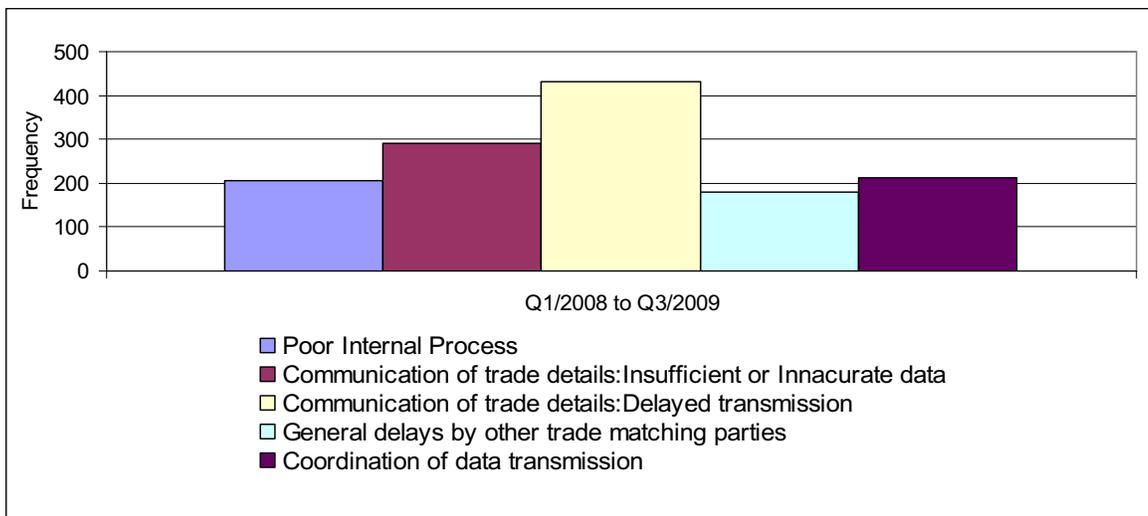
In general, advisers indicated that their main challenge was communication of trade details between trade-matching parties. They also noted that their ability to identify the bottlenecks in the institutional trade process depends on the quality of the information received from the trade-matching parties that provide their ITM performance data.

Many advisers mentioned that without sufficient explanations, they could not investigate delays appropriately. Some stated that insufficient or unclear ITM information provided by counterparties makes it difficult to identify why the trade processing is obstructed.

Another challenge for advisers is the coordination of data transmission between trade-matching parties. They remarked that their ability to meet the ITM rate depends on the timeliness of the exchange of trade details between parties that are, in general, outside their control.

Advisers also mentioned that poor internal processes were an issue.

**Chart 9 – Advisers – Exhibit B – main reasons for not meeting the ITM target**

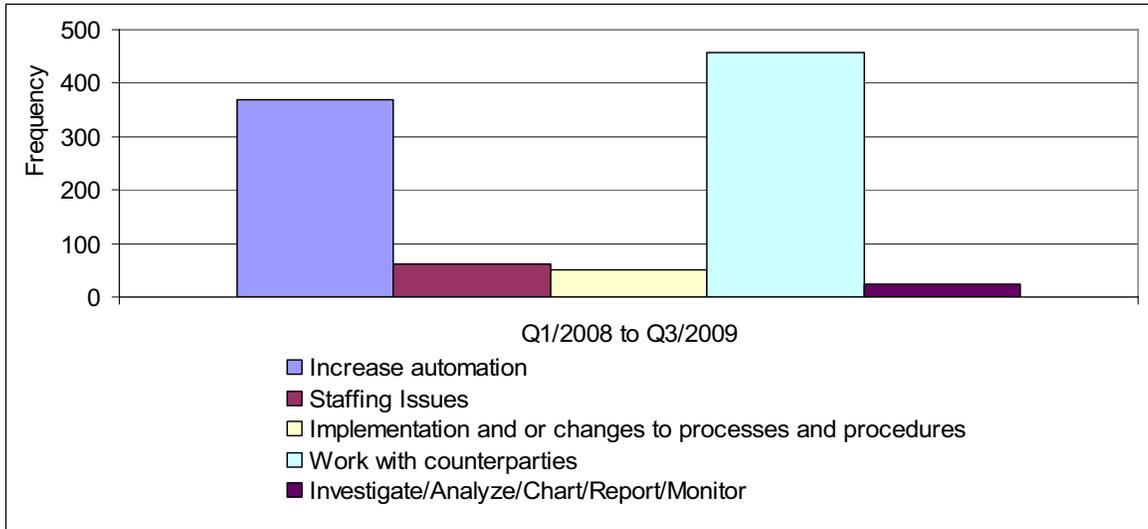


*Analysis of the "steps to address delays"*

Advisers reported working with counterparties to uncover the causes of the delays in the matching process. Some advisers initiated an investigative process where they would analyze the information provided by counterparties and monitor how the matching process takes place to discover any bottlenecks.

Other advisers encouraged counterparties to communicate and solve any issues related to the timeliness of data transmission. Many advisers noted efforts to improve automation through adoption of OMSs or enhancements in existing internal systems. They also reported the implementation of new policies and procedures or changes to existing ones and training or adding new dedicated staff (see Chart 4).

**Chart 10 – Advisers – Exhibit C – main steps to address delays**



Observations

Communication of trade details was the most difficult challenge advisers faced. An important step in addressing this challenge was to increase automation of internal processes and improve connectivity with trade-matching parties.

Advisers also noted that identifying existing bottlenecks in data processing was an important item on their agenda. They worked with counterparties to clarify where trades are obstructed and encouraged counterparties or other third-party service providers to communicate and address any issues related to the timeliness of data transmission.

**c. Discussions with stakeholders**

CSA staff had discussions with market participants, service providers, industry groups and other stakeholders to obtain feedback on the challenges of meeting the ITM target, understand the efforts to improve their ITM performance rates, learn about any ongoing issues/problems with ITM requirements, and generally, to discuss broad issues associated with NI 24-101.

In general, we found that NI 24-101 has encouraged market participants to improve ITM middle and back office internal functions. For example, many market participants re-engineered and automated their processes.

However, less progress appears to have been made with external connectivity. Dealers noted that a recurrent issue is the high volume of trade information received by phone, fax or email. This may be related to the concern expressed by advisers about the cost of adopting an OMS. Another issue consistently raised by dealers was the delay in receiving allocation of trades.

Some advisers expressed concerns at the lack of use of MSUs, especially among dealers. Certain dealers also noted the high cost of using an MSU, which is similar to the concern of advisers about the high cost of acquiring an OMS.

**VII. Conclusion**

CSA staff recognize that market participants have made concerted efforts to achieve the Instrument’s current noon on T+1 matching target. Our review of the data showed that since 2007, the industry has made steady progress in meeting the ITM target. However, despite these efforts many market participants have reached a significant ceiling in their ability to meet the ITM target. CSA staff will continue to monitor the industry’s progress in achieving the ITM target.

## APPENDIX

Table A-1. Overall ITM rates (equity and debt) from CDS data based on volume – percentage entered into CDS and matched during the quarter

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	39.72	-	14.3	-
Jun-2007	55.32	81.7	23.48	61.9
Sep-2007	59.74	81.8	25.18	64.8
Dec-2007	56.34	82.9	29.28	72.3
Mar-2008	67.69	86.7	34.84	78.4
Jun-2008	66.48	87.5	34.62	80.6
Sep-2008	65.97	88.1	34.96	80.9
Dec-2008	69.78	88.3	42.72	82
Mar-2009	70.55	90.8	44.59	84.8
Jun-2009	73.96	90.7	48.24	85.2
Sep-2009	73.45	91.4	45.47	86.3
Dec-2009	71.43	90.2	45.24	84.7

Table A-2. Overall ITM rates (equity only) from CDS data based on volume – percentage entered into CDS and matched during the quarter

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	39.5	-	13.1	-
Jun-2007	53.5	81.2	21.7	62.9
Sep-2007	58.2	81.2	22.4	65.1
Dec-2007	54.4	82.9	27.2	73.0
Mar-2008	66.5	86.4	32.3	78.4
Jun-2008	65.5	87.5	32.7	81.1
Sep-2008	64.1	87.8	32.0	80.1
Dec-2008	69.2	88.1	41.3	82.2
Mar-2009	69.6	90.9	42.5	85.4
Jun-2009	73.7	90.9	46.6	85.9
Sep-2009	73.0	91.6	43.5	86.8
Dec-2009	70.6	90.3	43.4	85.2

Table A-3. Overall ITM rates (debt only) from CDS data based on volume – percentage entered into CDS and matched during the quarter

Quarter Ending:	Entered		Matched	
	Midnight T	Noon T+1	Midnight T	Noon T+1
Apr-2007	41.0	-	20.9	-
Jun-2007	63.2	83.5	31.4	57.5
Sep-2007	67.0	84.8	38.6	63.5
Dec-2007	66.0	82.6	39.6	68.8
Mar-2008	74.1	88.4	49.1	78.1
Jun-2008	71.7	87.2	45.6	77.9
Sep-2008	76.5	90.1	51.8	83.0
Dec-2008	73.3	89.3	51.0	80.6
Mar-2009	75.4	90.1	55.4	81.8
Jun-2009	75.5	90.0	55.9	82.1
Sep-2009	78.9	90.8	56.3	83.2
Dec-2009	75.7	89.3	55.5	81.7

Table B. ITM equity rates from F1s – equity dealers by volume<sup>8</sup>

Quarter Ending:	Large Volume Equity Dealers		Medium Volume Equity Dealers		Small Volume Equity Dealers	
	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1
Mar- 2008	87.10	80.49	85.12	69.00	82.20	63.07
Jun- 2008	87.23	80.60	88.88	74.54	87.74	59.55
Sep- 2008	87.15	81.33	87.07	75.63	81.65	61.54
Dec- 2008	81.88	75.73	87.14	75.18	84.49	64.12
Mar- 2009	91.87	86.06	89.76	78.18	82.97	63.21
Jun- 2009	90.14	84.09	90.80	80.56	85.19	65.18
Sep- 2009	91.59	86.90	90.33	81.88	77.64	59.10
Average Entered	88.14		88.44		82.70	
Average Matched		82.17		76.43		62.25

<sup>8</sup> The Entered and Matched volumes are calculated as simple averages for the respective category.

Table C. ITM debt rates from F1s – debt dealers by value

Quarter Ending:	Large Value Debt Dealers		Medium Value Debt Dealers		Small Value Debt Dealers	
	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1	Entered by noon T+1	Matched by noon T+1
Mar- 2008	89.68	73.27	72.77	59.50	76.96	49.67
Jun- 2008	86.22	72.37	64.38	54.47	76.74	42.65
Sep- 2008	90.74	78.25	83.71	58.40	77.57	53.09
Dec- 2008	88.15	73.08	73.16	62.98	77.83	34.34
Mar- 2009	93.34	78.03	80.09	65.62	80.29	45.74
Jun- 2009	93.23	81.06	76.56	59.71	67.00	33.63
Sep- 2009	92.01	83.16	74.29	67.82	62.98	31.77
Average Entered	90.48		75.00		74.19	
Average Matched		77.03		61.21		41.56

Table D. ITM equity rates from F1s – equity advisers by volume

Quarter Ending:	Large Volume Equity Advisers	Medium Volume Equity Advisers	Small Volume Equity Advisers
	Matched by noon on T+1	Matched by noon on T+1	Matched by noon on T+1
Mar- 2008	81.14	73.96	64.41
Jun- 2008	84.00	77.95	67.35
Sep- 2008	85.61	82.93	69.09
Dec- 2008	86.07	80.11	65.14
Mar- 2009	86.41	84.91	73.65
Jun- 2009	80.69	79.73	66.34
Sep- 2009	84.05	85.13	70.81
Average Matched	83.99	80.67	68.11

Table E. ITM debt rates from F1s – debt advisers by value

Quarter Ending:	Large Value Debt Advisers	Medium Value Debt Advisers	Small Value Debt Advisers
	Matched by noon on T+1	Matched by noon on T+1	Matched by noon on T+1
Mar- 2008	71.43	65.64	54.18
Jun- 2008	72.16	62.73	52.09
Sep- 2008	76.68	71.77	58.12
Dec- 2008	76.21	66.07	61.01
Mar- 2009	78.75	73.87	59.29
Jun- 2009	80.86	64.65	66.87
Sep- 2009	82.20	71.59	64.51
Average Matched	76.90	68.05	59.44

ANNEX D

AMENDMENTS TO  
NATIONAL INSTRUMENT 24-101 *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT*

1. ***National Instrument 24-101 Institutional Trade Matching and Settlement is amended by this Instrument.***
2. ***Section 1.1 is amended by:***
  - a. ***replacing “authorized” in the definition of “clearing agency” with “recognized”;***
  - b. ***replacing the definition of “institutional investor” with the following:***

“institutional investor” means a client of a dealer that has been granted DAP/RAP trading privileges by the dealer;
  - c. ***adding the definition “North American region” as follows:***

“North American region” means Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean;
  - d. ***replacing paragraphs (a) and (b) of the definition “trade-matching party” with the following:***
    - (a) a registered adviser acting for the institutional investor in processing the trade,
    - (b) if a registered adviser is not acting for the institutional investor in processing the trade, the institutional investor unless the institutional investor is
      - (i) an individual, or
      - (ii) a person or company with total securities under administration or management not exceeding \$10 million,
  - e. ***replacing the words “the day on which a trade is executed”, wherever they occur in the definitions of “T+1”, “T+2” and “T+3”, with “T”.***
3. ***Paragraph 2.1(f) is amended by adding “in a security of a mutual fund” after “trade”.***
4. ***Section 3.1 is amended by:***
  - a. ***replacing in subsection (1) “the end of T” with “12 p.m. (noon) on T+1”;***
  - b. ***replacing subsection (2) with the following:***
    - (2) Despite subsection (1), the dealer may adapt its policies and procedures to permit matching to occur no later than 12 p.m. (noon) on T+2 for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region.
5. ***Section 3.2 is replaced by the following:***
  - 3.2 ***Pre-DAP/RAP trade execution documentation requirement for dealers —***

A registered dealer shall not open an account to execute a DAP/RAP trade for an institutional investor or accept an order to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

    - (a) enter into a trade-matching agreement with the dealer, or
    - (b) provide a trade-matching statement to the dealer.

6. **Section 3.3 is amended by:**

- a. **replacing in subsection (1)** “the end of T” **with** “12 p.m. (noon) on T+1”;
- b. **replacing subsection (2) with the following:**

(2) Despite subsection (1), the adviser may adapt its policies and procedures to permit matching to occur no later than 12 p.m. (noon) on T+2 for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region.

7. **Section 3.4 is replaced by the following:**

**3.4 Pre- DAP/RAP trade execution documentation requirement for advisers —**

A registered adviser shall not open an account to execute a DAP/RAP trade for an institutional investor or give an order to a dealer to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party to

- (a) enter into a trade-matching agreement with the adviser, or
- (b) provide a trade-matching statement to the adviser.

8. **Part 4 is replaced by the following:**

**PART 4 REPORTING BY REGISTERED FIRMS**

**4.1 Exception reporting requirement**

A registered firm shall deliver Form 24-101F1 to the securities regulatory authority no later than 45 days after the end of a calendar quarter if

- (a) less than 90 per cent of the DAP/RAP trades executed by or for the registered firm during the quarter matched within the time required in Part 3, or
- (b) the DAP/RAP trades executed by or for the registered firm during the quarter that matched within the time required in Part 3 represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades.

9. **Form 24-101F1 is amended by:**

- (a) **replacing item 3 under “REGISTERED FIRM IDENTIFICATION AND CONTACT INFORMATION:” with the following:**

3a. Address of registered firm’s principal place of business:

3b. Indicate below the jurisdiction of your principal regulator within the meaning of National Instrument 31-103 *Registration Requirements and Exemptions*:

- Alberta
- British Columbia
- Manitoba
- New Brunswick
- Newfoundland & Labrador
- Northwest Territories
- Nova Scotia
- Nunavut
- Ontario
- Prince Edward Island
- Québec
- Saskatchewan
- Yukon

3c. Indicate below all jurisdictions in which you are registered:

- Alberta
- British Columbia
- Manitoba
- New Brunswick
- Newfoundland & Labrador
- Northwest Territories
- Nova Scotia
- Nunavut
- Ontario
- Prince Edward Island
- Québec
- Saskatchewan
- Yukon

**(b) replacing the portion of the Form after the heading "INSTRUCTIONS:" and before the heading "EXHIBITS" with the following:**

Deliver this form for both equity and debt DAP/RAP trades together with Exhibits A, B and C pursuant to section 4.1 of the Instrument, covering the calendar quarter indicated above, within 45 days of the end of the calendar quarter if

- (a) less than 90 per cent of the equity and/or debt DAP/RAP trades executed by or for you during the quarter matched within the time required in Part 3 of the Instrument, or
- (b) the equity and/or debt DAP/RAP trades executed by or for you during the quarter that matched within the time required in Part 3 of the Instrument represent less than 90 per cent of the aggregate value of the securities purchased and sold in those trades."

**(c) replacing the heading "EXHIBIT B – Reasons for non-compliance" with the following:**

**Exhibit B – Reasons for not meeting exception reporting thresholds**

**10. Form 24-102F2 is amended by:**

**(a) replacing the portion of the Form after the heading "Table 1 --- Equity trades:" and before the word "Legend" with the following:**

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

Table 2 — Debt trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

(b) **replacing the portion of the Form after the heading “Exhibit B – Individual matched trade statistics” and before the heading “CERTIFICATE OF CLEARING AGENCY” with the following:**

Using the same format as Exhibit A above, provide the relevant information for each participant of the clearing agency in respect of client trades during the quarter that have been entered by the participant and matched within the timelines indicated in Exhibit A.

11. **Form 24-101F5 is amended by:**

(a) **replacing the portion of the Form after the heading “Table 1 --- Equity trades:” and before the word “Legend” with the following:**

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

Table 2 — Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

(b) **replacing the portion of the Form after the heading “Exhibit D – Individual matched trade statistics” and before the heading “CERTIFICATE OF MATCHING SERVICE UTILITY” with the following:**

Using the same format as Exhibit C above, provide the relevant information for each user or subscriber in respect of trades during the quarter that have been entered by the user or subscriber and matched within the timelines indicated in Exhibit C.

12. **This Instrument comes into force on July 1, 2010.**

**ANNEX E  
BLACKLINE VERSION OF  
NATIONAL INSTRUMENT 24-101 INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

This is an unofficial consolidation of National Instrument 24-101 *Institutional Trade Matching and Settlement*, with the amendments in Annex D shown by blackline. No part of this document represents an official statement of law. Text boxes in this Annex are provided for convenience and do not form part of the National Instrument.

**CANADIAN SECURITIES ADMINISTRATORS  
NATIONAL INSTRUMENT 24-101  
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

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<b><u>FORMS</u></b>	<b><u>TITLE</u></b>
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**NATIONAL INSTRUMENT 24-101  
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

**PART 1 DEFINITIONS AND INTERPRETATION**

**1.1 Definitions —**

In this Instrument,

“clearing agency” means,

- (a) in Ontario, a clearing agency recognized by the securities regulatory authority under section 21.2 of the *Securities Act* (Ontario),
- (b) in Québec, a clearing house for securities ~~authorized~~recognized by the securities regulatory authority, and
- (c) in every other jurisdiction, an entity that is carrying on business as a clearing agency in the jurisdiction;

“custodian” means a person or company that holds securities for the benefit of another under a custodial agreement or other custodial arrangement;

“DAP/RAP trade” means a trade

- (a) executed for a client trading account that permits settlement on a delivery against payment or receipt against payment basis through the facilities of a clearing agency, and
- (b) for which settlement is made on behalf of the client by a custodian other than the dealer that executed the trade;

“institutional investor” means ~~an investor~~a client of a dealer that has been granted DAP/RAP trading privileges by ~~the~~a dealer;

“marketplace” has the same meaning as in National Instrument 21-101 *Marketplace Operation*;

“matching service utility” means a person or company that provides centralized facilities for matching, but does not include a clearing agency;

“North American region” means Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean;

“registered firm” means a person or company registered under securities legislation as a dealer or adviser;

“trade-matching agreement” means, for trades executed with or on behalf of an institutional investor, a written agreement entered into among trade-matching parties setting out the roles and responsibilities of the trade-matching parties in matching those trades and including, without limitation, a term by which the trade-matching parties agree to establish, maintain and enforce policies and procedures designed to achieve matching as soon as practical after a trade is executed;

“trade-matching party” means, for a trade executed with or on behalf of an institutional investor,

- (a) a registered adviser acting for the institutional investor in processing the trade,
- (b) if a registered adviser is not acting for the institutional investor in processing the trade, the institutional investor, ~~unless the institutional investor is~~
  - (i) an individual, or
  - (ii) a person or company with total securities under administration or management not exceeding \$10 million,
- (c) a registered dealer executing or clearing the trade, or
- (d) a custodian of the institutional investor settling the trade;

“trade-matching statement” means, for trades executed with or on behalf of an institutional investor, a signed written statement of a trade-matching party confirming that it has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after a trade is executed;

“T” means the day on which a trade is executed;

“T+1” means the next business day following ~~the day on which a trade is executed~~T;

“T+2” means the second business day following ~~the day on which a trade is executed~~T;

“T+3” means the third business day following ~~the day on which a trade is executed~~T.

## 1.2 Interpretation — trade matching and Eastern Time —

- (1) In this Instrument, matching is the process by which
  - (a) the details and settlement instructions of an executed DAP/RAP trade are reported, verified, confirmed and affirmed or otherwise agreed to among the trade-matching parties, and
  - (b) unless the process is effected through the facilities of a clearing agency, the matched details and settlement instructions are reported to a clearing agency.
- (2) Unless the context otherwise requires, a reference in this Instrument to
  - (a) a time is to Eastern Time, and
  - (b) a day is to a twenty-four hour day from midnight to midnight Eastern Time.

## PART 2 APPLICATION

- ### 2.1 This Instrument does not apply to
- (a) a trade in a security of an issuer that has not been previously issued or for which a prospectus is required to be sent or delivered to the purchaser under securities legislation,
  - (b) a trade in a security to the issuer of the security,
  - (c) a trade made in connection with a take-over bid, issuer bid, amalgamation, merger, reorganization, arrangement or similar transaction,
  - (d) a trade made in accordance with the terms of conversion, exchange or exercise of a security previously issued by an issuer,
  - (e) a trade that is a securities lending, repurchase, reverse repurchase or similar financing transaction,
  - (f) a trade in a security of a mutual fund to which National Instrument 81-102—*Mutual Funds* applies,
  - (g) a trade to be settled outside Canada,
  - (h) a trade in an option, futures contract or similar derivative, or
  - (i) a trade in a negotiable promissory note, commercial paper or similar short-term debt obligation that, in the normal course, would settle in Canada on T.

## PART 3 TRADE MATCHING REQUIREMENTS

### 3.1 Matching deadlines for registered dealer —

- (1) A registered dealer shall not execute a DAP/RAP trade with or on behalf of an institutional investor unless the dealer has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than ~~the end of T 12 p.m. (noon)~~ on T+1.

- (2) Despite subsection (1), the dealer may adapt its policies and procedures to permit matching to occur no later than ~~the end of T+1 12 p.m. (noon) on T+2~~ for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the ~~western hemisphere~~North American region.

**3.2 Pre-DAP/RAP trade execution documentation requirement for dealers —**

A registered dealer shall not open an account to execute a DAP/RAP trade for an institutional investor or accept an order to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party has to either

- (a) ~~entered~~enter into a trade-matching agreement with the dealer, or  
(b) ~~provided~~provide a trade-matching statement to the dealer.

**3.3 Matching deadlines for registered adviser —**

- (1) A registered adviser shall not give an order to a dealer to execute a DAP/RAP trade on behalf of an institutional investor unless the adviser has established, maintains and enforces policies and procedures designed to achieve matching as soon as practical after such a trade is executed and in any event no later than ~~the end of T 12 p.m. (noon) on T+1~~.
- (2) Despite subsection (1), the adviser may adapt its policies and procedures to permit matching to occur no later than ~~the end of T+1 12 p.m. (noon) on T+2~~ for a DAP/RAP trade that results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the ~~western hemisphere~~North American region.

**3.4 Pre-DAP/RAP trade execution documentation requirement for advisers —**

A registered adviser shall not open an account to execute a DAP/RAP trade for an institutional investor or give an order to a dealer to execute a DAP/RAP trade for the account of an institutional investor unless its policies and procedures are designed to encourage each trade-matching party has to either

- (a) ~~entered~~enter into a trade-matching agreement with the adviser, or  
(b) ~~provided~~provide a trade-matching statement to the adviser.

**PART 4 REPORTING REQUIREMENT ~~FOR~~ REGISTERED FIRMS**

**4.1 Exception reporting requirement**

A registered firm shall deliver Form 24-101F1 to the securities regulatory authority no later than 45 days after the end of a calendar quarter if

- (a) less than ~~95~~90 per cent of the DAP/RAP trades executed by or for the registered firm during the quarter matched within the time required in Part 3, or  
(b) the DAP/RAP trades executed by or for the registered firm during the quarter that matched within the time required in Part 3 represent less than ~~95~~90 per cent of the aggregate value of the securities purchased and sold in those trades.

**PART 5 REPORTING REQUIREMENTS FOR CLEARING AGENCIES**

- 5.1 A clearing agency through which trades governed by this Instrument are cleared and settled shall deliver Form 24-101F2 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

**PART 6 REQUIREMENTS FOR MATCHING SERVICE UTILITIES**

**6.1 Initial information reporting —**

- (1) A person or company shall not carry on business as a matching service utility unless  
(a) the person or company has delivered Form 24-101F3 to the securities regulatory authority, and

(b) at least 90 days have passed since the person or company delivered Form 24-101F3.

(2) During the 90 day period referred to in subsection (1), if there is a significant change to the information in the delivered Form 24-101F3, the person or company shall inform the securities regulatory authority in writing immediately of that significant change by delivering an amendment to Form 24-101F3 in the manner set out in Form 24-101F3.

**6.2 Anticipated change to operations —**

At least 45 days before implementing a significant change to any item set out in Form 24-101F3, a matching service utility shall deliver an amendment to the information in the manner set out in Form 24-101F3.

**6.3 Ceasing to carry on business as a matching service utility —**

(1) If a matching service utility intends to cease carrying on business as a matching service utility, it shall deliver a report on Form 24-101F4 to the securities regulatory authority at least 30 days before ceasing to carry on that business.

(2) If a matching service utility involuntarily ceases to carry on business as a matching service utility, it shall deliver a report on Form 24-101F4 as soon as practical after it ceases to carry on that business.

**6.4 Ongoing information reporting and record keeping —**

(1) A matching service utility shall deliver Form 24-101F5 to the securities regulatory authority no later than 30 days after the end of a calendar quarter.

(2) A matching service utility shall keep such books, records and other documents as are reasonably necessary to properly record its business.

**6.5 System requirements —**

For all of its core systems supporting trade matching, a matching service utility shall

- (a) consistent with prudent business practice, on a reasonably frequent basis, and, in any event, at least annually,
  - (i) make reasonable current and future capacity estimates,
  - (ii) conduct capacity stress tests of those systems to determine the ability of the systems to process transactions in an accurate, timely and efficient manner,
  - (iii) implement reasonable procedures to review and keep current the testing methodology of those systems,
  - (iv) review the vulnerability of those systems and data centre computer operations to internal and external threats, including breaches of security, physical hazards and natural disasters, and
  - (v) maintain adequate contingency and business continuity plans;
- (b) annually cause to be performed an independent review and written report, in accordance with generally accepted auditing standards, of the stated internal control objectives of those systems; and
- (c) promptly notify the securities regulatory authority of a material failure of those systems.

**PART 7 TRADE SETTLEMENT**

**7.1 Trade settlement by registered dealer —**

(1) A registered dealer shall not execute a trade unless the dealer has established, maintains and enforces policies and procedures designed to facilitate settlement of the trade on a date that is no later than the standard settlement date for the type of security traded prescribed by an SRO or the marketplace on which the trade would be executed.

(2) Subsection (1) does not apply to a trade for which terms of settlement have been expressly agreed to by the counterparties to the trade at or before the trade was executed.

**PART 8 REQUIREMENTS OF SELF-REGULATORY ORGANIZATIONS AND OTHERS**

**8.1** A clearing agency or matching service utility shall have rules or other instruments or procedures that are consistent with the requirements of Parts 3 and 7.

**8.2** A requirement of this Instrument does not apply to a member of an SRO if the member complies with a rule or other instrument of the SRO that deals with the same subject matter as the requirement and that has been approved, non-disapproved, or non-objected to by the securities regulatory authority and published by the SRO.

**PART 9 EXEMPTION**

**9.1 Exemption —**

(1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

**PART 10 EFFECTIVE DATES AND TRANSITION**

Note: This unofficial consolidation does not include sections 10.1 and 10.2 which contain coming-into-force provisions and transitional provisions which are only of historical interest.
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FORM 24-101F1

REGISTERED FIRM  
EXCEPTION REPORT OF  
DAP/RAP TRADE REPORTING AND MATCHING

CALENDAR QUARTER PERIOD COVERED:

From: \_\_\_\_\_ to: \_\_\_\_\_

REGISTERED FIRM IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of registered firm (if sole proprietor, last, first and middle name):

2. Name(s) under which business is conducted, if different from item 1:

~~3-3a.~~ Address of registered firm's principal place of business:

3b. Indicate below the jurisdiction of your principal regulator within the meaning of NI 31-103 *Registration Requirements and Exemptions*:

- Alberta
- British Columbia
- Manitoba
- New Brunswick
- Newfoundland & Labrador
- Northwest Territories
- Nova Scotia
- Nunavut
- Ontario
- Prince Edward Island
- Québec
- Saskatchewan
- Yukon

3c. Indicate below all jurisdictions in which you are registered:

- Alberta
- British Columbia
- Manitoba
- New Brunswick
- Newfoundland & Labrador
- Northwest Territories
- Nova Scotia
- Nunavut
- Ontario
- Prince Edward Island
- Québec
- Saskatchewan
- Yukon

4. Mailing address, if different from business address:

5. Type of business:                       Dealer                       Adviser

6. Category of registration:

7. (a) Registered Firm NRD number:

(b) If the registered firm is a participant of a clearing agency, the registered firm's CUID number:

8. Contact employee name:

Telephone number:

E-mail address:

**INSTRUCTIONS:**

Deliver this form for both equity and debt DAP/RAP trades together with Exhibits A, B and C pursuant to section 4.1 of the Instrument, covering the calendar quarter indicated above, within 45 days of the end of the calendar quarter if

- (a) less than 9590 per\_cent<sup>±</sup> of the equity and/or debt DAP/RAP trades executed by or for you during the quarter matched within the time<sup>\*\*</sup> required in Part 3 of the Instrument, or
- (b) the equity and/or debt DAP/RAP trades executed by or for you during the quarter that matched within the time<sup>\*\*</sup> required in Part 3 of the Instrument represent less than 9590 per\_cent<sup>±</sup> of the aggregate value of the securities purchased and sold in those trades.

***Transition***

~~\* For DAP/RAP trades executed during a transitional period after the Instrument comes into force and before January 1, 2010, this percentage will vary depending on when the trade was executed. See section 10.2(3) of the Instrument.~~

~~\*\* The time set out in Part 3 of the Instrument is 11:59 p.m. on, as the case may be, T or T+1. For DAP/RAP trades executed during a transitional period after the Instrument comes into force and before July 1, 2008, this timeline is being phased in and is 12:00 p.m. (noon) on, as the case may be, "T+1" or "T+2". See subsections 10.2(1) and (2) of the Instrument.~~

**EXHIBITS:**

**Exhibit A – DAP/RAP trade statistics for the quarter**

Complete Tables 1 and 2 below for each calendar quarter.

(1) *Equity DAP/RAP trades*

<i>Entered into CDS by deadline (to be completed by dealers only)</i>				<i>Matched by deadline</i>			
<b># of Trades</b>	<b>%</b>	<b>\$ Value of Trades</b>	<b>%</b>	<b># of Trades</b>	<b>%</b>	<b>\$ Value of Trades</b>	<b>%</b>

(2) *Debt DAP/RAP trades*

<i>Entered into CDS by deadline (to be completed by dealers only)</i>				<i>Matched by deadline</i>			
<b># of Trades</b>	<b>%</b>	<b>\$ Value of Trades</b>	<b>%</b>	<b># of Trades</b>	<b>%</b>	<b>\$ Value of Trades</b>	<b>%</b>

**Exhibit B – Reasons for non-compliance not meeting exception reporting thresholds**

Describe the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument. Reasons given could be one or more matters within your control or due to another trade-matching party or service provider. If you have

insufficient information to determine the percentages, the reason for this should be provided. See also Companion Policy 24-101CP to the Instrument.

**Exhibit C – Steps to address delays**

Describe what specific steps you are taking to resolve delays in the equity and/or debt DAP/RAP trade reporting and matching process in the future. Indicate when each of these steps is expected to be implemented. The steps being taken could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. If you have insufficient information to determine the percentages, the steps being taken to obtain this information should be provided. See also Companion Policy 24-101CP to the Instrument.

**CERTIFICATE OF REGISTERED FIRM**

The undersigned certifies that the information given in this report on behalf of the registered firm is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_

\_\_\_\_\_  
(Name of registered firm - type or print)

\_\_\_\_\_  
(Name of director, officer or partner - type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - type or print)

FORM 24-101F2

CLEARING AGENCY  
 QUARTERLY OPERATIONS REPORT OF  
 INSTITUTIONAL TRADE REPORTING AND MATCHING

CALENDAR QUARTER PERIOD COVERED:

From: \_\_\_\_\_ to: \_\_\_\_\_

IDENTIFICATION AND CONTACT INFORMATION:

1. Full name of clearing agency:
2. Name(s) under which business is conducted, if different from item 1:
3. Address of clearing agency's principal place of business:
4. Mailing address, if different from business address:
5. Contact employee name:  
 Telephone number:  
 E-mail address:

INSTRUCTIONS:

Deliver this form together with all exhibits pursuant to section 5.1 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Exhibits shall be provided in an electronic file, in the following file format: "CSV" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

EXHIBITS:

1. DATA REPORTING

Exhibit A – Aggregate matched trade statistics

For client trades, provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report. Provide separate aggregate information for trades that have been reported or entered into your facilities as matched trades by a matching service utility.

Month/Year: \_\_\_\_\_ (MMM/YYYY)

Table 1 --- Equity trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

**Rules and Policies**

Table 2 — Debt trades:

	Entered into clearing agency by dealers				Matched in clearing agency by custodians			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

**Legend**

"# of Trades" is the total number of transactions in the month;  
"\$ Value of Trades" is the total value of the transactions (purchases and sales) in the month.

**Exhibit B – Individual matched trade statistics**

Using the same format below, as Exhibit A above, provide the relevant information for each participant of the clearing agency, provide the percent in respect of client trades during the quarter that have been entered and matched by the participant and matched within the time required in Part 3 of the Instrument. The percentages given should relate to both the number of client trades that have been matched within the time and the aggregate value of the securities purchased and sold in the client trades that have been matched within the time. timelines indicated in Exhibit A.

Participant	Percentage matched within timelines			
	Equity trades		Debt trades	
	By # of transactions	By Value	By # of transactions	By Value

**CERTIFICATE OF CLEARING AGENCY**

The undersigned certifies that the information given in this report on behalf of the clearing agency is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_

\_\_\_\_\_  
(Name of clearing agency - type or print)

\_\_\_\_\_  
(Name of director, officer or partner - type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - type or print)

**FORM 24-101F3**

**MATCHING SERVICE UTILITY  
NOTICE OF OPERATIONS**

**DATE OF COMMENCEMENT INFORMATION:**

Effective date of commencement of operations: \_\_\_\_\_ (DD/MMM/YYYY)

**TYPE OF INFORMATION:**             INITIAL SUBMISSION             AMENDMENT

**MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:**

1. Full name of matching service utility:
2. Name(s) under which business is conducted, if different from item 1:
3. Address of matching service utility's principal place of business:
4. Mailing address, if different from business address:
5. Contact employee name:  
Telephone number:  
E-mail address:
6. Legal counsel:  
Firm name:  
Telephone number:  
E-mail address:

**GENERAL INFORMATION:**

7. Website address:
8. Date of financial year-end: \_\_\_\_\_ (DD/MMM/YYYY)
9. Indicate the form of your legal status (e.g., corporation, limited or general partnership), the date of formation, and the jurisdiction under which you were formed:  
Legal status:     CORPORATION             PARTNERSHIP  
                       OTHER (SPECIFY):  
(a) Date of formation: \_\_\_\_\_ (DD/MMM/YYYY)  
(b) Jurisdiction and manner of formation:
10. Specify the general types of securities for which information is being or will be received and processed by you for transmission of matched trades to a clearing agency (e.g. exchange-traded domestic equity and debt securities, exchange-traded foreign equity and debt securities, equity and debt securities traded over-the-counter).

**INSTRUCTIONS:**

Deliver this form together with all exhibits pursuant to section 6.1 or 10.2(4) of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable shall be furnished in lieu of the exhibit. To the extent information requested for an exhibit is identical to the information

requested in another form that you have filed or delivered under National Instrument 21-101 *Marketplace Operation*, simply attach a copy of that other form and indicate in this form where such information can be found in that other form.

If you are delivering an amendment to Form 24-101F3 pursuant to section 6.1(2) or 6.2 of the Instrument, and the amended information relates to an exhibit that was delivered with such form, provide a description of the change and complete and deliver an updated exhibit. If you are delivering Form 24-101F3 pursuant to section 10.2(4) of the Instrument, simply indicate at the top of this form under "Date of Commencement Information" that you were already carrying on business as a matching service utility in the relevant jurisdiction on the date that Part 6 of the Instrument came into force.

**EXHIBITS:**

**1. CORPORATE GOVERNANCE**

**Exhibit A – Constatng documents**

Provide a copy of your constating documents, including corporate by-laws and other similar documents, as amended from time to time.

**Exhibit B – Ownership**

List any person or company that owns 10 percent~~per cent~~ or more of your voting securities or that, either directly or indirectly, through agreement or otherwise, may control your management. Provide the full name and address of each person or company and attach a copy of the agreement or, if there is no written agreement, briefly describe the agreement or basis through which the person or company exercises or may exercise control or direction.

**Exhibit C – Officials**

Provide a list of the partners, officers, directors or persons performing similar functions who presently hold or have held their offices or positions during the current and previous calendar year, indicating the following for each:

1. Name.
2. Title.
3. Dates of commencement and expiry of present term of office or position and length of time the office or position held.
4. Type of business in which each is primarily engaged and current employer.
5. Type of business in which each was primarily engaged in the preceding five years, if different from that set out in item 4.
6. Whether the person is considered to be an independent director.

**Exhibit D – Organizational structure**

Provide a narrative or graphic description of your organizational structure.

**Exhibit E – Affiliated entities**

For each person or company affiliated to you, provide the following information:

1. Name and address of affiliated entity.
2. Form of organization (e.g., association, corporation, partnership).
3. Name of jurisdiction and statute under which organized.
4. Date of incorporation in present form.
5. Brief description of nature and extent of affiliation or contractual or other agreement with you.
6. Brief description of business services or functions.

7. If a person or company has ceased to be affiliated with you during the previous year or ceased to have a contractual or other agreement relating to your operations during the previous year, provide a brief statement of the reasons for termination of the relationship.

## **2. FINANCIAL VIABILITY**

### **Exhibit F – Audited financial statements**

Provide your audited financial statements for the latest financial year and a report prepared by an independent auditor.

## **3. FEES**

### **Exhibit G – Fee list, fee structure**

Provide a complete list of all fees and other charges imposed, or to be imposed, by you for use of your services as a matching service utility, including the cost of establishing a connection to your systems.

## **4. ACCESS**

### **Exhibit H – Users**

Provide a list of all users or subscribers for which you provide or propose to provide the services of a matching service utility. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser or other party).

If applicable, for each instance during the past year in which any user or subscriber of your services has been prohibited or limited in respect of access to such services, indicate the name of each such user or subscriber and the reason for the prohibition or limitation.

### **Exhibit I – User contract**

Provide a copy of each form of agreement governing the terms by which users or subscribers may subscribe to your services of a matching service utility.

## **5. SYSTEMS AND OPERATIONS**

### **Exhibit J – System description**

Describe the manner of operation of your systems for performing your services of a matching service utility (including, without limitation, systems that collect and process trade execution details and settlement instructions for matching of trades). This description should include the following:

1. The hours of operation of the systems, including communication with a clearing agency.
2. Locations of operations and systems (e.g., countries and cities where computers are operated, primary and backup).
3. A brief description in narrative form of each service or function performed by you.

## **6. SYSTEMS COMPLIANCE**

### **Exhibit K – Security**

Provide a brief description of the processes and procedures implemented by you to provide for the security of any system used to perform your services of a matching service utility.

### **Exhibit L – Capacity planning and measurement**

1. Provide a brief description of capacity planning/performance measurement techniques and system and stress testing methodologies.
2. Provide a brief description of testing methodologies with users or subscribers. For example, when are user/subscriber tests employed? How extensive are these tests?

**Exhibit M – Business continuity**

Provide a brief description of your contingency and business continuity plans in the event of a catastrophe.

**Exhibit N – Material systems failures**

Provide a brief description of policies and procedures in place for reporting to regulators material systems failures. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes during normal business hours.

**Exhibit O – Independent systems audit**

1. Briefly describe your plans to provide an annual independent audit of your systems.
2. If applicable, provide a copy of the last external systems operations audit report.

**7. INTEROPERABILITY**

**Exhibit P – Interoperability agreements**

List all other matching service utilities for which you have entered into an *interoperability* agreement. Provide a copy of all such agreements.

**8. OUTSOURCING**

**Exhibit Q – Outsourcing firms**

For each person or company (outsourcing firm) with whom or which you have an outsourcing agreement or arrangement relating to your services of a matching service utility, provide the following information:

1. Name and address of the outsourcing firm.
2. Brief description of business services or functions of the outsourcing firm.
3. Brief description of the outsourcing firm's contingency and business continuity plans in the event of a catastrophe.

**CERTIFICATE OF MATCHING SERVICE UTILITY**

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_

\_\_\_\_\_  
(Name of matching service utility - type or print)

\_\_\_\_\_  
(Name of director, officer or partner - type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - type or print)

FORM 24-101F4

**MATCHING SERVICE UTILITY  
NOTICE OF CESSATION OF OPERATIONS**

**DATE OF CESSATION INFORMATION:**

- Type of information:          VOLUNTARY CESSATION  
                                       INVOLUNTARY CESSATION

Effective date of operations cessation: \_\_\_\_\_ (DD/MMM/YYYY)

**MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:**

1. Full name of matching service utility:
2. Name(s) under which business is conducted, if different from item 1:
3. Address of matching service utility's principal place of business:
4. Mailing address, if different from business address:
5. Legal counsel:  
    Firm name:  
    Telephone number:  
    E-mail address:

**INSTRUCTIONS:**

Deliver this form together with all exhibits pursuant to section 6.3 of the Instrument.

For each exhibit, include your name, the date of delivery of the exhibit and the date as of which the information is accurate (if different from the date of the delivery). If any exhibit required is not applicable, a full statement describing why the exhibit is not applicable shall be furnished in lieu of the exhibit.

**EXHIBITS:**

**Exhibit A**

Provide the reasons for your cessation of business.

**Exhibit B**

Provide a list of all the users or subscribers for which you provided services during the last 30 days prior to you ceasing business. Identify the type(s) of business of each user or subscriber (e.g., custodian, dealer, adviser, or other party).

**Exhibit C**

List all other matching service utilities for which an *interoperability* agreement was in force immediately prior to cessation of business.

**CERTIFICATE OF MATCHING SERVICE UTILITY**

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_  
(Name of matching service utility - type or print)

\_\_\_\_\_  
(Name of director, officer or partner - type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - type or print)

FORM 24-101F5

**MATCHING SERVICE UTILITY  
QUARTERLY OPERATIONS REPORT OF  
INSTITUTIONAL TRADE REPORTING AND MATCHING**

**CALENDAR QUARTER PERIOD COVERED:**

From: \_\_\_\_\_ to: \_\_\_\_\_

**MATCHING SERVICE UTILITY IDENTIFICATION AND CONTACT INFORMATION:**

1. Full name of matching service utility:
2. Name(s) under which business is conducted, if different from item 1:
3. Address of matching service utility's principal place of business:
4. Mailing address, if different from business address:
5. Contact employee name:  
Telephone number:  
E-mail address:

**INSTRUCTIONS:**

Deliver this form together with all exhibits pursuant to section 6.4 of the Instrument, covering the calendar quarter indicated above, within 30 days of the end of the calendar quarter.

Exhibits shall be reported in an electronic file, in the following format: "CSV" (Comma Separated Variable) (e.g., the format produced by Microsoft Excel).

If any information specified is not available, a full statement describing why the information is not available shall be separately furnished.

**EXHIBITS**

**1. SYSTEMS REPORTING**

**Exhibit A – External systems audit**

If an external audit report on your core systems was prepared during the quarter, provide a copy of the report.

**Exhibit B – Material systems failures reporting**

Provide a brief summary of all material systems failures that occurred during the quarter and for which you were required to notify the securities regulatory authority under section 6.5(c) of the Instrument.

**2. DATA REPORTING**

**Exhibit C – Aggregate matched trade statistics**

Provide the information to complete Tables 1 and 2 below for each month in the quarter. These two tables can be integrated into one report.

Month/Year: \_\_\_\_\_ (MMM/YYYY)

Table 1 — Equity trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

Table 2 — Debt trades:

	Entered into matching service utility by dealer-users/subscribers				Matched in matching service utility by other users/subscribers			
	# of Trades	% Industry	\$ Value of Trades	% Industry	# of Trades	% Industry	\$ Value of Trades	% Industry
T								
T+1 - noon								
T+1								
T+2								
T+3								
>T+3								
Total								

**Legend**

“# of Trades” is the total number of transactions in the month;  
 “\$ Value of Trades” is the total value of the transactions (purchases and sales) in the month.

**Exhibit D – Individual matched trade statistics**

Using the same format below as Exhibit C above, provide the percent relevant information for each user or subscriber in respect of trades during the quarter for each user or subscriber that have been entered by the user or subscriber and matched within the time required in Part 3 of the Instrument. The percentages given should relate to both the number of trades that have been matched within the time and the aggregate value of the securities purchased and sold in the trades that have been matched within the time. timelines indicated in Exhibit C.

<u>User/ Subscriber</u>	<b>Percentage matched within timelines</b>			
	<u>Equity trades</u>		<u>Debt trades</u>	
	<u>By # of transactions</u>	<u>By value</u>	<u>By # of transactions</u>	<u>By value</u>

**CERTIFICATE OF MATCHING SERVICE UTILITY**

The undersigned certifies that the information given in this report on behalf of the matching service utility is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_

\_\_\_\_\_  
(Name of matching service utility- type or print)

\_\_\_\_\_  
(Name of director, officer or partner - type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - type or print)

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**ANNEX F**  
**AMENDMENTS TO**  
**COMPANION POLICY 24-101CP INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

1. **Companion Policy 24-101CP is amended by this Instrument.**

2. **Section 1.2 is amended by:**

a. **replacing** “Investment Dealers Association of Canada (IDA) Regulation” **in footnote 3 with** “Investment Industry Regulatory Organization of Canada (IIROC) Member Rule”,

b. **replacing the text in footnote 4 with the following:**

We remind registered advisers of their obligations to ensure fairness in allocating investment opportunities among its clients. An adviser must establish, maintain and apply policies and procedures that provide reasonable assurance that the firm and each individual acting on its behalf fairly allocates investment opportunities among its clients. If the adviser allocates investment opportunities among its clients, the firm’s fairness policies should, at a minimum, indicate the method used to allocate the following: (i) price and commission among client orders when trades are bunched or blocked; (ii) block trades and initial public offerings (IPOs) among client accounts, and (iii) block trades and IPOs among client orders that are partially filled, such as on a pro-rata basis. The fairness policies should also address any other situation where investment opportunities must be allocated.

A summary of the fairness policies must be delivered to each client at the time the adviser opens an account for the client, and in a timely manner if there is a significant change to the summary last delivered to the client.

See sections 14.3 and 14.10 of National Instrument 31-103 *Registration Requirements and Exemptions* (NI 31-103) and section 14.10 the Companion Policy to NI 31-103.

c. **replacing** “IDA Regulation” **in footnote 5 with** “IIROC Member Rule”,

3. **Section 1.3 is amended by:**

a. **replacing subsection (3) with the following:**

(3) *Institutional investor* — A client of a dealer that has been granted DAP/RAP trading privileges is an institutional investor. This will likely be the case whenever a client’s investment assets are held by or through securities accounts maintained with a custodian instead of the client’s dealer that executes its trades. While the expression “institutional trade” is not defined in the Instrument, we use the expression in this Companion Policy to mean broadly any DAP/RAP trade.

b. **replacing subsection (5) with the following:**

(5) *Trade-matching party* — An institutional investor, whether Canadian or foreign-based, may be a trade-matching party. As such, it, or its adviser that is acting for it in processing a trade, should enter into a trade-matching agreement or provide a trade-matching statement under Part 3 of the Instrument. However, an institutional investor that is an individual or a person or company with total securities under administration or management not exceeding \$10 million, is not a trade-matching party. A custodian that settles a trade on behalf of an institutional investor is also a trade-matching party and should enter into a trade-matching agreement or provide a trade-matching statement. However, a foreign global custodian or international central securities depository that holds Canadian portfolio assets through a local Canadian sub-custodian would not normally be considered a trade-matching party if it is not a clearing agency participant or otherwise directly involved in settling the trade in Canada.

4. **Section 2.2 is replaced with the following:**

**2.2 Trade matching deadlines for registered firms** — The obligation of a registered dealer or registered adviser to establish, maintain and enforce policies and procedures, pursuant to sections 3.1 and 3.3 of the Instrument, will require the dealer or adviser to take reasonable steps to achieve matching as soon as practical after the DAP/RAP trade is executed and in any event no later than 12 p.m. (noon) on T+1. If the trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the North American region, the deadline for matching is 12 p.m. (noon) on T+2 (subsections 3.1(2) and 3.3(2)). As defined, the

North American region comprises Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean.

**5. Section 2.3 is amended by:**

**a. replacing subsection (1) with the following:**

**(1) Establishing, maintaining and enforcing policies and procedures --**

- (a) Under sections 3.2 and 3.4, a registered dealer's or registered adviser's policies and procedures must be designed to encourage trade-matching parties to either (i) enter into a trade-matching agreement with the dealer or adviser or (ii) provide or make available a trade-matching statement to the dealer or adviser. The purpose of the trade-matching agreement or trade-matching statement is to ensure that all trade-matching parties have established, maintain, and enforce appropriate policies and procedures designed to achieve matching of a DAP/RAP trade as soon as practical after the trade is executed. If the dealer or adviser is unable to obtain a trade-matching agreement or statement from a trade-matching party, it should document its efforts in accordance with its policies and procedures.
- (b) The parties described in paragraphs (a), (b), (c) and (d) of the definition "trade-matching party" in section 1.1 of the Instrument need not necessarily all be involved in a trade for the requirements of sections 3.2 and 3.4 of the Instrument to apply. There is no need for an adviser to be involved in the matching process of an institutional investor's trades for the requirement to apply. In this case, the trade-matching parties that should have appropriate policies and procedures in place would be the institutional investor, the dealer and the custodian.
- (c) The Instrument does not provide the form of a trade-matching agreement or trade-matching statement other than it be in writing. Subsections (2) and (3) below provide some guidance on these documents. A trade-matching agreement or trade-matching statement should be signed by a senior executive officer of the entity to ensure its policies and procedures are given sufficient attention and priority within the entity's senior management. A senior executive officer would include any individual who is (a) the chair of the entity, if that individual performs the functions of the office on a full time basis, (b) a vice-chair of the entity, if that individual performs the functions of the office on a full time basis, (c) the president, chief executive officer or chief operating officer of the entity, and (d) a senior vice-president of the entity in charge of the entity's operations and back-office functions.

**b. adding in paragraph (2)(b) "the" after "account allocations to" in the third bullet under the heading "For the institutional investor or its adviser:"**,

**c. adding in subsection (4) "in accordance with their policies and procedures" at the end of the first sentence,**

**d. deleting the second and third sentences in subsection (4),**

**e. replacing in subsection (4) "Dealers" with "Registered dealers" at the beginning of the fourth sentence.**

**6. Section 2.4 is amended by:**

**a. deleting footnote 8,**

**b. renumbering footnote 9 as footnote 8 and replacing "IDA By-Law No." in that footnote with "IIROC Member Rule",**

**c. renumbering footnote 10 as footnote 9.**

**7. Section 3.4 is replaced with the following:**

**3.4 Forms delivered in electronic form**

Registered firms may complete their Form 24-101F1 online on the CSA's website at the following URL addresses:

In English: [http://www.securities-administrators.ca/industry\\_resources.aspx?id=52](http://www.securities-administrators.ca/industry_resources.aspx?id=52)

In French: [http://www.autorites-valeurs-mobilieres.ca/ressources\\_professionnelles.aspx?id=52](http://www.autorites-valeurs-mobilieres.ca/ressources_professionnelles.aspx?id=52).

8. ***Subsection 4.4(1) is amended by deleting “(e.g., number of trades matched on T)”.***
9. ***Part 5 is amended by renumbering footnote 11 as footnote 10 and replacing “IDA Regulation” in that footnote with “IIROC Member Rule”.***
10. ***Part 7 is deleted.***
11. ***This Instrument becomes effective on July 1, 2010.***

**ANNEX G**  
**BLACKLINE VERSION OF THE CHANGES TO**  
**COMPANION POLICY 24-101CP INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

This is an unofficial consolidation of Companion Policy 24-101CP *Institutional Trade Matching and Settlement*, with the proposed changes in Annex F shown by blackline.

**CANADIAN SECURITIES ADMINISTRATORS**  
**COMPANION POLICY 24-101CP**  
**TO NATIONAL INSTRUMENT 24-101—**  
**INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

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**COMPANION POLICY 24-101CP  
TO NATIONAL INSTRUMENT 24-101—  
INSTITUTIONAL TRADE MATCHING AND SETTLEMENT**

**PART 1 INTRODUCTION, PURPOSE AND DEFINITIONS<sup>1</sup>**

- 1.1 Purpose of Instrument** — National Instrument 24-101—*Institutional Trade Matching and Settlement* (Instrument) provides a framework in provincial securities regulation for more efficient and timely trade settlement processing, particularly institutional trades. The increasing volumes and dollar values of securities traded in Canada and globally by institutional investors mean existing back-office systems and procedures of market participants are challenged to meet post-execution processing demands. New requirements are needed to address the increasing risks. The Instrument is part of a broader initiative in the Canadian securities markets to implement straight-through processing (STP).<sup>2</sup>
- 1.2 General explanation of matching, clearing and settlement —**
- (1) Parties to institutional trade — A typical trade with or on behalf of an institutional investor might involve at least three parties:
- a registered adviser or other *buy-side* manager acting for an institutional investor in the trade—and often acting on behalf of more than one institutional investor in the trade (i.e., multiple underlying institutional client accounts)—who decides what securities to buy or sell and how the assets should be allocated among the client accounts;
  - a registered dealer (including an Alternative Trading System registered as a dealer) responsible for executing or clearing the trade; and
  - any financial institution or registered dealer (including under a *prime brokerage* arrangement) appointed to hold the institutional investor's assets and settle trades.
- (2) Matching — A first step in settling a securities trade is to ensure that the buyer and the seller agree on the details of the transaction, a process referred to as trade confirmation and affirmation or trade *matching*.<sup>3</sup> A registered dealer who executes trades with or on behalf of others is required to report and confirm trade details, not only with the counterparty to the trade, but also with the client for whom it acted or the client with whom it traded (in which case, the client would be the counterparty). Similarly, a registered adviser or other buy-side manager is required to report trade details and provide settlement instructions to its custodian. The parties must agree on trade details—sometimes referred to as *trade data elements*— as soon as possible so that errors and discrepancies in the trades can be discovered early in the clearing and settlement process.
- (3) Matching process — Verifying the trade data elements is necessary to *match* a trade executed on behalf of or with an institutional investor. Matching occurs when the relevant parties to the trade have, after verifying the trade data elements, reconciled or agreed to the details of the trade. Matching also requires that any custodian holding the institutional investor's assets be in a position to affirm the trade so that the trade can be ready for the clearing and

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<sup>1</sup> In this Companion Policy, the terms “CSA”, “we”, “our” or “us” are used interchangeably and generally mean the same thing as *Canadian securities regulatory authorities* defined in National Instrument 14-101 — *Definitions*.

<sup>2</sup> For a discussion of Canadian STP initiatives, see Canadian Securities Administrators' (CSA) Discussion Paper 24-401 on *Straight-through Processing* and Request for Comments, April 16, 2004 (2004) 27 OSCB 3971 to 4031 (Discussion Paper 24-401); and CSA Notice 24-301—*Responses to Comments Received on Discussion Paper 24-401 on Straight-through Processing, Proposed National Instrument 24-101 Post-trade Matching and Settlement, and Proposed Companion Policy 24-101CP to National Instrument 24-101 Post-trade Matching and Settlement*, February 11, 2005 (2005) 28 OSCB 1509 to 1526.

<sup>3</sup> The processes and systems for matching of “non-institutional trades” in Canada have evolved over time and become automated, such as retail trades on an exchange, which are matched or *locked-in* automatically at the exchange, or direct non-exchange trades between two participants of a clearing agency, which are generally matched through the facilities of the clearing agency. Dealer to dealer trades are subject to Investment Dealers Association/Industry Regulatory Organization of Canada (IDA) Regulation/ROC Member Rule 800.49, which provides that trades in non-exchange traded securities (including government debt securities) among dealers must be entered or accepted or rejected through the facilities of an “Acceptable Trade Matching Utility” within one hour of the execution of the trade.

<sup>4</sup> We remind investment counsel/portfolio managers (ICPMs) of their obligations to ensure fairness in the allocation of investment opportunities among the ICPM's clients. An ICPM's written fairness policies should include the following disclosures, where applicable to its investment processes: (i) method used to allocate price and commission among clients when trades are bunched or blocked; (ii) method used to allocate block trades and IPOs among client accounts, and (iii) method used to allocate among clients block trades and IPOs that are partially filled (e.g., pro-rata). Securities legislation requires ICPMs to file a copy of their current fairness policies with securities regulatory authorities. See, for example, Regulation 115 under the *Securities Act* (Ontario) and OSC Staff Notice 33-723—*Fair Allocation of Investment Opportunities—Compliance Team Desk Review*.

settlement process through the facilities of the clearing agency. To illustrate, trade matching usually includes these following activities:

- (a) The registered dealer notifies the buy-side manager that the trade was executed.
  - (b) The buy-side manager advises the dealer and any custodian(s) how the securities traded are to be allocated among the underlying institutional client accounts managed by the buy-side manager.<sup>4</sup> For so-called *block settlement trades*, the dealer sometimes receives allocation information from the buy-side manager based only on the number of custodians holding institutional investors' assets instead of on the actual underlying institutional client accounts managed by the buy-side manager.
  - (c) The dealer reports and confirms the trade details to the buy-side manager and clearing agency. The trade details required to be confirmed for matching, clearing and settlement purposes are generally similar to the information required in the customer trade confirmation delivered pursuant to securities legislation or self-regulatory organization (SRO) rules.<sup>5</sup>
  - (d) The custodian or custodians of the assets of the institutional investor verify the trade details and settlement instructions against available securities or funds held for the institutional investor. After trade details are agreed, the buy-side manager instructs the custodian(s) to release funds and/or securities to the dealer through the facilities of the clearing agency.
- (4) *Clearing and settlement* — The *clearing* of a trade begins after the execution of the trade. After matching is completed, clearing will involve the calculation of the mutual obligations of participants for the exchange of securities and money—a process which generally occurs within the facilities of a clearing agency. The *settlement* of a trade is the moment when the securities are transferred finally and irrevocably from one participant to another in exchange for a corresponding transfer of money. In the context of settlement of a trade through the facilities of a clearing agency, often acting as central counterparty, settlement will be the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and its participants. Through the operation of novation and set-off in law or by contract, the clearing agency becomes a counterparty to each trade so that the mutual obligation to settle the trade is between the clearing agency and each participant.

### 1.3 Section 1.1 - Definitions and scope —

- (1) *Clearing agency* — Today, the definition of *clearing agency* applies only to The Canadian Depository for Securities Limited (CDS). The definition takes into account the fact that securities regulatory authorities in Ontario and Québec currently recognize or otherwise regulate clearing agencies in Canada under provincial securities legislation.<sup>6</sup> The functional meaning of *clearing agency* can be found in the securities legislation of certain jurisdictions.<sup>7</sup>
- (2) *Custodian* — While investment assets are sometimes held directly by investors, most are held on behalf of the investor by or through securities accounts maintained with a financial institution or dealer. The definition of *custodian* includes both a financial institution (non-dealer custodian) and a dealer acting as custodian (dealer custodian). Most institutional investors, such as pension and mutual funds, hold their assets through custodians that are prudentially-regulated financial institutions. However, others (like hedge funds) often maintain their investment assets with dealers under so-called *prime-brokerage* arrangements. A financial institution or dealer in Canada need not necessarily have a direct contractual relationship with an institutional investor to be considered a custodian of portfolio assets of the institutional investor for the purposes of the Instrument if it is acting as sub-custodian to a global custodian or international central securities depository.

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<sup>4</sup> We remind registered advisers of their obligations to ensure fairness in allocating investment opportunities among their clients. An adviser must establish, maintain and apply policies and procedures that provide reasonable assurance that the firm and each individual acting on its behalf fairly allocates investment opportunities among its clients. If the adviser allocates investment opportunities among its clients, the firm's fairness policies should, at a minimum, indicate the method used to allocate the following: (i) price and commission among client orders when trades are bunched or blocked; (ii) block trades and initial public offerings (IPOs) among client accounts, and (iii) block trades and IPOs among client orders that are partially filled, such as on a pro-rata basis. The fairness policies should also address any other situation where investment opportunities must be allocated.

A summary of the fairness policies must be delivered to each client at the time the adviser opens an account for the client, and in a timely manner if there is a significant change to the summary last delivered to the client.

See sections 14.3 and 14.10 of National Instrument 31-103 *Registration Requirements and Exemptions* (NI 31-103) and section 14.10 of the Companion Policy to NI 31-103.

<sup>5</sup> See, for example, section 36 of the *Securities Act* (Ontario), The Toronto Stock Exchange (TSX) Rule 2-405 and IIA Regulation IROC Member Rule 200.1(h).

<sup>6</sup> CDS is also regulated by the Bank of Canada pursuant to the *Payment Clearing and Settlement Act* (Canada).

<sup>7</sup> See, for example, s. 1(1) of the *Securities Act* (Ontario).

- (3) Institutional investor — An individual can be an “institutional investor” if the individual ~~is an individual~~ A client of a dealer that has been granted DAP/RAP trading privileges (i.e., he or she has a DAP/RAP account with a dealer) is an institutional investor. This will likely be the case whenever an individual ~~client's~~ investment assets are held by or through securities accounts maintained with a custodian instead of the ~~individual client's~~ dealer that executes his or her trades. While the expression “institutional trade” is not defined in the Instrument, we use the expression in this Companion Policy to mean broadly any DAP/RAP trade.
- (4) DAP/RAP trade — The concepts *delivery against payment* and *receipt against payment* are generally understood by the industry. They are also defined terms in the Notes and Instructions (Schedule 4) to the *Joint Regulatory Financial Questionnaire and Report* of the Canadian SROs. All DAP/RAP trades, whether settled by a non-dealer custodian or a dealer custodian, are subject to the requirements of Part 3 of the Instrument. The definition of DAP/RAP trade excludes a trade for which settlement is made on behalf of a client by a custodian that is also the dealer that executed the trade.
- (5) Trade-matching party — An institutional investor, whether Canadian or foreign-based, ~~is~~ may be a trade-matching party. As such, it, or its adviser ~~would be required to~~ that is acting for it in processing a trade, should enter into a trade-matching agreement or provide a trade-matching statement under Part 3 of the Instrument. However, an institutional investor that is an individual or a person or company with total securities under administration or management not exceeding \$10 million, is not a trade-matching party. A custodian that settles a trade on behalf of an institutional investor is also a trade-matching party and ~~must~~ should enter into a trade-matching agreement or provide a trade-matching statement. However, a foreign global custodian or international central securities depository that holds Canadian portfolio assets through a local Canadian sub-custodian would not normally be considered a trade-matching party if it is not a clearing agency participant or otherwise directly involved in settling the trade in Canada.
- (6) Application of Instrument — Part 2 of the Instrument enumerates certain types of trades that are not subject to the Instrument.

## PART 2 TRADE MATCHING REQUIREMENTS

**2.1 Trade data elements** — Trade data elements that must be verified and agreed to are those identified by the SROs or the best practices and standards for institutional trade processing established and generally adopted by the industry. See section 2.4 of this Companion Policy. To illustrate, trade data elements that should be transmitted, compared and agreed to may include the following:

- (a) *Security identification*: standard numeric identifier, currency, issuer, type/class/series, market ID; and
- (b) *Order and trade information*: dealer ID, account ID, account type, buy/sell indicator, order status, order type, unit price/face amount, number of securities/quantity, message date/time, trade transaction type, commission, accrued interest (fixed income), broker settlement location, block reference, net amount, settlement type, allocation sender reference, custodian, payment indicator, IM portfolio/account ID, quantity allocated, and settlement conditions.

**2.2 Trade matching deadlines for registered firms** — The obligation of a registered dealer or registered adviser to establish, maintain and enforce policies and procedures, pursuant to sections 3.1 and 3.3 of the Instrument, will require the dealer or adviser to take reasonable steps to achieve matching as soon as practical after the DAP/RAP trade is executed and in any event no later than ~~the end of T+12 p.m. (noon) on T+1~~. If the trade results from an order to buy or sell securities received from an institutional investor whose investment decisions or settlement instructions are usually made in and communicated from a geographical region outside of the western hemisphere North American region, the deadline for matching is ~~the end of T+12 p.m. (noon) on T+2~~ (subsections 3.1(2) and 3.3(2)). As defined, the North American region comprises Canada, the United States, Mexico, Bermuda and the countries of Central America and the Caribbean.

**2.3 Choice of trade-matching agreement or trade-matching statement** —

- (1) Establishing, maintaining and enforcing policies and procedures —
- (a) ~~A registered dealer or registered adviser can open an account for an institutional investor, or accept or give, as the case may be, an order for an existing account of an institutional investor, only if each of the trade-matching parties has~~ Under sections 3.2 and 3.4, a registered dealer's or registered adviser's policies and procedures must be designed to encourage trade-matching parties to either (i) ~~entered enter~~ enter into a trade-matching agreement with the dealer or adviser or (ii) ~~provided provide~~ provide or ~~made make~~ make available a trade-matching statement to the dealer or adviser ~~(sections 3.2 and 3.4)~~. The purpose of the trade-matching agreement or trade-matching statement is to ensure that all trade-matching parties have established, maintain, and enforce appropriate policies and procedures designed to achieve matching of a DAP/RAP trade

as soon as practical after the trade is executed. If the dealer or adviser is unable to obtain a trade-matching agreement or statement from a trade-matching party, it should document its efforts in accordance with its policies and procedures.

- (b) The parties described in paragraphs (a), (b), (c), and (d) of the definition “trade-matching party” in section 1.1 of the Instrument need not necessarily all be involved in a trade for the requirements of sections 3.2 and 3.4 of the Instrument to apply. ~~For example, the requirement to enter into a trade-matching agreement or provide a trade-matching statement will apply in a simple case where an individual has a DAP/RAP trading account with a dealer and investment assets held separately by a custodian (sections 3.2 and 3.4). There is no need for an adviser to be involved in the individual’s investment decisions.~~ matching process of an institutional investor’s trades for the requirement to apply to the dealer, the custodian and the institutional investor. In this case, the trade-matching parties that ~~must~~ should have appropriate policies and procedures in place would be the ~~individual (as institutional investor), the dealer and the custodian.~~
- (c) ~~Where a trade-matching party is an entity, we are of the view that a~~ The Instrument does not provide the form of a trade-matching agreement or trade-matching statement other than it be in writing. Subsections (2) and (3) below provide some guidance on these documents. A trade-matching agreement or trade-matching statement should be signed by a senior executive officer of the entity to ensure its policies and procedures are given sufficient attention and priority within the entity’s senior management. A senior executive officer would ~~be~~ include any individual who is (a) the chair of the entity, if that individual performs the functions of the office on a full time basis, (b) a vice-chair of the entity, if that individual performs the functions of the office on a full time basis, (c) the president, chief executive officer or chief operating officer of the entity, and (d) a senior vice-president of the entity in charge of the entity’s operations and back-office functions.

(2) Trade-matching agreement —

- (a) A registered dealer or registered adviser need only enter into one trade-matching agreement with the other trade-matching parties for new or existing DAP/RAP trading accounts of an institutional investor for all future trades in relation to such account. The trade-matching agreement may be a single multi-party agreement among the trade-matching parties, or a network of bilateral agreements. A single trade-matching agreement is also sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. If the dealer or adviser uses a trade-matching agreement, the form of such agreement may be incorporated into the institutional account opening documentation and may be modified from time to time with the consent of the parties.
- (b) The agreement must specify the roles and responsibilities of each of the trade-matching parties and should describe the minimum standards and best practices to be incorporated into the policies and procedures that each party has in place. This should include the timelines for accomplishing the various steps and tasks of each trade-matching party for timely matching. For example, the agreement may include, as applicable, provisions dealing with:

*For the dealer executing and/or clearing the trade:*

- how and when the notice of trade execution (NOE) is to be given to the institutional investor or its adviser, including the format and content of the NOE (e.g., electronic);
- how and when trade details are to be entered into the dealer’s internal systems and the clearing agency’s systems;
- how and when the dealer is to correct or adjust trade details entered into its internal systems or the clearing agency’s systems as may be required to agree to trade details with the institutional investor or its adviser;
- general duties of the dealer to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

*For the institutional investor or its adviser:*

- how and when to review the NOE's trade details, including identifying any differences from its own records;
- how and when to notify the dealer of trade differences, if any, and resolve such differences;
- how and when to determine and communicate settlement details and account allocations to the dealer and/or custodian(s);
- general duties of the institutional investor or its adviser to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

*For the custodian settling the trade at the clearing agency:*

- how and when to receive trade details and settlement instructions from institutional investors or their advisers;
- how and when to review and monitor trade details submitted to the clearing agency on an ongoing basis for items entered and awaiting affirmation or challenge;
- how and when to report to institutional investors or their advisers on an ongoing basis changes to the status of a trade and the matching of a trade;
- general duties of the custodian to cooperate with other trade-matching parties in the investigation, adjustment, expedition and communication of trade details to ensure trades can be matched within prescribed timelines.

(3) Trade-matching statement — A single trade-matching statement is sufficient for the general and all sub-accounts of the registered adviser or buy-side manager. A registered dealer or registered adviser may accept a trade-matching statement signed by a senior executive officer of a trade-matching party without further investigation and may continue to rely upon the statement for all future trades in an account, unless the dealer or adviser has knowledge that any statements or facts set out in the statement are incorrect. Mass mailings or emails of a trade-matching statement, or the posting of a single uniform trade-matching statement on a Website, would be acceptable ways of providing the statement to other trade-matching parties. A registered firm may rely on a trade-matching party's representations that the trade-matching statement was provided to the other trade-matching parties without further investigation.

(4) Monitoring and enforcement of undertakings in trade-matching documentation — Registered dealers and advisers should use reasonable efforts to monitor compliance with the terms or undertakings set out in the trade-matching agreements or trade-matching statements. ~~Dealers and advisers should report details of non-compliance in their Form 24-101F1 exception reports. This could include identifying to the regulators those trade-matching parties that are consistently non-compliant either because they do not have adequate policies and procedures in place or because they are not consistently complying with them in accordance with their policies and procedures.~~

~~Dealers~~Registered dealers and advisers should also take active steps to address problems if the policies and procedures of other trade-matching parties appear to be inadequate and are causing delays in the matching process. Such steps might include imposing monetary incentives (e.g. penalty fees) or requesting a third party review or assessment of the party's policies and procedures. This approach could enhance cooperation among the trade-matching parties leading to the identification of the root causes of failures to match trades on time.

## 2.4 Determination of appropriate policies and procedures —

(1) Best practices — We are of the view that, when establishing appropriate policies and procedures, a party should consider the industry's generally adopted best practices and standards for institutional trade processing.<sup>8</sup> It should also include those policies and procedures into its regulatory compliance and risk management programs.

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<sup>8</sup> The Canadian Capital Markets Association (CCMA) released in December 2003 the final version of a document entitled *Canadian Securities Marketplace Best Practices and Standards: Institutional Trade Processing, Entitlements and Securities Lending* ("CCMA Best Practices and Standards White Paper") that sets out best practices and standards for the processing for settlement of institutional trades, the processing of entitlements (corporate actions), and the processing of securities lending transactions. The CCMA Best Practices and Standards White Paper can be found on the CCMA website at [www.ccma-acmc.ca](http://www.ccma-acmc.ca).

- (2) *Different policies and procedures* — We recognize that appropriate policies and procedures may not be the same for all registered dealers, registered advisers and other market participants because of the varying nature, scale and complexity of a market participant's business and risks in the trading process. For example, policies and procedures designed to achieve matching may differ among a registered dealer that acts as an "introducing broker" and one that acts as a "carrying broker".<sup>98</sup> In addition, if a dealer is not a clearing agency participant, the dealer's policies and procedures to expeditiously achieve matching should be integrated with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer. Establishing appropriate policies and procedures may require registered dealers, registered advisers and other market participants to upgrade their systems and enhance their interoperability with others.<sup>499</sup>
- 2.5 Use of matching service utility** — The Instrument does not require the trade-matching parties to use the facilities or services of a matching service utility to accomplish matching of trades within the prescribed timelines. However, if such facilities or services are made available in Canada, the use of such facilities or services may help a trade-matching party's compliance with the Instrument's requirements.

### PART 3 INFORMATION REPORTING REQUIREMENTS

#### 3.1 Exception reporting for registered firms —

- (a) Part 4 of the Instrument requires a registered firm to complete and deliver to the securities regulatory authority Form 24-101F1 and related exhibits. Form 24-101F1 need only be delivered if less than a percentage target of the DAP/RAP trades executed by or for the registered firm in any given calendar quarter have matched within the time required by the Instrument. Tracking of a registered firm's trade matching statistics may be outsourced to a third party service provider, including a clearing agency or custodian. However, despite the outsourcing arrangement, the registered firm retains full legal and regulatory liability and accountability to the Canadian securities regulatory authorities for its exception reporting requirements. If a registered firm has insufficient information to determine whether it has achieved the percentage target of matched DAP/RAP trades in any given calendar quarter, it must explain in Form 24-101F1 the reasons for this and the steps it is taking to obtain this information in the future.
- (b) Form 24-101F1 requires registered firms to provide aggregate quantitative information on their equity and debt DAP/RAP trades. They must also provide qualitative information on the circumstances or underlying causes that resulted in or contributed to the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the maximum time prescribed by Part 3 of the Instrument and the specific steps they are taking to resolve delays in the trade reporting and matching process in the future. Registered firms should provide information that is relevant to their circumstances. For example, dealers should provide information demonstrating problems with NOEs or reporting of trade details to the clearing agency. Reasons given for the failure could be one or more matters within the registered firm's control or due to another trade-matching party or service provider.
- (c) The steps being taken by a registered firm to resolve delays in the matching process could be internally focused, such as implementing a new system or procedure, or externally focused, such as meeting with a trade-matching party to determine what action should be taken by that party. Dealers should confirm what steps they have taken to inform and encourage their clients to comply with the requirements or undertakings of the trade-matching agreement and/or trade-matching statement. They should confirm what problems, if any, they have encountered with their clients, other trade-matching parties or service providers. They should identify the trade-matching party or service provider that appears to be consistently not meeting matching deadlines or to have no reasonable policies and procedures in place. Advisers should provide similar information, including information demonstrating problems with communicating allocations or with service providers or custodians.

#### 3.2 Regulatory reviews of registered firm exception reports —

- (a) We will review the completed Forms 24-101F1 on an ongoing basis to monitor and assess compliance by registered firms with the Instrument's matching requirements. We will identify problem areas in matching, including identifying trade-matching parties that have no or weak policies and procedures in place to ensure matching of trades is accomplished within the time prescribed by Part 3 of the Instrument. Monitoring and assessment of registered firm matching activities may be undertaken by the SROs in addition to, or in lieu of, reviews undertaken by us.

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<sup>98</sup> See *IDA By-Law No. IROC Member Rule 35 — Introducing Broker / Carrying Broker Arrangements*.

<sup>499</sup> See Discussion Paper 24-401, at p. 3984, for a discussion of *interoperability*.

- (b) Consistent inability to meet the matching percentage target will be considered as evidence by the Canadian securities regulatory authorities that either the policies and procedures of one or more of the trade matching parties have not been properly designed or, if properly designed, have been inadequately complied with. Consistently poor qualitative reporting will also be considered as evidence of poorly designed or implemented policies and procedures. See also section 2.3(4) of this Companion Policy for a further discussion of our approach to compliance and enforcement of the trade-matching requirements of the Instrument.

**3.3 Other information reporting requirements** — Clearing agencies and matching service utilities are required to include in Forms 24-101F2 and 24-101F5 certain trade-matching information in respect of their participants or users/subscribers. The purpose of this information is to facilitate monitoring and enforcement by the Canadian securities regulatory authorities or SROs of the Instrument's matching requirements.

**3.4 Forms delivered in electronic form** — Registered firms may complete their Form 24-101F1 on-line on the CSA's website at the following URL addresses:

In English: [http://www.securities-administrators.ca/industry\\_resources.aspx?id=52](http://www.securities-administrators.ca/industry_resources.aspx?id=52)

~~**3.4 Forms delivered in electronic form** — We prefer that all forms and exhibits required to be delivered to the securities regulatory authority under the Instrument be delivered in electronic format by e-mail. Each securities regulatory authority will publish a local notice setting out the e-mail address or addresses to which the forms are to be sent.~~

~~In French: [http://www.autorites-valeurs-mobilieres.ca/ressources\\_professionnelles.aspx?id=52](http://www.autorites-valeurs-mobilieres.ca/ressources_professionnelles.aspx?id=52)~~

**3.5 Confidentiality of information** — The forms delivered to the securities regulatory authority by a registered firm, clearing agency and matching service utility under the Instrument will be treated as confidential by us, subject to the applicable provisions of the freedom of information and protection of privacy legislation adopted by each province and territory. We are of the view that the forms contain intimate financial, commercial and technical information and that the interests of the providers of the information in non-disclosure outweigh the desirability of making such information publicly available. However, we may share the information with SROs and may publicly release aggregate industry-wide matching statistics on equity and debt DAP/RAP trading in the Canadian markets.

## PART 4 REQUIREMENTS FOR MATCHING SERVICE UTILITIES

### 4.1 Matching service utility —

- (1) Part 6 of the Instrument sets out reporting, systems capacity, and other requirements of a matching service utility. The term *matching service utility* expressly excludes a clearing agency. A matching service utility would be any entity that provides the services of a post-execution centralized matching facility for trade-matching parties. It may use technology to match in real-time trade data elements throughout a trade's processing lifecycle. A matching service utility would not include a registered dealer who offers "local" matching services to its institutional investor-clients.
- (2) A matching service utility would be viewed by us as an important infrastructure system involved in the clearing and settlement of securities transactions. We believe that, while a matching service utility operating in Canada would largely enhance operational efficiency in the capital markets, it would raise certain regulatory concerns. Comparing and matching trade data are complex processes that are inextricably linked to the clearance and settlement process. A matching service utility concentrates processing risk in the entity that performs matching instead of dispersing that risk more to the dealers and their institutional investor-clients. Accordingly, we believe that the breakdown of a matching service utility's ability to accurately verify and match trade information from multiple market participants involving large numbers of securities transactions and sums of money could have adverse consequences for the efficiency of the Canadian securities clearing and settlement system. The requirements of the Instrument applicable to a matching service utility are intended to address these risks.

**4.2 Initial information reporting requirements for a matching service utility** — Sections 6.1(1) and 10.2(4) of the Instrument require any person or company that carries on or intends to carry on business as a matching service utility to deliver Form 24-101F3 to the securities regulatory authority. We will review Form 24-101F3 to determine whether the person or company that delivered the form is an appropriate person or company to act as a matching service utility for the Canadian capital markets. We will consider a number of factors when reviewing the form, including:

- (a) the performance capability, standards and procedures for the transmission, processing and distribution of details of trades executed on behalf of institutional investors;
- (b) whether market participants generally may obtain access to the facilities and services of the matching service utility on fair and reasonable terms;

- (c) personnel qualifications;
- (d) whether the matching service utility has sufficient financial resources for the proper performance of its functions;
- (e) the existence of, and interoperability arrangements with, another entity performing a similar function for the same type of security; and
- (f) the systems report referred to in section 6.5(b) of the Instrument.

**4.3 Change to significant information** — Under section 6.2 of the Instrument, a matching service utility is required to deliver to the securities regulatory authority an amendment to the information provided in Form 24-101F3 at least 45 days before implementing a significant change involving a matter set out in Form 24-101F3. In our view, a significant change includes a change to the information contained in the General Information items 1-10 and Exhibits A, B, E, G, I, J, O, P and Q of Form 24-101F3.

**4.4 Ongoing information reporting and other requirements applicable to a matching service utility —**

- (1) Ongoing quarterly information reporting requirements will allow us to monitor a matching service utility's operational performance and management of risk, the progress of interoperability in the market, and any negative impact on access to the markets. A matching service utility will also provide trade matching data (~~e.g., number of trades matched on T~~) and other information to us so that we can monitor industry compliance.
- (2) Completed forms delivered by a matching service utility will provide useful information on whether it is:
  - (a) developing fair and reasonable linkages between its systems and the systems of any other matching service utility in Canada that, at a minimum, allow parties to executed trades that are processed through the systems of both matching service utilities to communicate through appropriate, effective interfaces;
  - (b) negotiating with other matching service utilities in Canada fair and reasonable charges and terms of payment for the use of interface services with respect to the sharing of trade and account information; and
  - (c) not unreasonably charging more for use of its facilities and services when one or more counterparties to trades are customers of other matching service utilities than the matching service utility would normally charge its customers for use of its facilities and services.

**4.5 Capacity, integrity and security system requirements —**

- (1) The activities in section 6.5(a) of the Instrument must be carried out at least once a year. We would expect these activities to be carried out even more frequently if there is a significant change in trading volumes that necessitates that these functions be carried out more frequently in order to ensure that the matching service utility can appropriately service its clients.
- (2) The independent review contemplated by section 6.5(b) of the Instrument should be performed by competent and independent audit personnel, in accordance with generally accepted auditing standards. Depending on the circumstances, we would consider accepting a review performed and written report delivered pursuant to similar requirements of a foreign regulator to satisfy the requirements of this section. A matching service utility that wants to advocate for that result must submit a request for discretionary relief.
- (3) The notification of a material systems failure under section 6.5(c) of the Instrument should be provided promptly from the time the incident was identified as being material and should include the date, cause and duration of the interruption and its general impact on users or subscribers. We consider promptly to mean within one hour from the time the incident was identified as being material. Material systems failures include serious incidents that result in the interruption of the matching of trades for more than thirty minutes during normal business hours.

**PART 5 TRADE SETTLEMENT**

**5.1 Trade settlement by dealer** — Section 7.1 of the Instrument is intended to support and strengthen the general settlement cycle rules of the SROs and marketplaces. Current SRO and marketplace rules mandate a standard T+3 settlement cycle period for most transactions in equity and long term debt securities.<sup>4410</sup> If a dealer is not a participant

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<sup>4410</sup> See, for example, IDA Regulation IIROC Member Rule 800.27 and TSX Rule 5-103(1).

of a clearing agency, the dealer’s policies and procedures to facilitate the settlement of a trade should be combined with the clearing arrangements that it has with any other dealer acting as carrying or clearing broker for the dealer.

**PART 6 REQUIREMENTS OF SELF-REGULATORY ORGANIZATIONS AND OTHERS**

**6.1 Standardized documentation** — Without limiting the generality of section 8.2 of the Instrument, an SRO may require its members to use, or recommend that they use, a standardized form of trade-matching agreement or trade-matching statement prepared or approved by the SRO, and may negotiate on behalf of its members with other trade-matching parties and industry associations to agree on the standardized form of trade-matching agreement or trade-matching statement to be used by all relevant sectors in the industry (dealers, buy-side managers and custodians).

**PART 7 TRANSITION**

**7.1 Transitional dates and percentages** — The following table summarizes the coming-into-force and transitional provisions of Part 10 of the Instrument for most DAP/RAP trades governed by the Instrument. For DAP/RAP trades that result from an order to buy or sell securities received from an institutional investor whose investment decisions are usually made in and communicated from a geographical region outside of the western hemisphere, the same table can be read to apply to such trades except that references in the second column (matching deadline) to “T+1” and “T” should be read as references to “T+2” and “T+1” respectively.

<b>For DAP/RAP trades executed:</b>	<b>Matching deadline for trades executed anytime on T (Part 3 of Instrument)</b>	<b>Percentage trigger of DAP/RAP trades for registered firm exception reporting (Part 4 of Instrument)</b>	<b>Periods in which: - exception reporting must be made (Part 4 of Instrument) - documentation must be in place (Sections 3.2 and 3.4 of Instrument)</b>
after March 31, 2007 but before October 1, 2007	12:00 p.m. (noon) on T+1	N/A <sup>9</sup>	Not required
after September 30, 2007 but before January 1, 2008	12:00 p.m. (noon) on T+1	Less than 80% matched by deadline	Required
after December 31, 2007 but before July 1, 2008	12:00 p.m. (noon) on T+1	Less than 90% matched by deadline	Required
after June 30, 2008 but before January 1, 2009	11:59 p.m. on T	Less than 70% matched by deadline	Required
after December 31, 2008 but before July 1, 2009	11:59 p.m. on T	Less than 80% matched by deadline	Required
after June 30, 2009, but before January 1, 2010	11:59 p.m. on T	Less than 90% matched by deadline	Required
after December 31, 2009	11:59 p.m. on T	Less than 95% matched by deadline	Required

<sup>9</sup> Although exception reporting is not required during this period (see next column), we recommend that registered firms consider applying a 70% threshold for internal measurement purposes in anticipation of reporting commencing on October 1, 2007.

**ANNEX H  
ONTARIO SECURITIES COMMISSION  
NOTICE**

**1. Introduction**

The CSA have made amendments to NI 24-101 and the Companion Policy. The amendments are described in the related CSA notice preceding this notice. Expressions used in this notice share the meanings provided in the related CSA notice.

The Ontario Securities Commission (Commission) has, consequential to the amendments described in the CSA notice, revoked Ontario Securities Commission Rule 24-502 *Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 – Institutional Trade Matching and Settlement* (OSC Rule 24-502).

In this notice, the amendments described in the CSA notice and the revocation of OSC Rule 24-502 are referred to as the Amendments.

The purpose of this notice is to supplement the CSA notice.

**2. Substance and purpose of the Amendments**

The substance and purpose of the Amendments is make adjustments to measures in NI 24-101 and its CP relating to the matching of institutional trades.

**3. Summary of the Amendments**

The Amendments are described in the CSA notice. The Commission has also revoked OSC Rule 24-502 because it is no longer needed.

**4. Authority for the Proposed Amendments**

The Amendments were made under the following provisions of the *Securities Act* (Ontario) (Act):

- Paragraph 11 of subsection 143(1) of the Act, which authorizes the Commission to make rules regulating the listing or trading of publicly traded securities, including requiring reporting of trades and quotations.
- Subparagraph 2(i) of subsection 143(1) of the Act, which authorizes the Commission to make rules in respect of standards of practice and business conduct of registrants in dealing with their customers and clients and prospective customers and clients.
- Paragraph 12 of subsection 143(1) of the Act, which authorizes the Commission to make rules regulating recognized stock exchanges, recognized self-regulatory organizations, recognized quotation and trade reporting systems, and recognized clearing agencies.

**5. Text of revocation instrument**

The revocation instrument for OSC Rule 24-502 is as follows:

1. ***Ontario Securities Commission Rule 24-502 Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 – Institutional Trade Matching and Settlement is revoked by this Instrument.***
2. ***This Instrument comes into force on July 1, 2010.***