

Notice and Request for Comments

Proposed 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) are publishing for comment proposed 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 part of the amendments to the Instrument would extend, from July 1, 2010 to July 1, 2015, the date on which the requirement to match DAP/RAP trades¹ no later than midnight on trade date (T) comes into effect. We are also proposing to extend, for a transition period of two years, the current deadline for matching DAP/RAP trades from noon on the business day following T (T+1) to 2 p.m. on T+1. Other proposed amendments to the Instrument would change the documentation and exception reporting requirements and clarify certain definitions and other provisions in the Instrument.

The text of the proposed amendments to the Instrument is contained in Annex A of this notice and will also be available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca

www.albertasecurities.com

www.bcsc.bc.ca

www.gov.ns.ca/nssc

www.nbsc-cvmnb.ca

www.osc.gov.on.ca

www.sfsc.gov.sk.ca

www.msc.gov.mb.ca

The corresponding amendments to the CP are contained in Annex C of this notice and will be available on the same websites.

¹ 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.

We are publishing the proposed amendments for comment for 90 days. The comment period will expire on January 28, 2010. See below under “VIII. How To Provide Your Comments”.

II. Background

NI 24-101’s primary objective is to expedite the pre-settlement confirmation and affirmation process—or *matching*—of an institutional trade. Registered firms trading for or with an institutional investor must have policies and procedures designed to match a DAP/RAP trade as soon as practical after the trade is executed, but no later than noon on T+1.

The Instrument had originally provided for transitioning the deadline to midnight on T on July 1, 2008.² However, in April 2008 the CSA agreed to defer the transition to the midnight on T deadline to July 1, 2010. This decision was made after concerns were expressed by industry stakeholders about the overall readiness of the Canadian capital markets to comply with the midnight on T deadline. It became apparent that industry participants from all sectors (sell side, buy side and custodians) needed more time to allow their middle and back-office processes to evolve to real-time processing before any move to matching by midnight on T could be achieved.

When we announced our decision to postpone the midnight on T deadline in April 2008, we noted that this would allow us to better assess the industry’s overall matching performance in a noon on T+1 environment and review the Instrument and CP, including revisiting the timing for implementing the midnight on T deadline.

1. Assessment of industry institutional trade matching performance

CSA staff have been monitoring the industry’s institutional trade matching (ITM) performance since the implementation of the Instrument in 2007. We have reviewed the ITM data provided quarterly under the Instrument by registered firms, CDS Clearing and Depository Services Inc. (CDS) and matching service providers (MSUs). Registered firms must complete and deliver an “exception report” on Form 24-101F1 for any calendar quarter in which less than a certain percentage of their executed DAP/RAP trades were matched by the specified deadline (exception reporting requirement).³ A clearing agency (through which trades governed by the Instrument are cleared and settled) and an MSU are required to provide quarterly ITM data on Form 24-101F2 and Form 24-101F5 respectively.⁴

² The Instrument and CP came into force on April 1, 2007, and became fully effective on October 1, 2007. See CSA Notice of NI 24-101 and CP dated January 12, 2007 (2007) 30 OSCB 335.

³ See Part 4 and subsection 10.2(3) of NI 24-101, read together with 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* and related blanket orders granted in other CSA jurisdictions (see CSA Notice 24-307).

⁴ See Part 5 and subsection 6.4(1) of NI 24-101.

We have also continued our discussions with market participants, service providers, industry groups and other stakeholders. This included meetings of the CSA-Industry Working Group on NI 24-101 (Working Group) that was formed in May 2007 to act as an advisory group for the CSA in identifying and resolving issues in relation to NI 24-101.⁵ In addition, we have been monitoring global ITM and other clearing and settlement developments.

The findings from our analysis of the data, stakeholder discussions, and other relevant information will be published early next year in a report of CSA staff on industry compliance with NI 24-101 (CSA Staff Report on NI 24-101). We discuss some of our preliminary findings below.

(a) Overall impact of NI 24-101

In April 2008 we stated that the Instrument had successfully encouraged market participants to address ITM middle and back-office problems and generally improve their clearing and settlement processes and systems since 2004.⁶ We were advised by industry groups that many processes were being re-engineered and becoming automated, resulting in efficiency gains and straight-through processing (STP).

Our review of the ITM data and stakeholder discussions confirm that NI 24-101 has encouraged market participants to improve ITM middle and back-office functions in the Canadian capital markets. Overall ITM rates at T and T+1 have improved significantly since April 2004, when the Instrument was first published for comment.⁷ See Table 1 below.

The combined equity and debt industry ITM rate at midnight on T improved from 2.98% in April 2004 to 48.24% in June 2009, representing an increase of over 45 percentage points. The ITM rate at midnight on T+1 also improved significantly, from 47.14% in April 2004 to 90.85% in June 2009, representing an increase of almost 44 percentage points. Moreover, the industry ITM rate at noon on T+1 increased from 61.89% in June 2007 (when CDS first began measuring ITM rates at noon on T+1) to 85.18% in June 2009, representing an increase of over 23 percentage points during this two year period.

⁵ The Working Group includes representatives of sell side, buy side and custodian firms, industry associations, the Investment Industry Regulatory Organization of Canada (IIROC), CDS and CSA staff. See CSA Staff Notice 24-304—*CSA-Industry Working Group on National Instrument 24-101*, dated July 6, 2007.

⁶ See CSA Notice 24-307.

⁷ NI 24-101 was first published for comment on April 16, 2004, together with CSA Discussion Paper 24-401 on Straight-through Processing and Request for Comments (CSA Discussion Paper 24-401). See (2004) 27 OSCB 3971. As the Instrument only came in force in April 2007, it is more accurate to say that it was the prospect of the Instrument coming into force that likely encouraged market participants to address ITM middle and back-office problems since April 2004.

Table 1
Overall Combined Debt and Equity ITM Performance
(based on 3-month rolling monthly average of number of trades entered at
CDS and matched during month)

Month/ Year	% trades matched by 11:59 PM on T	% trades matched by 11:59 AM on T+1	% trades matched by 11:59 PM on T+1	% trades matched by 11:59 AM on T+2	% trades matched by 11:59 PM on T+2	% trades matched by 11:59 PM on T+3
April 2004	2.98	[not available]	47.14	[not available]	78.73	97.94
April 2007	14.32	[not available]	65.69	[not available]	85.47	97.26
June 2007	23.48	61.89	74.27	[not available]	89.13	97.47
September 2007	25.18	64.81	76.31	[not available]	90.29	97.95
September 2008	34.96	80.94	87.00	91.42	93.92	97.89
January 2009	48.11	84.91	90.36	93.82	95.35	98.58
June 2009	48.24	85.18	90.85	94.17	95.74	98.84

Source: CDS Clearing and Depository Services Inc. and CAPCO study.

One of the early rationales for the Instrument was to close the competitive gap with the U.S. industry in terms of STP and T+1 settlement preparedness.⁸ The original *CAPCO* study⁹ commissioned by the industry in 2004 had assessed Canada to be approximately 14 months behind the U.S. in STP/T+1 settlement readiness.¹⁰ Some stakeholders have suggested that the Canadian industry's current ITM rates are now closer to those of the U.S.

⁸ See CSA Discussion paper 24-401, at p. 3980 and 3984.

⁹ Assessment of Canada's STP/T+1 Readiness and a Comparison of Canada's vs. United States' T+1 Readiness --STP/T+1 Readiness Assessment Report for Canada, CAPCO final report, July 12, 2004.

¹⁰ See 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*, (2005) 28 OSCB 1509, at p. 1510.

(b) *Ongoing issues with meeting ITM targets*

Despite significant progress since 2004, the industry is having difficulties with achieving NI 24-101's current noon on T+1 matching target of 90%. The data shows that the industry's progress towards achieving the current ITM target has slowed down in the last 15 months. See Table 2 below.

Table 2
Overall Equity ITM Match Rates
(based on 3-month rolling monthly average of number of trades entered at CDS and matched during month)

Month/ Year	% trades matched by 11:59 PM on T	% trades matched by 11:59 AM on T+1	% trades matched by 11:59 PM on T+1	% trades matched by 11:59 AM on T+2	% trades matched by 11:59 PM on T+2	% trades matched by 11:59 PM on T+3
June 2007	22.56	64.72	77.07	[not available]	90.78	97.36
September 2007	22.42	65.08	76.37	[not available]	90.48	97.68
December 2007	27.23	72.96	81.51	[not available]	90.93	96.71
March 2008	32.32	78.44	85.88	[not available]	93.76	97.96
June 2008	32.7	81.09	87.02	91.74	94.2	98.04
September 2008	32.04	80.59	86.74	91.4	93.97	97.84
December 2008	41.29	82.18	88.18	92.39	94.17	98.03
March 2009	42.51	85.40	91.12	94.93	96.43	99.15
June 2009	46.55	85.86	91.42	94.71	96.18	98.90
August 2009	44.88	86.12	91.10	94.47	95.82	98.57

Source: CDS Clearing and Depository Services Inc.

The industry average rates of trades *entered (submitted)* by investment dealers into CDS in August 2009 are just below the 91% threshold at noon on T+1 and below 74% on T. However, the *match* rates for equity trades at noon on T+1 remain behind the *enter* rates by approximately 5 percentage points.

Most registered firms that are active in the DAP/RAP institutional markets appear to have challenges in meeting the current target, although our impression from our discussions with industry stakeholders is that they are making concerted efforts to meet the target. Moreover, based on the data and our discussions, the industry will be far from ready to meet the Instrument's midnight on T deadline commencing in July 2010.

While dealers have made important strides in entering their trades at CDS on a timely basis, more trades need to be reported earlier in the day on T, giving counterparties additional time to match trades before noon on T+1 or resolve trade matching exceptions earlier. We believe that, in order to meet the noon on T+1 deadline, dealers should be *entering* substantially all of their DAP/RAP trades by end of business on T. Similarly, investment managers and custodians must complete their ITM processes by matching their trades sooner.

We are therefore reconsidering the timing for imposing the move to matching on T.¹¹ Any benefits from moving to matching on T that were originally contemplated, such as reduction in operating costs and risks, may not be gained in a cost-effective manner without an extension of the transitional phase-in period.

We are of the view that a more realistic goal in the current environment may be for a 90% ITM rate to be achieved *at some mid-point* during the day on T+1. This goal would be consistent with a 2001 joint-recommendation of the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) that called for a high percentage of institutional trades to be confirmed by no later than T+1.¹² Of course, our view assumes that there will be no global movement on the horizon to shorten the standard T+3 settlement cycle to T+1.

(c) *International ITM developments*

Recent global financial events have highlighted the importance of the policy objectives for imposing more timely and efficient ITM and settlement processes. However, while in

¹¹ The decision to make NI 24-101 a rule was significantly influenced by international factors in the early 2000s, including a recommendation of the Group of Thirty in 2003 that market participants should collectively develop and use compatible and industry-accepted technical and market-practice standards for the automated confirmation and agreement of institutional trade details on T. See *Global Clearing and Settlement: A Plan of Action*, report of the G-30 dated January 23, 2003; Recommendation 5: Automate and Standardize Institutional Trade Matching.

¹² See *Recommendations for securities settlement systems* - Report of the Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, dated November 2001 (the CPSS-IOSCO report); Recommendation 2 – Trade confirmation: “Confirmation of trades between direct market participants should occur as soon as possible after trade execution, but no later than trade date (T+0). Where confirmation of trades by indirect market participants (such as institutional investors) is required, it should occur as soon as possible after trade execution, preferably on T+0, but no later than T+1.” CPSS and IOSCO subsequently suggested that “a high percentage” of trades means 90% or more. See *Assessment methodology for “Recommendations for securities settlement systems” - Report of the Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions*, dated November 2002, at p. 7.

certain other markets there have been improvements in automated ITM and clearance and settlement processes and ongoing discussions on shortening settlement cycles, we are not aware of any definitive plans to shorten the standard T+3 settlement cycles in other markets.¹³

(d) *Infrastructure support for ITM*

We believe that a majority of dealers and advisers that actively trade on a DAP/RAP basis in Canada are unable to match 90% of their institutional equity trades by noon on T+1 due in part to industry-wide infrastructure issues. This in turn directly impacts the adequacy of their ITM policies and procedures.

We have found examples where the infrastructure did not support more timely ITM processing or adequately provide the means to facilitate measuring a firm's ITM performance. A case in point is the current industry-wide ITM processing cycle.

Most market participants are prevented from completing their ITM processes after 7:30 p.m. until late in the evening on T. In many cases, we have found that trade instructions, including allocations, are merely held or "parked" within the systems of trade-matching parties, CDS and service providers until the morning of T+1, even though trade matching is still possible after the markets close (generally 4:30 p.m.) until 7:30 p.m. on T. Every business day at 7:30 p.m. Eastern Time (ET) (the CDS 7:30 p.m. cut-off time) until almost the end of the day on T, CDS' clearing and settlement system is shut down for batch processing. It is therefore impossible for matching to occur during this period. As a result,

- trade date (T) for the purposes of processing DAP/RAP trades in Canada seems to effectively end at the CDS 7:30 p.m. cut-off time, although transactions can continue to come in to CDS, and

¹³ While we are not aware of concrete plans to shorten settlement cycles, there have been recent calls to shorten the settlement cycle. See, for example, *Euromoney Magazine*, "US equity market – Short selling: The naked truth", Helen Avery, December 1, 2008, at www.euromoney.com: "However, settlement is faster in Europe than in the US. It is surprising that the US still operates a T+3 system. Robert Greifeld, chief executive of Nasdaq, questioned the system in March this year at a conference when, in reference to fails to deliver, he said it was hard to believe that in 2008 the market still required three days to settle, and that a T+1 system should be part of a discussion about fails." Also, a recent IOSCO report highlights the 2001 CPSS-IOSCO recommendation that trades should be settled no later than T+3 as part of the standard settlement cycle and the benefits and costs of a standard settlement cycle shorter than T+3 should be evaluated. See IOSCO's *Regulation of Short Selling*, Final Report, June 2009, available at <http://www.iosco.org> (IOSCO Short Selling Report). We understand also that there are discussions among authorities in Europe to adopt a uniform T+2 settlement cycle for all European markets.

- the processing schedules of trade-matching parties, CDS and service providers may be problematic, especially for investment managers of modest size who rely more on end-of-day batch processing and can only send out settlement instructions after 4:30 p.m. on T, when other trade-matching parties may have already wound down their operations for the day.

If processing could continue beyond the CDS 7:30 p.m. cut-off time 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.

We have also found that many dealers are unable to track or segregate their DAP/RAP trades originating from non-western hemisphere clients or counterparties, from those coming from western hemisphere clients or counterparties. This is because CDS and back-office service providers do not facilitate the tracking of this information. Under the Instrument, if a trade results 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 deadline for matching is extended by a day.¹⁴

This 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. We are told that CDS and service providers do not provide the necessary specific trade identifiers to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades. If such 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.

(e) Automation in ITM

We continue to believe that market participants should pursue further technology and processing improvements within the next five years. Consequently, we are of the view that we should maintain the midnight on T deadline as the ultimate goal in the Instrument. Canada's markets should aim for the midnight on T target even if that requires the industry to move to a new "technology paradigm". More specifically,

- The buy-side sector should consider augmenting their use of automation for front office functions to enable more timely post-execution operations.
- Dealers should continue their efforts to shift from end-of-day batch processing to more frequent intra-day or real time processing.

¹⁴ See subsections 3.1(2) and 3.2(2).

- Custodians should continue to support their clients in greater use of technology and other alternatives to improve the ITM process, including dissuading clients from manually handling their post-execution activities (e.g., using telephones, fax machines or e-mails to communicate trade details and settlement instructions).
- CDS and back-office service providers should consider modifying their systems in order to expand their processing schedules and accept and match trades after 7:30 p.m. on T and facilitate the means to accurately measure a firm's ITM performance.

We also believe that MSUs can play an important role in bringing all trade-matching parties together to expedite ITM processes. In the end, industry-wide automation and *inter-operability* will strengthen the efficiency and integrity of the securities clearing and settlement process and ultimately improve investor protection and the global competitiveness of the markets in Canada.

(f) Industry coordination and leadership

Industry coordination is critical to ensure steady progress towards timely ITM processes. The CSA had largely depended on the industry to identify what needs to be achieved across the industry and how to implement the various steps.¹⁵ The Canadian Capital Markets Association (CCMA) had largely filled this role until it was de-commissioned in 2008.¹⁶ It was founded in 2000 by the industry and had coordinated the industry's specific ITM initiatives by ensuring that a cross-section of sell side, buy side and custodial representatives were participating on various CCMA sub-committees and working groups.

2. Timely settlement of trades

Speedy and accurate ITM processes are an essential pre-condition to avoiding settlement failures in a T+3 settlement cycle environment.¹⁷ According to CDS data, the value of accumulated fails as a percentage of the value of trades processed through the continuous net settlement (CNS) facilities of CDS has declined overall from about 3% in April 2007 (when the Instrument came in force) to about 1.5% in September 2009.

¹⁵ See CSA Discussion Paper 24-401, at p. 3980.

¹⁶ See <http://www.ccma-acmc.ca/> for more information on the CCMA. According to the CCMA, the "difficult decision to decommission the active management of the CCMA was taken by the [CCMA board of directors in April 2008] after careful consideration of the successful implementation and evolution of [NI 24-101] and the future needs of our industry". See *CCMA News*, Volume 30, August 2008, available at http://www.ccma-acmc.ca/en/files/CCMA%20News%20Volume%2030_online%20version.pdf.

¹⁷ See the CPSS-IOSCO report, at par. 3.10. See also CSA Discussion Paper 24-401, at p. 3995.

We believe that NI 24-101 may have contributed to the steady decline of the fails-to-deliver rates in Canada.¹⁸ While more timely ITM policies and procedures do not necessarily avert all trade failures, they have a positive effect further down the transaction “value chain” in reducing the incidence of trade fails and associated costs.¹⁹

In addition to the ITM requirements, NI 24-101 contains 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 (NI 24-101’s settlement rule).²⁰

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 currently assessing, among other things, whether Canada’s trade settlement discipline regime may need to be strengthened in light of recent international developments.²¹ This will include examining NI 24-101’s settlement rule and determining whether it should be amended. In addition to comments that we are seeking in response to our questions in Section III of this Notice, we welcome views from stakeholders on whether our settlement discipline regime may need to be strengthened, including whether NI 24-101’s settlement rule should be amended.

III. Summary of the Proposed Amendments to the Instrument

This Section of the Notice describes the amendments that we are proposing to make to the Instrument. Part 1 of this Section describes the key amendments, and includes a number of questions to which we seek specific responses or commentary from stakeholders to assist us in finalizing the amendments. The key amendments would require changes to the transition provisions in section 10.2 of the Instrument.

Part 2 of this Section describes other amendments that are intended to:

- lessen the regulatory burden of certain requirements of the Instrument,

¹⁸ IIROC has suggested that NI 24-101 may have had the effect of reducing the number of trade failures and the length of time that any failure remains outstanding and thus contributed to the declines in the value of accumulated fails as a percentage of trade value generally. See IIROC Notice 09-0037, February 4, 2009, *Recent Trends in Trading Activity, Short Sales and Failed Trades* and the IIROC report dated February 2009 *Recent Trends in Trading Activity, Short Sales and Failed Trades – For the Period May 1, 2007 to September 30, 2008*, at p. 51.

¹⁹ This is consistent with findings in other global markets. See, for example, *Building efficiencies in post-trade processing: the benefits of same-day affirmation*, June 2008, an economic study on the benefits associated with improvements in the trade verification process within the European Union markets (independent study undertaken by Oxera Consulting Ltd. at the request of Omgeo).

²⁰ See Part 7 of NI 24-101.

²¹ Among other developments, the IOSCO Short Selling Report includes a recommendation that regulation should “as a minimum requirement impose a *strict* settlement (such as compulsory buy-in) of failed trades”.

- clarify certain provisions as a result of issues that were raised by stakeholders, including during the Working Group’s discussions, and
- modify the ITM reporting requirements of clearing agencies and MSUs under the Instrument.

We welcome comments from stakeholders on all aspects of such amendments.

1. Key amendments

(a) Postponing for five years the midnight on T deadline

We propose to defer the requirement to match a DAP/RAP trade no later than the end of T by an additional period of five years. This requirement, which would have come in force on July 1, 2010, is now proposed to come in force on July 1, 2015.

However, we would propose to consider re-introducing the midnight on T matching deadline sooner than July 1, 2015 through subsequent amendments to the Instrument if circumstances were to change.²² One possible change of circumstances would be a shortening in the global markets of standard T+3 settlement cycles.

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.

During our ongoing consultations on NI 24-101, a number of stakeholders had expressed doubts about the need to move to matching on T because risk was not significantly reduced in moving from noon on T+1 to midnight on T. Some stakeholders suggested that no other persuasive business reasons exist to match on T while we remain at a standard T+3 settlement cycle. They believe the investment cost and technology changes required are too large to justify any potential benefits at this time.

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?

We refer to our discussion above on the CDS 7:30 p.m. cut-off time and the need for a specific trade identifier for non-western hemisphere trades (under “II. Background – 1. Assessment of industry institutional trade matching (ITM) performance – (d) Infrastructure support for ITM”). We believe that addressing these infrastructure issues will be necessary to assist the industry in moving to the midnight on T deadline on July 1, 2015.

²² Any subsequent proposed amendments to the rule would be subject to public comment as required by provincial and territorial securities legislation.

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?

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) Extending the time at which matching must occur on T+1 by two hours

We propose to extend the noon on T+1 deadline to 2 p.m. on T+1 for an interim period of two years. Based on our review of some exception reports submitted under the Instrument, we believe 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.

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?

2. Other amendments

(a) Amending the quarterly exception reporting requirement

Registered firms are required to complete and deliver an exception report on Form 24-101F1 for any calendar quarter in which less than a certain threshold percentage of their executed DAP/RAP trades were matched by the specified deadline (exception reporting requirement).²³ The current threshold percentage is 90% by noon on T+1. Under the applicable transitional provisions, the threshold percentage will increase gradually to 95% by midnight on T on January 1, 2012.

We believe the exception reporting requirement remains a useful tool for two reasons. First, it serves as a powerful incentive for registered firms to improve their matching rates and avoid the exception reporting requirement. Second, it provides the CSA with important information on how the industry is progressing with ITM policies and procedures. However, we are proposing a number of amendments to the exception reporting requirement at this time. We may consider additional amendments for comment in this area, including amendments to Form 24-101F1, after we publish the CSA Staff Report on NI 24-101. We welcome comments on how we should further amend the exception reporting requirement and Form 24-101F1.

²³ See Part 4 and subsection 10.2(3), as modified in June 2008 by local orders of the CSA jurisdictions exempting registered firms from the transitional provisions in NI 24-101 and extending the transitional period. In Ontario, this was accomplished by way of Ontario Securities Commission Rule 24-502.

(i) *Exception reporting threshold percentages and timelines*

As a result of the proposed amendments to defer the matching on T requirement and extend the noon on T+1 deadline to 2:00 p.m. on T+1, we are proposing consequential transitional amendments to the provisions governing the exception reporting requirement so that exception reporting would only be required in the following circumstances:

For DAP/RAP trades executed:	Matching deadline for trades executed on T (Part 3 of Instrument)	Percentage trigger (threshold) of DAP/RAP trades for registrant exception reporting (Part 4 of Instrument)
before July 1, 2012	2:00 p.m. on T+1	Less than 90% matched by deadline
after June 30, 2012 but before July 1, 2015	12:00 p.m. (noon) on T+1	Less than 90% matched by deadline
after June 30, 2015 but before July 1, 2016	11:59 p.m. on T	Less than 70% matched by deadline
after June 30, 2016 but before July 1, 2017	11:59 p.m. on T	Less than 80% matched by deadline
after June 30, 2017	11:59 p.m. on T	Less than 90% matched by deadline

We propose to extend the transitional period to July 1, 2017 and reduce the ultimate percentage of trades that a registered firm is required to match by the deadline in order to avoid exception reporting from 95% to 90%. The 90% threshold is consistent with the CPSS-IOSCO standard requiring a high percentage of institutional trades to be confirmed no later than T+1, as CPSS-IOSCO had considered “a high percentage” to be 90% or more.²⁴

(ii) *Method for determining threshold percentages*

Currently the threshold percentages are determined by measuring both the total number and total value of DAP/RAP trades executed by or for a registered firm that matched within the deadline during a calendar quarter.²⁵ A registered firm is required to use both methods for equity and debt securities trades.

²⁴ See footnote 12, discussing the CPSS-IOSCO report.

²⁵ See paragraphs (a) and (b) of section 4.1 and Exhibit A of Form 24-101 F1.

We propose to amend the Instrument, including Exhibit A of Form 24-101F1, to simplify the calculation. First, we would eliminate 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. We agree with stakeholders that have suggested that the total value measurement may not be a true STP indicator of the progress being made on ITM rates for equity trades.

Second, we propose to eliminate the need to determine the threshold based on the total number of debt trades, thus retaining the total value method only for debt trades. We would retain the total value method for debt trades because, while for any given period the total number of debt trades is much less than the total number of equity trades, the total value of debt trades is considerably higher than the total value of equity trades. Therefore, we believe that the total value method reflects a more accurate picture of the risk surrounding slow and inefficient ITM processes for DAP/RAP trades of debt securities.

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

When trading for or with an institutional investor, registered dealers and advisors must enter into *trade-matching agreements* with other *trade-matching parties* or, alternatively, obtain signed *trade-matching statements* from other trade-matching parties.²⁶ Early in our discussions with the Working Group and feedback from other stakeholders, we were made aware of various problems with these documentation requirements.

We are therefore proposing a number of amendments to address problematic areas of the requirement and related definitional provision.

(i) Amending the definition of trade-matching party

A trade-matching party includes a registered adviser acting for an institutional investor in a trade, or the institutional investor itself where a registered adviser is not acting for the institutional investor in a trade.²⁷ We are proposing to amend the definition of “trade-matching party”.

- The amended definition would include a registered adviser only where it is acting for the institutional investor in *processing* the trade. This clarification would ensure that advisers with no responsibility for trade execution and post-trade execution functions of an institutional investor are not considered a trade-matching party. The current definition is confusing for certain groups of institutional investors, such as mutual fund families, where the advice functions and trade processing functions are performed by different registered advisers.

²⁶ Sections 3.2 and 3.4.

²⁷ Paragraph (b) of the definition in section 1.1.

- Under the Instrument individuals and smaller entities can be considered “institutional investors” if they have a DAP/RAP trading account relationship with their dealer. The amended definition would exclude individuals, as well as any person or company that has net investment assets under administration or management of less than \$10 million.²⁸ Registered firms would no longer be required to seek trade-matching agreements or statements from such institutional investors.

(ii) *Amending the trade-matching documentation requirements*

Certain dealers and advisers have reported difficulties in entering into trade-matching agreements with, or obtaining trade-matching statements from, clients or counter-parties. The intent of the documentation requirements is to support the Instrument’s primary ITM policies and procedures requirement. We are of the view that a dealer’s or adviser’s policies and procedures should be designed to encourage their clients or counterparties to enter into trade-matching agreements or receive trade-matching statements. If a trade-matching party refuses to enter into an agreement or provide a statement, the dealer or adviser should document its efforts to enter into the agreement or receive the statement in accordance with its policies and procedures.

We are proposing to amend sections 3.2 and 3.4 of the Instrument to reflect this regulatory approach to the documentation requirements.

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

We are proposing transitional amendments to the provisions governing trade orders coming from institutional investors based outside of the western hemisphere, as a consequence of the changes to the T and T+1 deadlines.

Some stakeholders had pointed out that foreign investors do not necessarily make and communicate their settlement instructions from the same office that makes and communicates their investment decisions. We are thus proposing to clarify that an institutional investor whose settlement instructions are usually made in and communicated from a geographical region outside of the western hemisphere be included in these provisions.

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

We are proposing to make non-substantive drafting amendments to the definitions of “institutional investor”, “T+1”, “T+2” and “T+3” and certain other provisions to clarify the definitions and provisions and to reflect comments made by some stakeholders. We are also proposing to amend Form 24-101F2 and Form 24-101F5 to reflect the changes

²⁸We chose the amount \$10 million to be generally analogous with the definition “institutional customer” in IROC member Rule 2700 *Minimum Standards for Institutional Account Opening, Operation and Supervision*.

made to Form 24-101F1 and increase the number of the timeline intervals for reporting *entered* and *matched* trades.

IV. Proposed Amendments to the Companion Policy and Other Consequential Amendments

A number of consequential amendments have been made to the CP to reflect the proposed amendments to the Instrument. In addition, some of the topics in CSA Staff Notice 24-305—*Frequently Asked Questions About National Instrument 24-101 – Institutional Trade Matching and Settlement and Related Companion Policy* have been addressed by the proposed amendments to the Instrument or have been incorporated into the CP.

We are proposing an effective date for the amendments to the Instrument and Companion Policy of July 1, 2010, subject to Ministerial approval requirements in the various CSA jurisdictions. It is further proposed that, from the same date, 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* and related blanket orders granted in other CSA jurisdictions will be revoked or repealed (see CSA Notice 24-307). See further Annex E.

V. Authority for the Proposed Amendments to the Instrument and CP

In those jurisdictions in which the amendments to the Instrument and CP are to be adopted, the securities legislation provides the securities regulatory authority with rule-making authority in respect of the subject matter of the amendments.

VI. Alternatives Considered

No alternatives to the proposed amendments were considered.

VII. Unpublished Materials

As noted above under “II. Background – 1. Assessment of industry institutional trade matching (ITM) performance”, we are proposing the amendments to the Instrument and CP largely based on the findings of our analysis of the ITM data and our stakeholder discussions. These findings will be published early next year in a report of CSA staff on industry compliance with NI 24-101. We have not relied on any other significant unpublished study, report or other written materials in proposing the amendments.

VIII. How To Provide Your Comments

You must submit your comments in writing by January 28, 2010. If you are sending your comments by email, you should also send an electronic file containing the submissions (in Windows format, Microsoft Word).

Please address your comments to all of the CSA member commissions, as follows:

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Please send your comments **only** to the addresses below. Your comments will be forwarded to the remaining CSA jurisdictions.

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Please note that all comments received during the comment period will be made publicly available. We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. We will post all comments received during the comment period to the OSC website at www.osc.gov.on.ca to improve the transparency of the policy-making process.

IX. Questions

Please refer your questions to any of the following:

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Annex A contains the proposed amending instrument for the amendments to NI 24-101. Annex B contains a blackline showing the proposed amendments relative to the current version of NI 24-101. Annex C contains the proposed amending instruments for the proposed changes to CP, with Annex D providing the corresponding blackline. Annex E contains local material, where applicable.