

CCMA Operations Working Group Buyside/Custodian Task Force Summary Report

Note: All times shown are Eastern Time

Overview

The Buyside/Custodian Task Force was established to identify and document T+1 ITP securities settlement roadblocks and to recommend processing timeline revisions to accelerate settlement on T+1. Members of the taskforce included Institutional Clients (Buy-Side firms), Broker Dealers and Custodians.

To fulfil this mandate fact finding sessions were conducted with buyside firms with the results of these sessions being presented/reviewed by the task force members at the bi-weekly meetings of the taskforce.

Fact-Finding Session Results

Fourteen individual Institutional fact-finding sessions were conducted with thirteen sessions composed of Pension Plans and large Institutional Investments managers. The Custodian for these clients were also present at these sessions. The results of these sessions identified the following:

- All 13 Institutional/Pension clients are using either proprietary systems or vendor solutions (SS&CNet, CTM, etc.) to report allocations to Broker Dealers and Custodians
- Allocations are reported to Broker/Dealers and Custodians simultaneously.
- These Institutional clients have indicated that they are reporting 90% to 97% of allocations to their respective Custodians on Trade date (Custodian have concurred with this comment during the sessions).
- Custodians have indicated that automated processes are in place to confirm trades if trades entered in CDSX by the broker dealer can be matched to the client instructions received by the custodian.

New March 2023 ITP Stats (see **Attachment 1**) generated by CDS, which provide an alternate view of the existing ITP reporting statistics, indicate that:

- 69% of trades are reported by 7:00 p.m. on T (up from 61% in 2021)
- 87% of trades are reported by midnight on T (up from 84% in 2021)
- 87% of trades are reported by 4:00 a.m. on T+1 (up from 85% in 2021)

Trade confirmation stats indicate:

- 29% of trades are confirmed by 7:00 p.m. on T (up from 23% in 2021)
 - Represents 42% of entered trades.
- 41% of trades are confirmed by midnight on T (up from 33% in 2021)
 - Represents less than 50% of entered trades.
- 46% of trades are confirmed by 4:00 a.m. on T+1 (up from 42% in 2021)
 - Represents 51% of entered trades.

Overall, less than 90% of trades are reported by 4:00 a.m. on T+1 and only 51% of trades entered on T are confirmed by 4:00 a.m. on T+1. This mismatch between the CDS data and the information obtained at the fact finding may be the result of non-real time processing/matching of entered trades.

Current processing timelines including Client/Custodians reporting deadlines and any service level agreements (SLAs) need to be reviewed and amended as required to ensure that trade reporting by the broker/dealer is close to or at 100% in sufficient time for the custodians to confirm the trade if the expected CSA deadline for confirmed trades of 3:59 a.m. on T+1 is to be met. The internal processing timelines whether batch or real-time at the Institutional client, the Broker Dealer, and the Custodian (including any vendor processing timelines) need to be reviewed and revised to meet the deadline. This will likely require revisions/upgrades to the technological solutions currently in place between all affected parties (Institutional Client/Broker Dealer/Custodian)

Recommended Action:

1. Custodians review and update Client agreements and client reporting deadlines to meet the new CSA deadlines. These changes should be implemented at least 6 months prior to the May 2024 transition date.
2. Custodians revise client agreements to require that all institutional clients regardless of size report allocations in an electronic format (FIX, Swift etc.) either through internal proprietary systems, custodian proprietary systems or vendor solutions.
3. Custodians develop/implement reporting solutions to track the receipt of Client instructions vs the receipt of trade notification messages from CDS and follow-up with clients for corrective action as required.
4. Custodians develop/implement reporting solutions to track the frequency and volume of mismatches and follow-up with clients for corrective action as required.
5. CDS generate the alternate view of the STP reporting stats monthly at the Custodian level rather than an aggregate industry level commencing at least 6 months prior to the May 2024 transition date. CCMA Operations Working Group Monitor these reports and follow up if no significant incremental improvement in trade confirmations is observed during this period.
6. Institutional clients and Broker Dealers review and revise/update current technologies (including Order Management Systems, messaging solutions, etc.), processes and procedures to ensure that trade/allocation details are communicated so that transactions are entered in CDSX at the earliest opportunity, but no later than 7:30 p.m. on trade date, to facilitate the trade confirmation process.

National Instrument 24-101 *Institutional Trade Matching and Settlement*

The CCMA prepared a summary document titled “Parties subject to National Instrument 24-101 regarding *Institutional Trade Matching – Key Items*” (see **Attachment 2**), which has been presented to and reviewed by the CCMA’s Legal and Regulatory Working Group as well as the Task Force. The document provides an overview of NI 24-101 and its Companion Policy with regards to the requirements and guidance for trade matching parties. Trade matching parties that are Registered Dealers and Registered Advisers are required to have policies and procedures to achieve 90% matching no later than the trade matching deadline and must encourage their trade matching counterparts to enter into a trade matching agreement or provide a trade matching statement. A trade matching agreement or trade matching statement specifies that the trade matching party (whether they be a Registered Adviser, a Registered Dealer, an Institutional Investor, or a Custodian) enforces its policies and

procedures to achieve trade matching as soon as possible after a trade. Under NI 24-101, Institutional Investors and Custodians are not mandated to have trade matching policies and procedures.

Various investment managers have advised that they do not fall into the category of “Adviser” under securities law and as such are not legally required to implement the trade matching procedures. However, these investment managers have indicated that they have instituted processes to voluntarily meet the matching requirements (i.e. percentages and timelines) and intend on continuing to meet these requirements. While it is encouraging that such voluntary participation is occurring, the lack of mandatory trade matching requirements for all trade matching parties has the potential to cause serious barriers to achieving timely trade matching, especially in a T+1 or shorter environment.

Recommended Action:

The CCMA request clarity from the CSA as to the scope of NI 24-101 with respect to: investment managers that are not advisers, and custodians. To the extent that the CSA is of the view that these entities should be subject to the mandatory requirements (as Registered Advisers and Registered Dealers are), it should be proposed that NI 24-101 be amended. One approach may be to require (rather than encourage) each trade matching party to enter into a trade matching agreement or provide a trade matching statement to a Registered Dealer or Registered Adviser prior to opening a trading account.

Other Issues/Recommendations

Final decision from the CSA on the NI 24-101 deadline

The uncertainty of the required deadline presents issues for all parties in getting the required resources to be able to engage in the projects that will be necessary to address the need for faster confirmation of trades. It is recommended that CCMA continue its efforts to obtain a final decision on the acceptability of the proposed 3:59 a.m. deadline and the issuance of the final version of the revised instrument at the earliest opportunity.

CDS ITP Statistics Extract

March 2023

INSTITUTIONAL TRADE REPORT CARD - ENTERED AND CONFIRMED (March 2023)								
TMX CDS	OVERALL ENTERED				OVERALL CONFIRMED			
	# OF TRADES (DEBT+EQUITY)	% INDUSTRY	TOTAL VALUE (DEBT+EQUITY)	% INDUSTRY	# OF TRADES (DEBT+EQUITY)	% INDUSTRY	TOTAL VALUE (DEBT+EQUITY)	% INDUSTRY
T 4 PM	33,858	14%	305,269,784,106	59%	21,051	9%	185,332,879,269	42%
T 7 PM	168,957	69%	388,886,087,142	75%	69,155	29%	248,065,034,666	56%
T 12 AM	211,283	87%	435,938,613,399	85%	97,664	41%	266,830,604,127	60%
T+1 4 AM	212,278	87%	436,937,461,606	85%	108,143	46%	271,957,836,990	62%
T+1 4 PM	236,536	96%	485,608,024,438	94%	225,756	95%	407,201,216,800	92%

Parties Subject to NI 24-101 re Institutional Trade Matching – Summary of Requirements

Securities legislation definitions

"In the business of"	Registration Categories ¹
Adviser — advising others as to the investing in or the buying or selling of securities	(1) Portfolio Manager (includes discretionary and non-discretionary); (2) Restricted Portfolio Manager (e.g. provides advice on a sector or industry, such as real estate, oil and gas, etc.)
Dealer — trading in securities as principal or agent	(1) investment dealer; (2) mutual fund dealer; (3) scholarship fund dealer; (4) exempt market dealer; (5) restricted dealer

NI 24-101 definitions

Trade-Matching Party ("TMP") — Registered Adviser, institutional investor, Registered Dealer, custodian.
Trade-Matching Agreement ("TMA") — agreement among TMPs setting out the roles and responsibilities of the TMPs re: matching, including, without limitation, that TMPs agree to establish, maintain and enforce policies & procedures ("P&P") designed to achieve matching as soon as possible ("ASAP") after a trade.
Trade-Matching Statement ("TMS") — statement of a TMP confirming that it has established, maintains and enforces P&P designed to achieve matching ASAP after a trade.

Matching Requirements for Registered Dealers & Registered Advisers

Registered	Cannot	Have P&P to:
1. Dealer	• execute trade	UNLESS
2. Adviser	• give order to dealer to execute trade	
3. Dealer or Adviser	• open account to execute trade	
		→ achieve 90% matching by the deadline
		→ achieve 90% matching by the deadline
		→ encourage each TMP to enter into TMA or provide TMS

Companion Policy to NI 24-101 – Noted Items (Summarized)

1.2 (1) *Parties to institutional trade* — typically at least three parties:

- Registered Adviser or other *buy-side* manager acting for an institutional investor(s) in the trade
- Registered Dealer
- Custodian

1.2 (2) *Matching* — ... a Registered Adviser or other buy-side manager is required to report trade details and provide settlement instructions to its custodian.

1.3(5) *TMP* — An institutional investor, whether Canadian or foreign-based, may be a TMP. As such, it, or its Registered Adviser that is acting for it in processing a trade, should enter into a TMA or provide a TMS ... A custodian that settles a trade on behalf of an institutional investor is also a TMP and should enter into a TMA or provide a TMS.

¹ See s. 26(2) and s. 26(6) of the *Securities Act* (Ontario) and for outside of Ontario, s. 7.1(1) and s. 7.2(1) of NI 31-103.

2.3 (1) *Establishing, maintaining and enforcing policies and procedures* — (a) Under sections 3.2 and 3.4, a Registered Dealer's or Registered Adviser's P&P must be designed to encourage TMPs to (i) enter into a TMA with the Registered Dealer or Registered Adviser or (ii) provide or make available a TMS to the Registered Dealer or Registered Adviser. The purpose of the TMA or TMS is to **ensure** that all TMPs have established, maintain, and enforce appropriate P&P designed to achieve matching of a DAP/RAP² trade ASAP after the trade is executed. If the Registered Dealer or Registered Adviser is unable to obtain a TMA or TMS from a TMP, it should document its efforts in accordance with its P&P.

2.3 (4) *Monitoring and enforcement of undertakings in trade-matching documentation* — Registered Dealers and Registered Advisers should use reasonable efforts to monitor compliance with the terms or undertakings set out in the TMAs or TMSs in accordance with their P&P. Registered Dealers and Registered Advisers should also take active steps to address problems if the P&P of other TMPs 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 P&P.

Determination of appropriate policies and procedures

2.4 (1) *Best practices* — a party should consider the industry's generally adopted best practices and standards for ITP in establishing its P&P and incorporate the P&P into its regulatory compliance and risk management programs.

Standardized documentation

6.1 An SRO may require its members to use, or recommend that they use, a standardized form of TMA or TMS 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 TMA or TMS to be used by all relevant sectors in the industry (dealers, buy-side managers and custodians).

² See s. 1.3(4) of Companion Policy 24-101 CP *Institutional Trade Matching and Settlement*.