STP Infrastructure Survey Results 2003

November 2003

Executive Summary

Introduction

During the past summer and autumn, the Canadian Securities Administrators (CSA) carried out an STP survey of key infrastructure participants serving the Canadian capital marketplace. The survey addressed progress towards STP which is defined as the seamless passing of information electronically among all participants involved in the transaction. STP implies electronic rather than manual interfaces between participants, competitors and providers.

Twenty infrastructure companies participated in the survey, the objectives of which were to:

- Identify the relative significance of the issues from the perspective of the infrastructure companies, that need to be addressed to achieve STP
- Assess the current commitment of infrastructure company resources to STP.

As well, the survey complements the STP survey results from 732 industry participants reported in July, 2003.

After completing the survey, ten infrastructure companies were asked to participate in individual interviews in order to gain further insight into the state of the Canadian capital markets progress towards STP. The major findings from the interviews with reference, as appropriate, to the overall survey results, are discussed below.

Key Findings

Infrastructure companies are ahead of the industry in STP progress.

A number of the companies interviewed state that their current operations (i.e. not taking into account industry wide changes that may be required to achieve overall industry STP compliance) are now STP compliant. Two companies are almost compliant while the remainder have major projects underway to become compliant by the spring of 2005 at the latest. The interview results are supported by the infrastructure survey results that indicate

45% of respondents have products/services that are STP compliant (versus 5% of industry respondents) and 65% have major STP implementation projects well underway (versus 10% of industry respondents). Note that this gap would be significantly less if only large (i.e. 100 or more employees) industry respondents were considered.

Infrastructure views on the reasons for the industry STP lag are generally consistent with the industry's own views.

The infrastructure interviews indicate that a lack of urgency within the industry is a key reason for the industry's lag in STP implementation. Interviewees point out that the lack of urgency relates to the lack of a hard target date such as T+1 or Y2K. They point to the difficulty of mobilizing the industry in such an environment. For its part, the industry respondents note "Low sense of urgency" as the second greatest impediment to adoption of STP. A majority of each regulatory category indicate no STP investment in 2002. In fact, it is not till 2004 that a majority of respondents in most regulatory categories anticipate an investment in STP.

The infrastructure interviewees also perceive that the lack of perceived benefit is a further deterrent to STP investment. The dealers and investment managers (IMs) need a cost-benefit analysis to justify the investment dollars. In particular, they believe the IMs are having difficulty seeing economic value. The industry survey supports these conclusions.

The explicit or implicit conclusion of the interviewees was the need for a catalyst to make STP happen.

Views mandating affirmation/confirmation on T.

Some see mandated affirmation/confirmation as the 'silver bullet'. Concerns relate to whether this is an appropriate regulatory role and the view that the prime beneficiaries would be the custodians and the dealers rather than the IMs.

Interviewees don't want a choice on the role of VMUs

Some interviewees express concern with the ambivalent industry position on whether the industry will need one or more VMUs to operate in an STP environment. The basic message is "Give us direction". They suggest that someone needs to take the lead in this area. Other interviewees are assuming that the final STP environment will have at least one, and possibly two, VMUs.

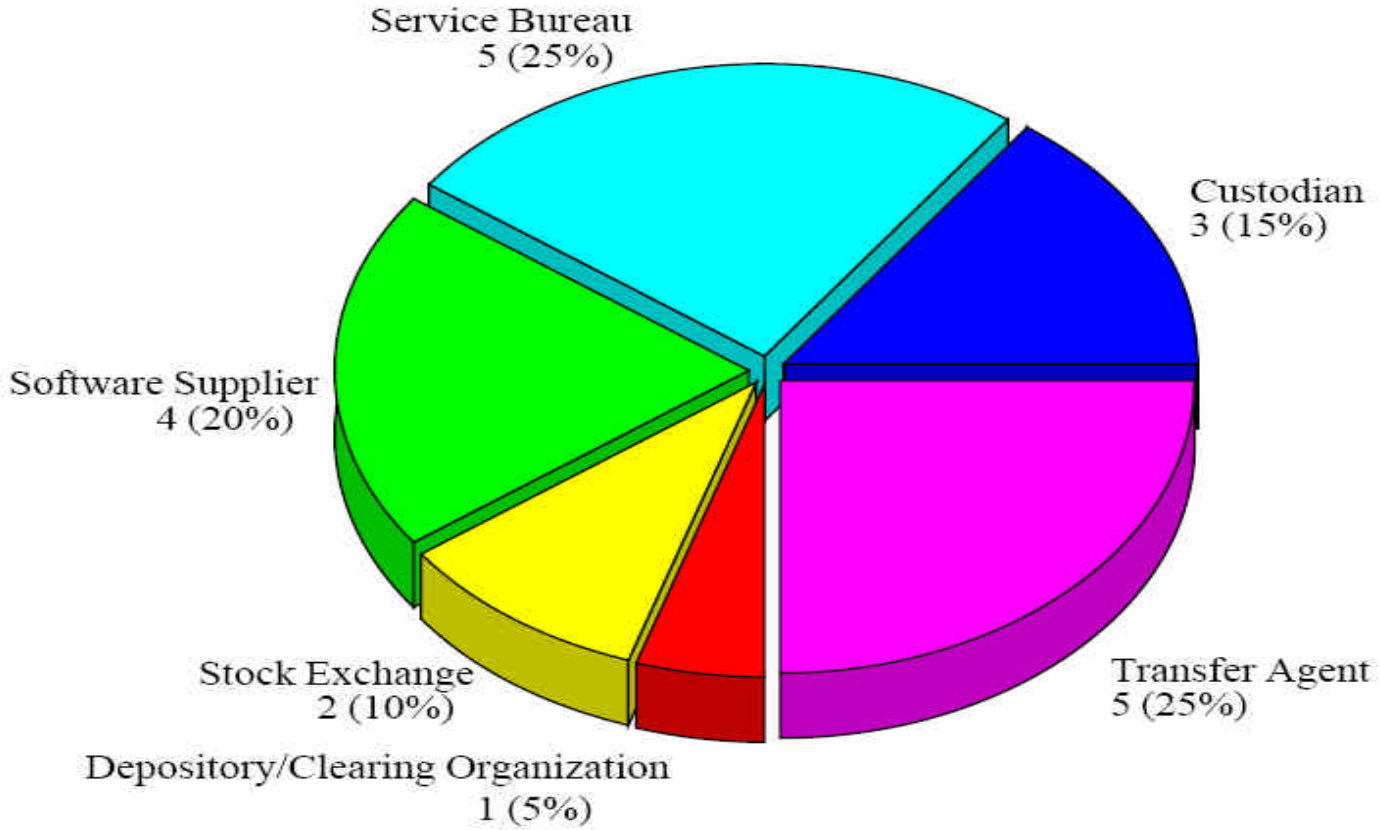
Other key findings

- Half of the infrastructure respondents believe that 'lack of industry standards driving minimum requirements' is a major impediment to the adoption of STP.

- Infrastructure respondents report a significantly higher level of automation of the reconciliation and trade order management function than do the industry respondents.

- Infrastructure respondents generally report a higher level of exceptions than do the industry respondents.

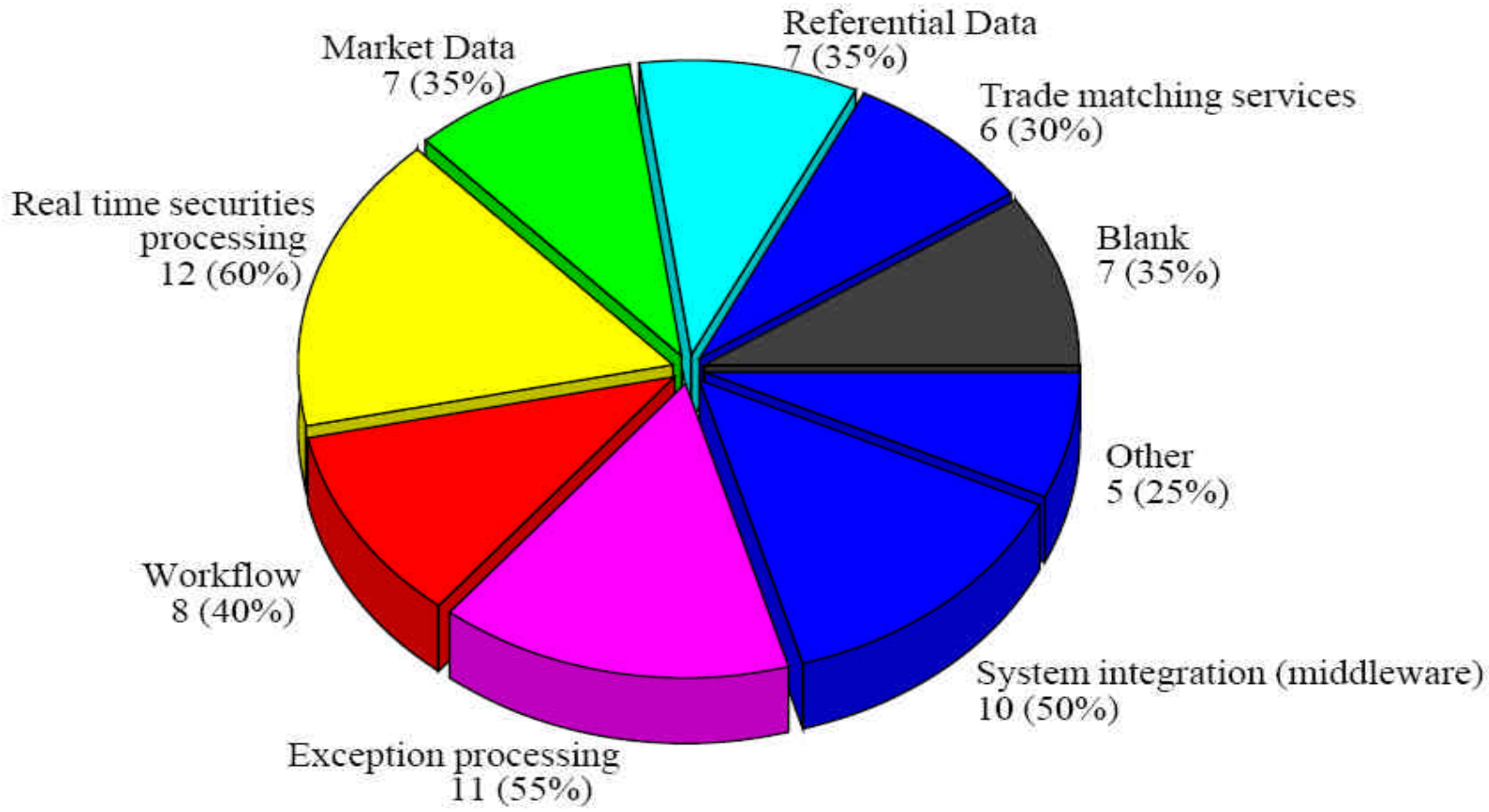
Respondents by Classification



- STP survey results are based on the submissions from twenty (20) infrastructure companies.

Question 1: Which classification most closely matches your organization?

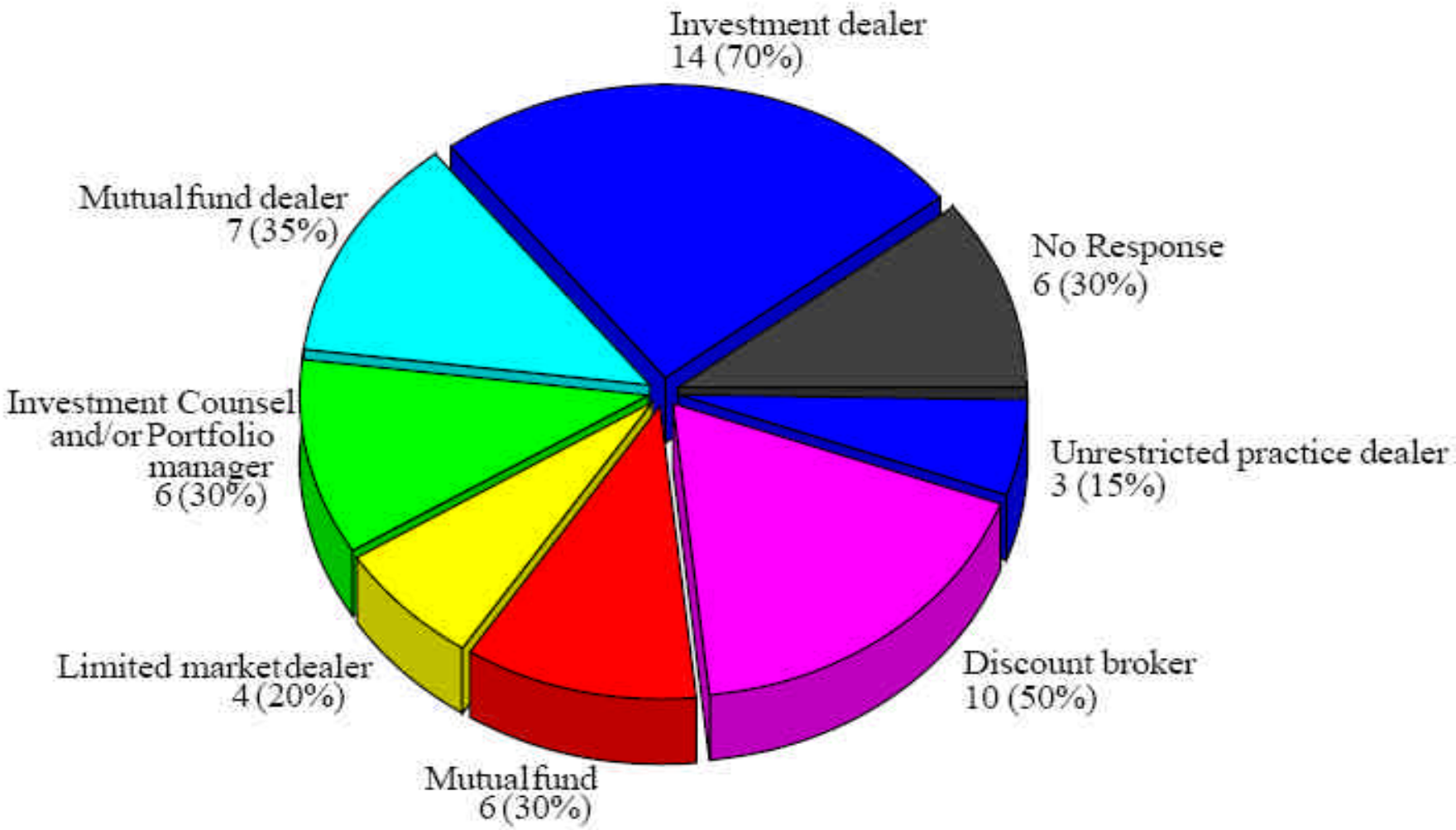
Products & Services Provided By Survey Respondents



- Chart shows the range of products and services that support STP for customers. Multiple responses permitted.

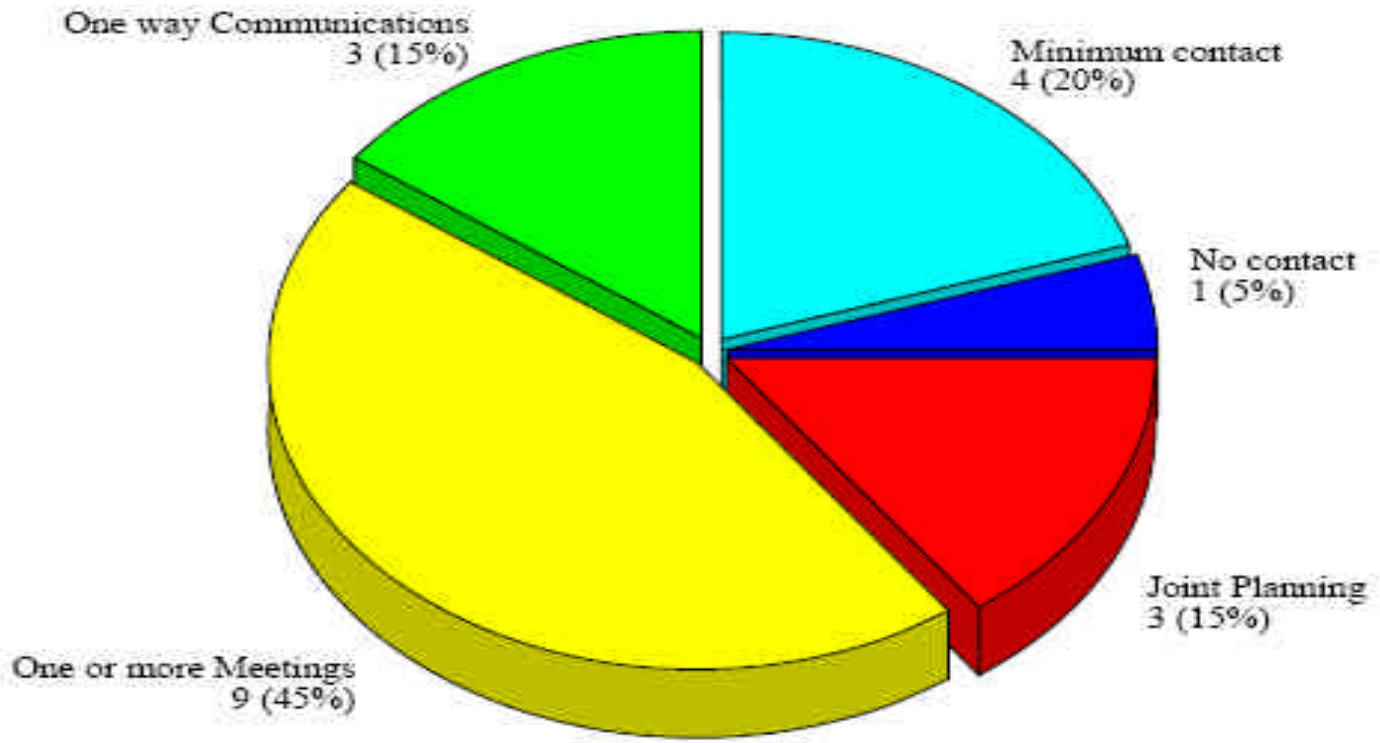
Question 2(a): Do your products and services support STP for customers? Please select all that apply.

Customers of Survey Respondents



Question 2(b): Which category(ies) describe(s) your customers? Please select all that apply.

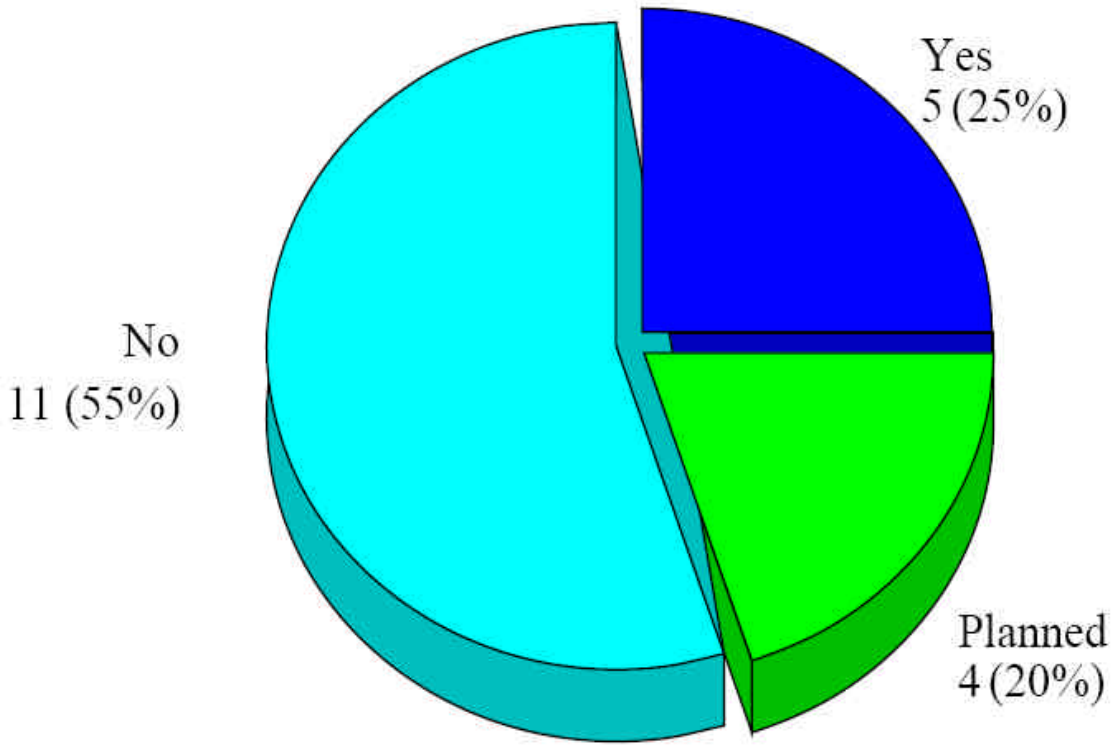
Interaction with Customers



- The industry survey provided a list of possible impediments and asked which, if any, did respondents perceive to be major issues that impede adoption of STP in their company. The biggest impediment (identified by 33% of respondents) is "unsure of outside vendor plans for STP".
- This impediment or concern, may be at odds with the infrastructure respondents' contacts with customers on their STP program. The majority (75%) are engaged in one way communications, joint planning or meetings with customers. Only 25% indicate that they have had no or minimum contact with customers.

Question 3: Generally, how engaged are your customers in your STP program?

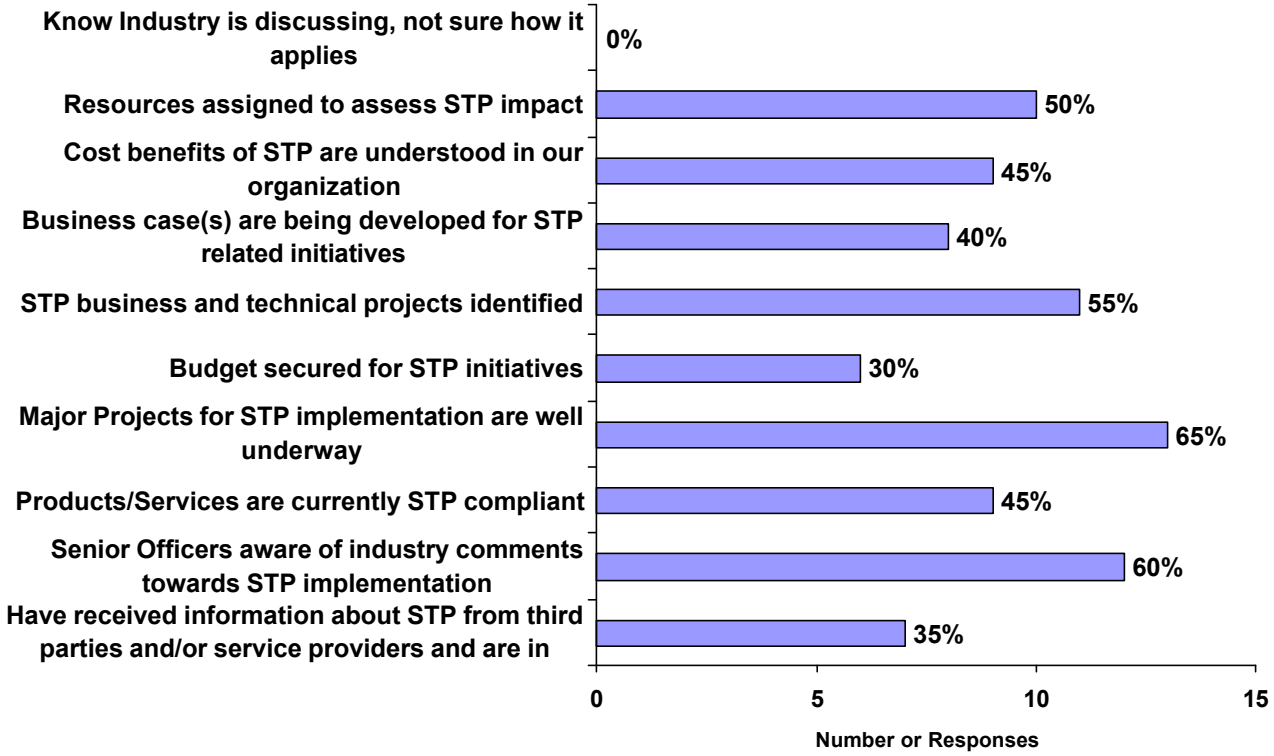
STP Description Publicly Available on Web Site



- Only 25% of infrastructure participants (which tend to be custodians or service bureaux) report that a description of their STP program is currently on their web site.

Question 4: Is your STP program description publicly available on your web site?

Level of Preparedness for Implementing STP Plans

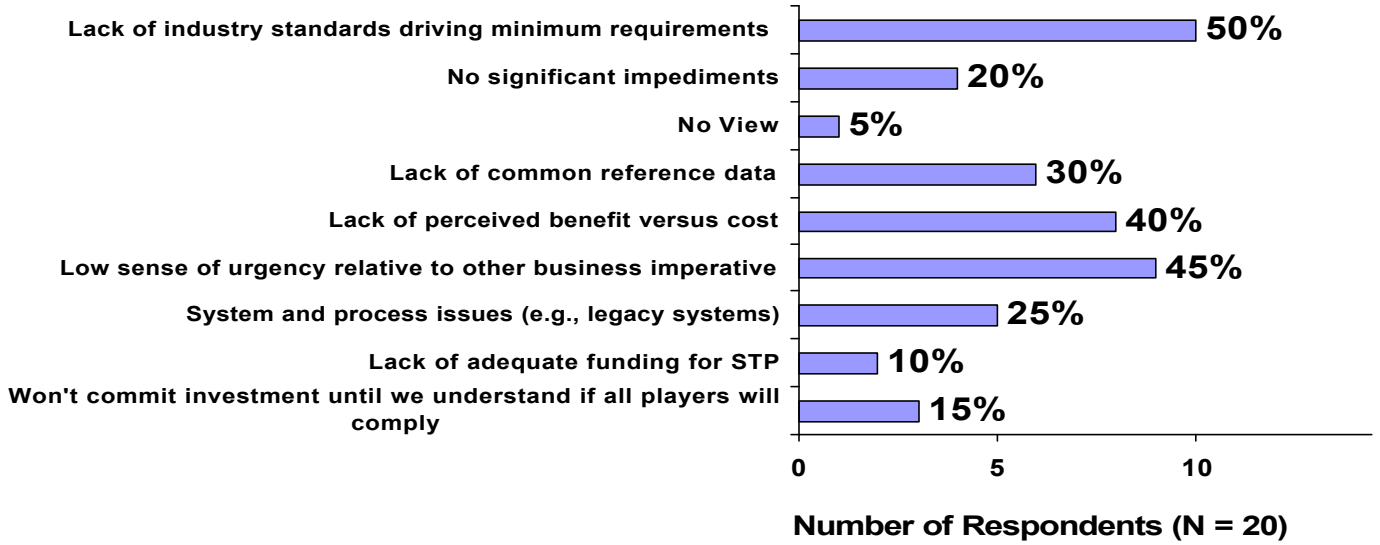


STP Preparedness	Infrastructure Respondents	Industry Respondents
Major Projects for STP are well underway	65%	10%
STP business and technical projects identified	55%	11%
Products/services are currently STP compliant	45%	5%

- 51% of the industry respondents report that they "know the industry is discussing, not sure how it applies". Fortunately, none of the infrastructure respondents indicate this.
- The chart above right shows the major differences between the infrastructure participants and the industry as a whole in terms of level of preparedness for STP. At the same time, the industry survey showed a significant difference in the level of preparedness between larger and smaller companies. The comparison with infrastructure companies would be much more consistent if we considered only large (ie 100 or more employees) industry respondents.

Question 5 . Which of the following best describes your level of preparedness for implementing STP plans? Please select all that apply.

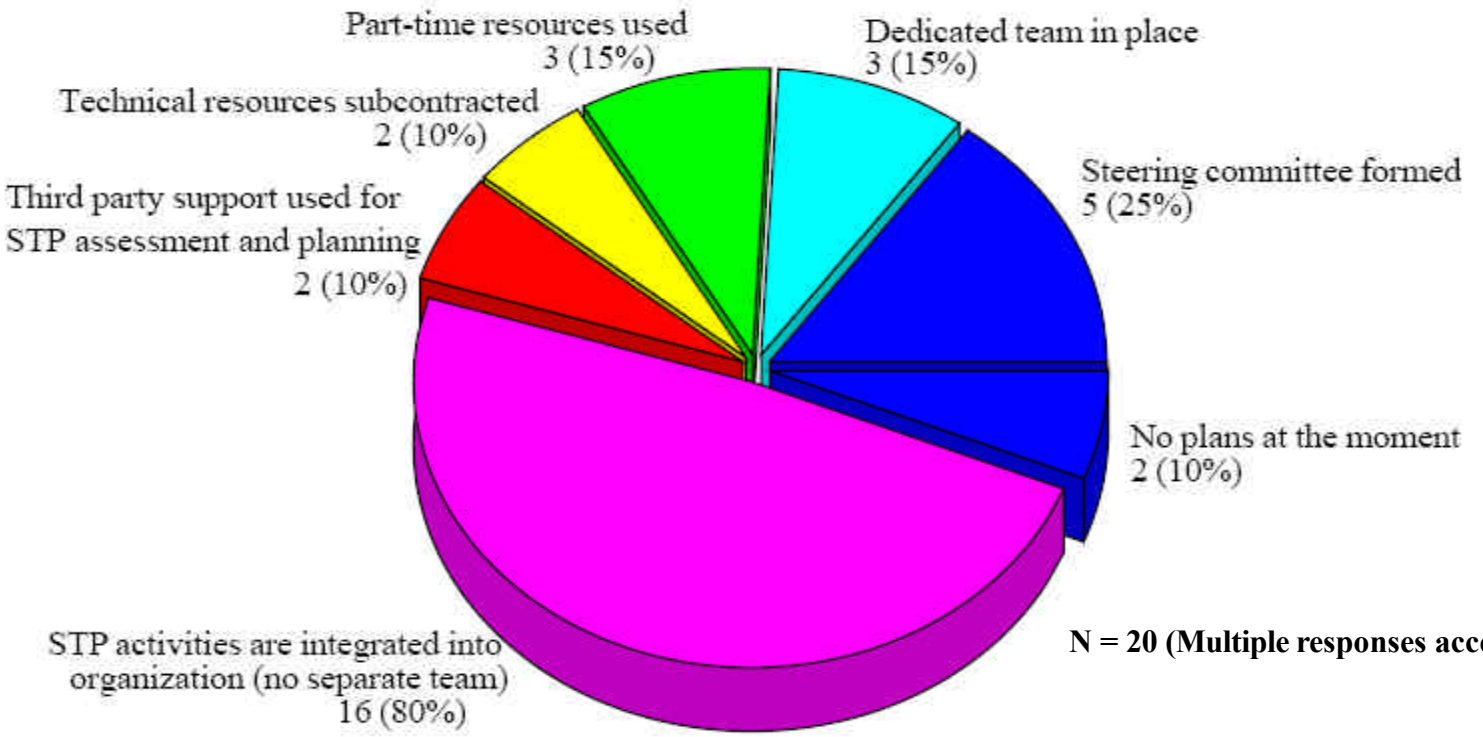
Major Issues Impeding Adoption of STP



- The industry and infrastructure survey groups are consistent in their perception of a number of possible impediments to adoption of STP.
- The biggest difference (referred to earlier) is the 33% of the industry respondents who felt that lack of knowledge of outside vendors plans was a major issue. None of the infrastructure group identified this.
- The second largest difference was that 50% of the infrastructure respondents perceive 'lack of industry standards driving minimum requirements to be a major issue versus only 20% of the industry group.
- 30% of the infrastructure group identified 'lack of common reference data' as a major issue versus only 11% of the industry respondents.
- Interestingly, 'lack of benefit versus cost' is perceived to be a more important impediment by the infrastructure respondents (40%) versus the industry respondents (21%).

Question 6: Which of the following, if any, do you perceive to be the major issues that impede adoption of STP? Please select a maximum of three issues.

Current Means of Organizing for STP

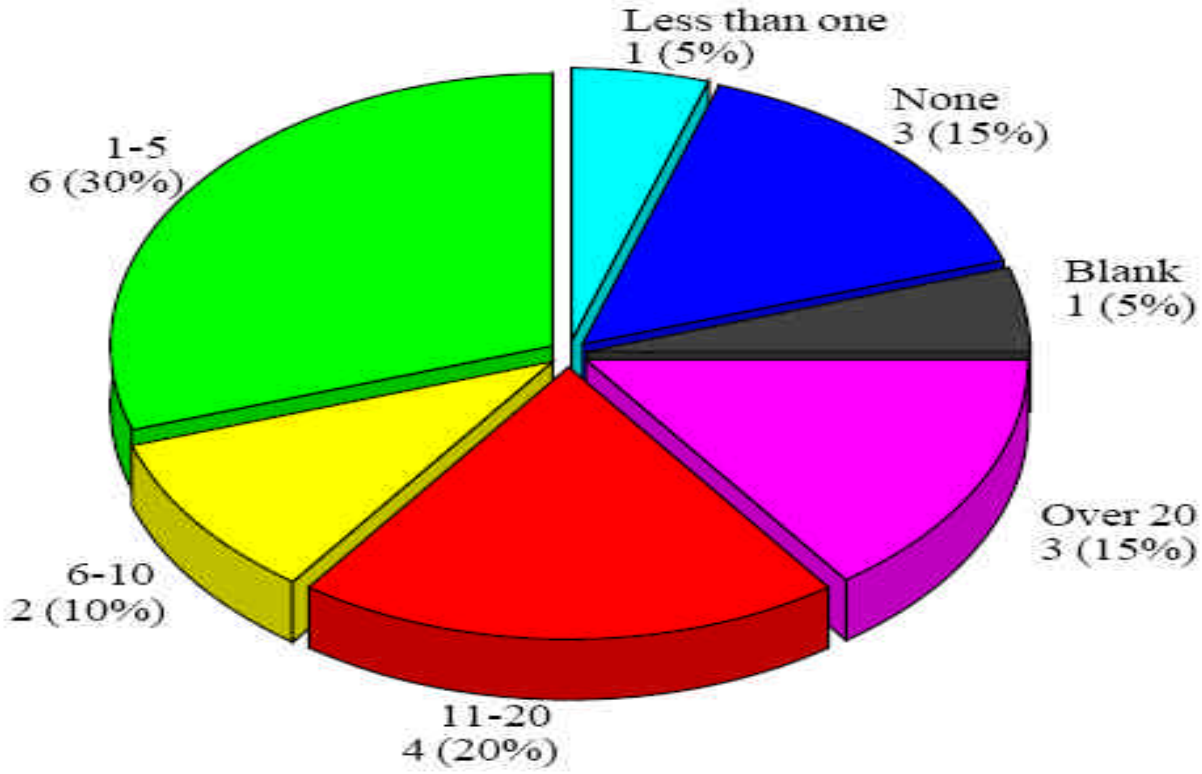


N = 20 (Multiple responses accepted)

- Most infrastructure companies (80%) do not have a separate STP team but have integrated their STP activities into the rest of their organization.
- Only 2 infrastructure companies indicated that they have no plans at the moment for STP organization versus 55% of the industry respondents.
- Infrastructure companies are more likely to have a steering committee in place for STP (25%) than are the industry respondents (9%)

Question 7: How are you currently organized for STP implementation. Please select all that apply.

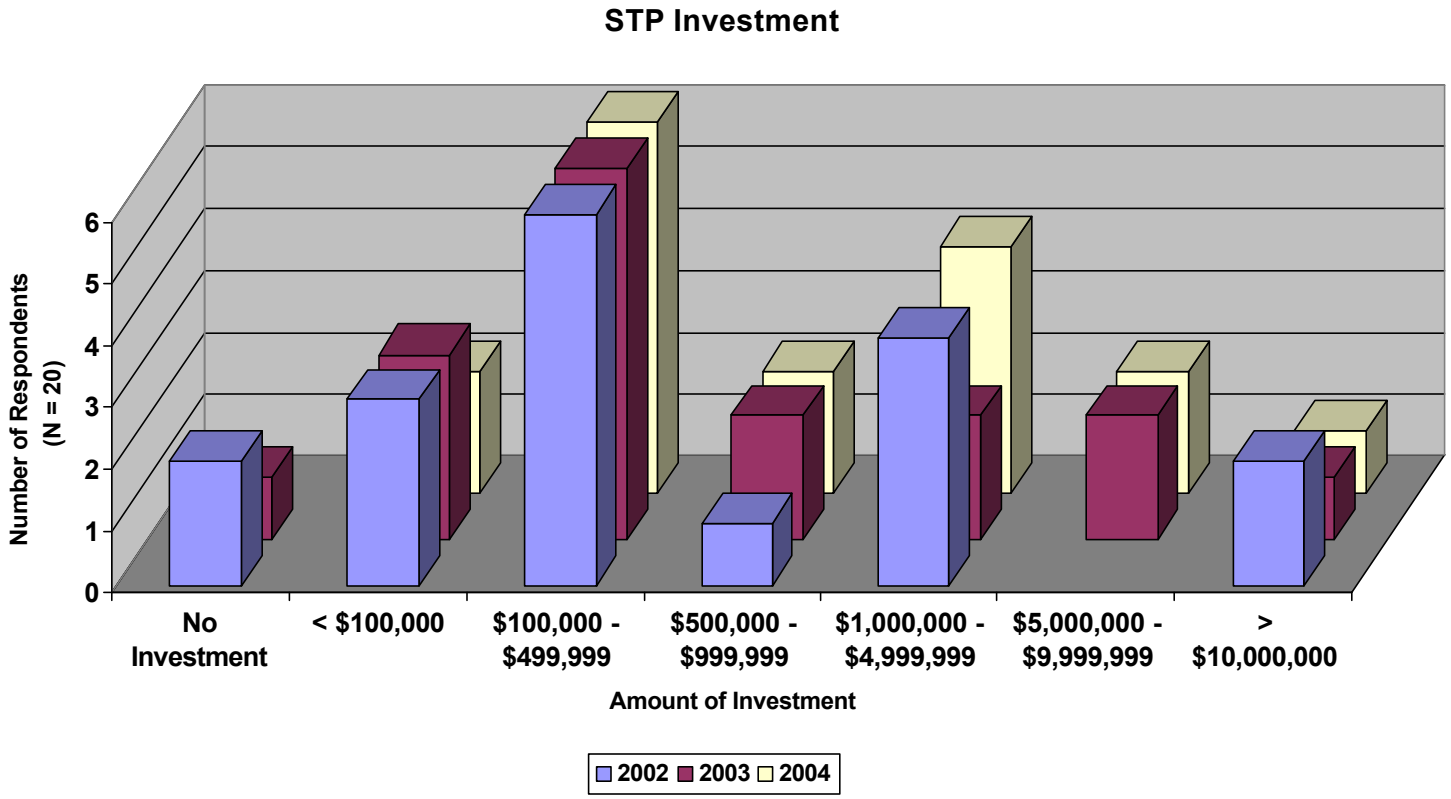
FTEs Dedicated to Enabling STP Readiness



- Most infrastructure companies in the survey (75%) have at least one full-time equivalent employee dedicated to STP readiness while about one-third of the companies have over ten full-time equivalent employees assigned.

Question 8: Approximately how many full-time equivalent employees (including subcontractors) are dedicated to enabling STP readiness?

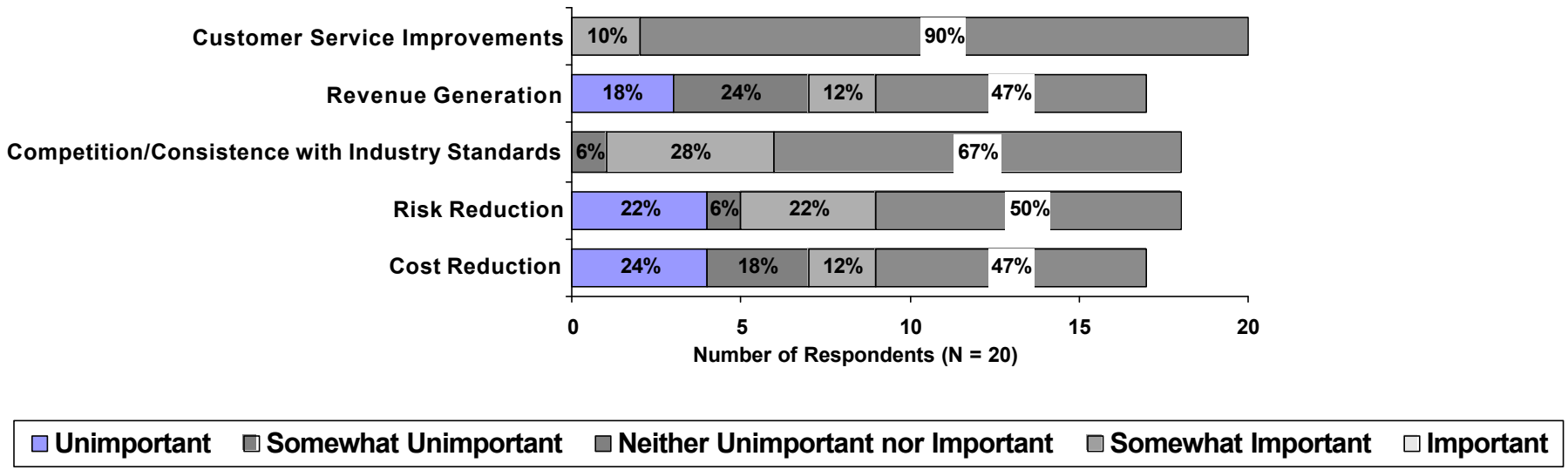
STP Investment



- The STP expenditure trend among STP infrastructure respondents varies depending on how close the individual companies are towards being STP compliant.
- The STP expenditure trend among STP industry respondents is increasing expenditure from 2002 through 2004.

Questions 9, 10 and 11: What was your investment related to STP in 2002? Your forecasted investment in 2003? Your anticipated investment in 2004? Check only one. ("Don't know" removed from base)

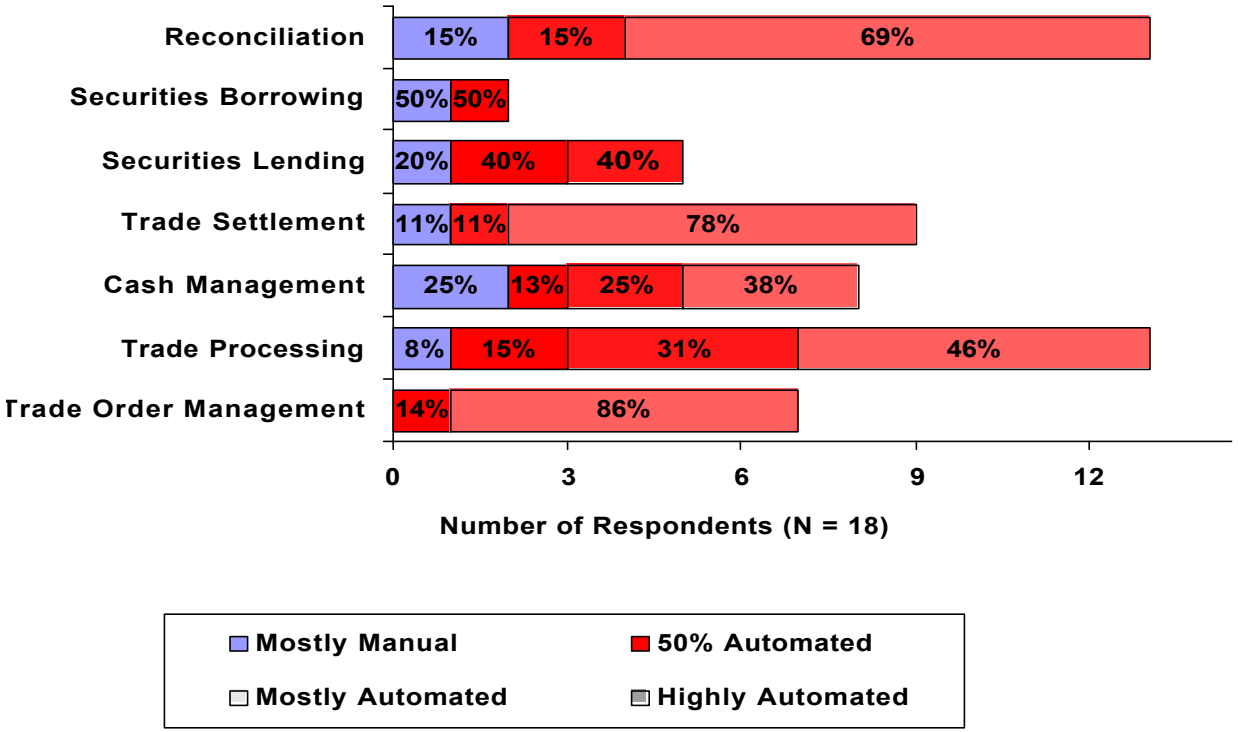
Importance of Drivers



- Several drivers are rated as significantly more important (important/somewhat important) by the infrastructure group than the industry group: improving customer service (100% versus 59%), revenue generation (59% versus 35%), competition/consistency with industry standards (95% versus 60%), and risk reduction (72% versus 60%).
- Approximately 60% of both groups rate cost reduction as important or somewhat important.
- Not all respondents rated every driver.

Question 12: Please rate the importance of the following drivers, if any, to your firm's STP initiatives?

Degree of Automation



% Automated*

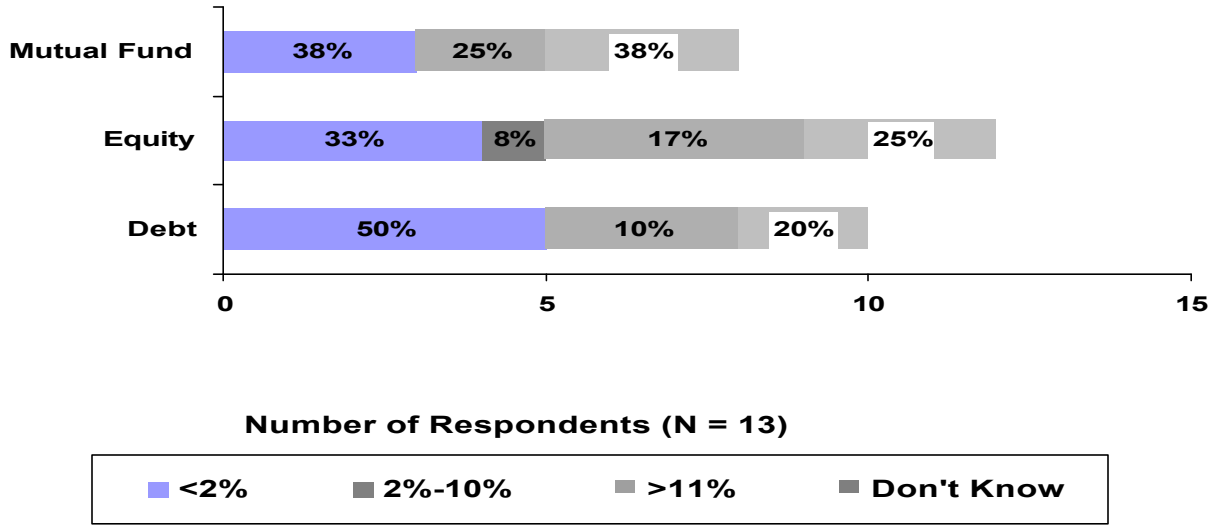
Automation of Function	Infrastructure Respondents	Industry Respondents
Reconciliation	84%	46%
Securities Borrowing	--	37%
Securities Lending	40%	48%
Trade Settlement	89%	65%
Cash Management	63%	41%
Trade Processing	77%	62%
Trade Order Management	86%	52%

* Chart shows the total of 'Mostly Automated' and 'Highly Automated' by function based on the two surveys.

- Only certain infrastructure respondents perform each of these functions.
- Cash Management has a surprisingly large manual component comparable to that reported by the small sized companies in the industry survey.

Question 13: For each of the functions listed below, please indicate the degree of automation within your company.

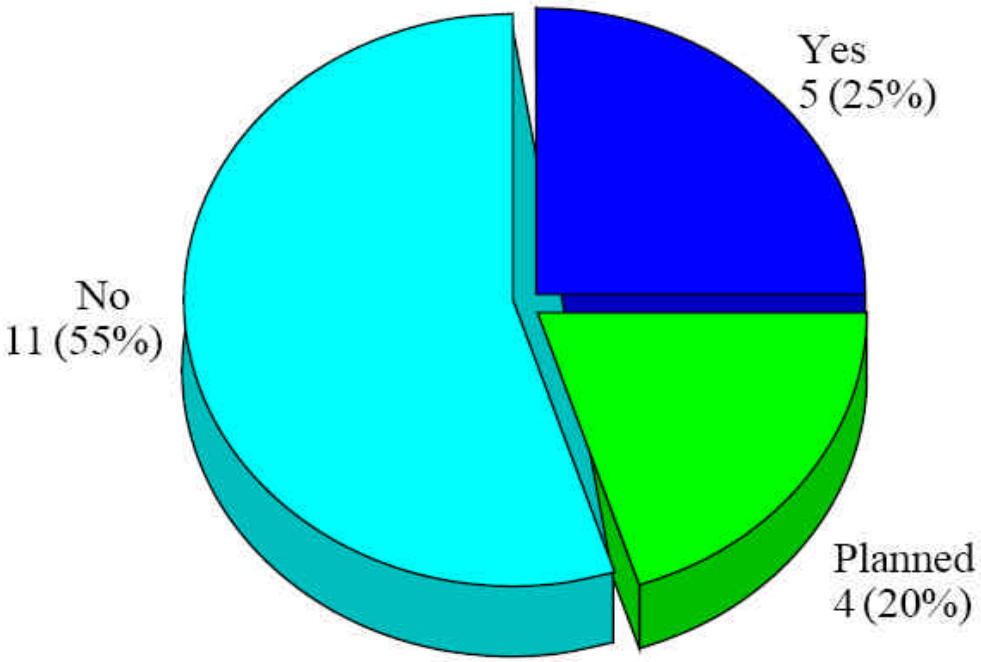
Proportion of Exceptions



- The infrastructure group indicates a higher exception rate than the industry group. For example, the percentage of infrastructure respondents reporting exception rates of less than 2% for mutual funds, equities, and debt are 38%, 33% and 50% respectively. This compares to 63%, 53% and 59% respectively reported by the industry respondents.

Question 14: For each of your total Canadian Debt, Equity, and Mutual Fund transactions, what percentage are exceptions?

STP Testing with Customers



N = 20

- The majority of infrastructure respondents are not planning to carry out point-to-point testing with customers.

Question 15: Do you have any plans for point-to-point testing with customers?