

QS AND AS FROM MARCH 7 CCMA INFORMATION SESSION

4.a Will the rule be extended to credit default swaps, options and other over-the-counter (OTC) instruments?

The Ontario Securities Commission (OSC) at a March 7 Canadian Capital Markets Association (CCMA) information session said that there was no intention to extend the rule to these instruments, although firms may find that applying the same policies and procedures developed to meet institutional trade-matching rules to OTCs and derivatives would be beneficial.

6.a Instead of having foreign counterparties sign a trade-matching agreement or provide a trade-matching statement referencing the rule, can firms simply have foreign institutional clients sign back a document acknowledging the timelines they are committing to try to meet or add a similar clause to client agreements?

An OSC representative at a March 7 CCMA information session clarified that the form of trade-matching agreements and statements was deliberately not prescribed by the regulators so that firms could identify the format or formats of trade-matching agreement or statement that was most appropriate to their clientele. Firms choosing, for example, to use an industry model trade-matching statement for the majority of their client base are not prohibited from using a different approach for different client segments. The trade-matching statement from a foreign institutional client could be very simple.

7.a Why might hours of work have to change?

At the March 7 CCMA information session, a custodian had noted a trend for greater mismatches late in the day between broker and investment manager – 60 per cent of allocations were still being received after 4:30 p.m. The increased mismatching could be the result of voluntary adherence to what is now recommended as a rule for a maximum \$50 million par value settlement size or situations caused by credit lines of brokers that may limit settlement size.

Also, the custodian noted that the change in “end-of-day” from 7:30 p.m. (current Canadian Depository for Securities (CDS) close) to 11:59 p.m. was not a straightforward four-and-a-half-hour extension as virtually all firms brought systems down for back-ups for some period during this time frame. This area may require further work for all parties – the CCMA has been requested to discuss this further.

9.a Where else can my firm look for help in preparing for compliance?

An OSC representative at a March 7 CCMA information session said that the regulators will be preparing and posting frequently asked questions. Firms with questions should e-mail them to the CCMA or OSC.

10.a Can acceptable policies and procedures, which are to be appropriate to a firm's circumstances, be as simple as five lines for some firms?

[Note: At the March 7 CCMA information session, an example along the lines of the following was given and the regulators were asked if this would be considered acceptable for a small broker:

- *We will report the trade to our investment manager clients within x hours from when executed (or every n hours or at 11 a.m., 1 p.m. and 3 p.m.) and no later than y p.m.*
- *If a client doesn't agree, we will work with the manager on the necessary correction ideally within an hour*
- *Once clients agree with details, we will advise our carrying broker per the system they have provided by their deadline of z p.m.*
- *We try to (1) do everything electronically (we fax now but are implementing a new system interface in x months; we use an internet interface, other), (2) complete the data fields our carrying broker requires us to, (3) commit to work with our clients and carrying broker until problems are resolved and timelines are met or (4) escalate according to agreed-upon internal procedures in place and as agreed with trade-matching parties within agreed timeframes*

- *Our compliance officer (1) confirms we got our clients' trade-matching statement (or agreement) once a year/x times a year, (2) checks semi-annually what our operations department is doing, (3) reviews stats from the carrying broker for timeliness on a monthly (or quarterly) basis, and (4) if matching targets are not met, provides an exception report to the regulators with corrective action taken or to be taken if needed to meet the deadlines, whether the delays are caused by ourselves, our clients or our carrying broker.]*

An OSC representative at a March 7 CCMA information session said that there is no intrinsic value in having policies and procedures that are long and complex as compared to ones that are short and simple. The regulator added that the key to success between trade-matching parties is that the policies and procedures be sufficiently clear and transparent to all counterparties so as to ensure that it is unambiguous as to who is expected to do what, when and how and what are the expectations if it is not done.

15.a What is the status of the standard trade-matching statement?

At the March 7 CCMA information session, a CCMA committee member said that the statement had been drafted and was being reviewed with the OSC. The OSC representative said that the trade-matching statement or agreement should be considered not simply as documentation, but as a tool to set out what counterparties can expect, corrective action, potentially penalties, etc. A brief statement or an industry standard model are not prohibited but firms are encouraged to think of the statement as a way to be able to deal with problems.

20.a Are vendors subject to the rule?

While CDS and matching service utilities (MSUs) are subject to the rule, vendors are not. However, vendors will likely be doing what is necessary to help their clients (which are firms subject to the rule) comply with the rule.

29.a Based on operational practice, if a broker fills “good till cancelled orders” over several days, does this mean the broker is not in compliance with NI 24-101 from a regulatory perspective?

At the March 7 CCMA information session, the custodian speaker said that, operationally, the custodian does not see the interim fills executed until the full order is complete. The same-day trade-matching clock for exception reporting purposes would therefore start on that day from the custodian's reporting perspective. *Note:* Brokers are encouraged to confirm their procedures with respect to trade data entry in the case of “good till cancelled orders” to CDS or their carrying broker to ensure that it will not impact their matching rates.

31.a What will regulators do if there is non-compliance?

The regulators, as mentioned at the March 7 CCMA information session, will be reviewing the CDS and matching service utility reports, as well as exception reports coming in (aggregated industry data from CDS will be published quarterly on the CCMA website). The OSC will likely provide a summary 18 months or so after implementation of the experience, until that time, with findings as to where any recurring problems have been identified. The OSC has a number of remedies it may use, ranging from putting terms and conditions on the registrant or requiring an external auditor to review a firm up to and including termination. While the last option is unlikely, the OSC can and will use the other options if necessary.

Other comments

- **Custodian deadline timing**

At the March 7 CCMA information session, the custodian representative noted that the custodians in Canada are discussing greater standardization of their deadlines (recognizing clients will still have some flexibility) to help the market.

- **Cost-benefit analysis of the rule**

An attendee asked whether there was a cost-benefit analysis of the rule. The OSC representative referred to a CCMA study done early in the decade and comments from a number of parties that

after introduction of systems changes, some firms enjoyed a 75 per cent reduction in the cost of errors and errors management. The Vice-Chair of the CCMA mentioned a 10:1 cost reduction standard rule of thumb from automation.

- **Why are foreign clients within the ambit of the rule?**

At the March 7 CCMA information session, an OSC representative explained that the CSA had realized that, for some firms, foreign clients could put them offside the rule. By making a T and T+1 matching distinction, a firm will not be forced into exception reporting because of, on average, not meeting the target match rate on trade date. The OSC said that for market efficiency, foreign institutional clients needed to be part of the rule.

ADDITIONAL QUESTIONS SENT TO CCMA AND REGULATORS

To the CCMA

1. To facilitate obtaining trade-matching statements and notice of any changes, will there be a central place to which trade-matching parties could post their statements? (related to IIAC question 14)
2. What is the status of development of the CCMA trade-matching statement? Will brokers' and investment managers' trade-matching agreements be the same? (related to IIAC question 15)
3. Will, and if so how, will the broker, buy-side and custodian communities be encouraging use of a standard format and standard approach to make the statements easy to find?
4. Custodians are not subject to CSA regulation; what do custodians actually have to do?
5. What are the concerns about identifying clients not in the Western Hemisphere that an attendee at the March 7 CCMA information session had?
6. Could the CCMA post speaking notes of the speakers at the March 7 CCMA information session on the CCMA website?

To Regulators

1. To avoid wasted paper, will it be sufficient for an accountable person to confirm the date of viewing of a URL of a trade-matching statement on a checklist? (*related to question 14*)
2. For the development of procedures, when will the CSA post the e-mail address to which exception reports must be sent if to the CSA? (*related to question 22*)
3. Would a dealer acting as a dealer AND a custodian report exceptions for each capacity separately, in one report combined or optionally one or the other? (*related to question 22*)