CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CANADIAN SECURITIES ADMINISTRATORS' (CSA)
NOTICE 24-307
Exemption From Transitional Rule:
Extension Of Transitional Phase-In Period In National Instrument 24-101
— Institutional Trade Matching And Settlement

April 4, 2008

Purpose of this Notice

The purpose of this Notice is to inform stakeholders of the decision of the Canadian Securities Administrators (CSA or we) to extend the transitional phase-in period in National Instrument 24-101 *Institutional Trade Matching and Settlement* (NI 24-101 or the Instrument) by an additional 24 months. This decision will defer the requirement to match DAP/RAP trades by midnight on trade date (T) to July 1, 2010.

Background

Overview of NI 24-101
The Instrument and related Companion Policy 24-101CP (the CP) 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.

Under the Instrument, registrants 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:

- presently, noon on the business day following the day on which the trade was executed (noon on T+1 matching requirement);
- starting July 1, 2008, midnight on the day on which the trade was executed (midnight on T matching requirement).[1]

When trading for or with an institutional investor, registered dealers and advisors must also enter into *trade-matching agreements* with other *trade-matching parties* or, alternatively, obtain signed *trade-matching statements* from other trade-matching parties (documentation requirement).[2] In addition, registrants must complete and deliver an exception report on Form 24-101F1 under the Instrument for any calendar quarter in which less than a certain percentage

[1] Subsections 3.1(1), 3.3(1) and 10.2(1).
[2] Sections 3.2 and 3.4.

of their executed DAP/RAP trades were matched by the specified deadline (exception reporting requirement).[3] Under the current transitional provisions of NI 24-101, the requirement to deliver an exception report if less than 95 percent of a registrant's DAP/RAP trades in a calendar quarter are matched by midnight on T is being gradually phased in by January 1, 2010.

Implementation of NI 24-101

In May 2007, we formed a CSA-Industry Working Group (Working Group) to assist in implementing the Instrument and identifying ongoing issues. The Working Group is comprised of representatives of sell-side, buy-side and custodian firms, industry associations (Canadian Capital Markets Association (CCMA) and Investment Industry Association of Canada (IIAC)), the Investment Dealers Association of Canada (IDA), CDS Clearing and Depository Services Inc. (CDS), and CSA staff. See CSA Staff Notice 24-304—*CSA-Industry Working Group on National Instrument 24-101*, dated July 6, 2007.

In December 2007, we published CSA Staff Notice 24-305—*Frequently Asked Questions About National Instrument 24-101* (FAQs) to assist market participants in complying with NI 24-101.

Preliminary impact of NI 24-101

The Instrument has been largely successful in encouraging market participants to address institutional trade back-office problems and improve their trade settlement processes and systems. The CCMA confirms that many processes have been re-engineered and become electronic, resulting in some efficiency gains and straight-through processing (STP) improvements throughout the industry.

According to CDS statistics, institutional trade affirmation rates on T+1 have improved significantly in the last three years.[4] In April 2004, when NI 24-101 was first published for comment, only 47 percent of institutional trades were affirmed by midnight on T+1. In December 2007, 81.2 percent of institutional trades were affirmed by midnight on T+1, representing an increase of 34 percentage points since April 2004. Institutional trade affirmation rates on T during the same period have also improved. In April 2004, only 3 percent of trades were matched by midnight on T. This rose to almost 29.3 percent of trades in December 2007, representing an increase of 26 percentage points during the period.

Recent industry concerns

Despite NI 24-101's positive impact, the CCMA has raised concerns about the overall readiness of the Canadian capital markets to comply with the midnight on T matching requirement. The securities industry still has much work to do to achieve the exception reporting targets for the midnight on T matching requirement. The CCMA submits that most industry participants will require major system and process enhancements to increase matching rates by midnight on T. Industry participants need more time to allow their batch processes to evolve to real-time. Our discussions with the Working Group and our review of the current CDS trade matching statistics generally confirm the CCMA's concerns.

[3] Part 4 and subsection 10.2(3).

[4] See CCMA Website at: http://www.ccma-acmc.ca/en/performance.html

Deferring the Move to Matching on T

We believe that the market efficiency gains and cost benefits of moving to matching on T that were originally intended with NI 24-101 will be negatively impacted if the transitional phase-in period is not extended, as many market participants are not ready for such a move. While the policy rationale underlying the move to matching on T remains sound, we believe the timing for imposing such a move should be reassessed. Among other reasons, there is no indication that international markets have markedly improved institutional trade affirmation rates since the 2003 Group of Thirty (G-30) Report *Global Clearing and Settlement: A Plan of Action.*[5] Agreement on global standards for automated institutional trade matching remains a remote prospect at this time. Also, it does not appear that such markets are planning to shorten the current T+3 settlement cycles.

We believe the decision to move to matching by midnight on T should, for the time being, largely remain a business-driven decision. Consequently, we are deferring the current July 1, 2008 effective date in the Instrument for the midnight on T matching requirement to July 1, 2010. We are also extending the transitional phase-in period in the Instrument for the registrant exception reporting requirement (the phase-in reporting period) by an additional period of 24 months. This will allow us to better assess the industry's overall matching performance in a noon on T+1 environment. It will also enable us to undertake a review of the Instrument and CP this year, including the documentation and exception reporting requirements and the timing for implementing the midnight on T matching requirement.

Nature of Relief

CSA jurisdictions (apart from Ontario) have granted, or are expected to grant, relief through blanket orders (blanket orders) to defer the midnight on T matching requirement to July 1, 2010 from the current July 1, 2008 date. The blanket orders will also extend the phase-in reporting period to January 1, 2012 from the current January 1, 2010 date. In Ontario, the Ontario Securities Commission (OSC) has adopted local Rule 24-502 — *Exemption from Transitional Rule: Extension of Transitional Phase-In Period in National Instrument 24-101 — Institutional Trade Matching and Settlement* (local rule) as an Ontario-only amendment to NI 24-101 to effectively achieve the same result.

The blanket orders and local rule specifically amend subsections (1), (2) and (3) of section 10.2 of NI 24-101. The amendments defer the midnight on T matching requirement to July 1, 2010, extend the phase-in reporting period to January 1, 2012, and make consequential amendments to the percentages and dates for exception reporting purposes. As a result, the coming-into-force and transitional provisions for the midnight on T matching and exception reporting requirements of the Instrument are as follows:

[5] See *Global Clearing and Settlement: A Plan of Action*, report of the G-30 dated January 23, 2003. The report's Recommendation 5: Automate and Standardize Institutional Trade Matching, recommended 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 the day of the trade.

For DAP/RAP trades executed:	**Matching deadline for trades executed anytime on T (Part 3 of Instrument)**	**Percentage trigger of DAP/RAP trades for registrant exception reporting (Part 4 of Instrument)**
after September 30, 2007 but before January 1, 2008	12:00 p.m. (noon) on T+1	Less than 80% matched by deadline
after December 31, 2007 but before July 1, 2010	12:00 p.m. (noon) on T+1	Less than 90% matched by deadline
after June 30, 2010 but before January 1, 2011	11:59 p.m. on T	Less than 70% matched by deadline
after December 31, 2010 but before July 1, 2011	11:59 p.m. on T	Less than 80% matched by deadline
after June 30, 2011, but before January 1, 2012	11:59 p.m. on T	Less than 90% matched by deadline
after December 31, 2011	11:59 p.m. on T	Less than 95% matched by deadline

Questions

If you have any questions about this Notice, the blanket orders, the local rule, or NI 24-101 generally, please contact the following CSA staff:

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