

# CANADIAN SECURITIES MARKETPLACE BEST PRACTICES & STANDARDS

## DIRECT REGISTRATION SYSTEMS (DRSs)



**Dematerialization Working Group**

**Release Date: December 2003**

## EXECUTIVE SUMMARY

### 1.0 Background

The securities industry best practices and standards set out in this document for direct registration systems (DRSs) complement those issued by the Canadian Capital Markets Association (CCMA)<sup>1</sup> on June 9, 2003 with respect to institutional trade processing, entitlements and securities lending.<sup>2</sup>

Together, these best practices and standards are key to industry efforts to increase efficiency, minimize risks, reduce trade processing costs and improve customer service through straight-through processing (STP). Industry-wide STP means seamlessly passing financial information electronically – on a timely, accurate, system-to-system basis – to all parties in the end-to-end securities transaction chain without manual handling or redundant processing. The U.S. considers STP a pre-requisite to shortening the settlement cycle to the day following trade date (T+1), which remains a target that will be revisited once STP has been achieved. Industry-wide STP is critical both to helping position firms for future growth and to maintaining the competitiveness of Canada's capital markets.

Members of the CCMA strongly believe that, to promote STP and other efficiencies in the marketplace, the default for the issuance of all securities should be electronic – until this is established as a rule, this should be a best practice. Investors wishing to obtain certificates could continue to do so on request.

### 2.0 Dematerialization – Replacing Paper with Electronic Securities Holdings in the Nominee Model

Most investors recognize the value of electronic holdings and the significant majority of securities in Canada are already held and traded in electronic form with settlement in Canada's central securities depository. Known as the **nominee model**, securities are reflected as electronic records in an account registered in the name of a dealer or third-party administrator on behalf of the beneficial owner of the account. This process works well in Canada as it does in the U.S. There is a continuous expansion in the number and type of securities eligible for deposit with the Canadian Depository for Securities Limited (CDS) (Canada Savings Bonds were added in September 2003). As well, the

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<sup>1</sup> The CCMA is a federally incorporated, not-for-profit organization, launched to identify, analyze and recommend ways to meet the challenges and opportunities facing Canadian and international capital markets. It brings together industry leaders and technical experts from all sectors to reduce the costs and risks of our current clearing and settlement systems. The CCMA works with industry associations, stakeholders and regulators across the country and key U.S. and international associations.

<sup>2</sup> Roles and responsibilities for potential best practices and standards related to retail trade processing (e.g., investment funds) are discussed in the retail white paper addendum published in September 2003. In developing retail trade processing best practices and standards, the finalized institutional trade processing and entitlements best practices and standards will also be reviewed to determine if there is any impact on retail debt and equity transactions.

September 2003 conversion of equities to CDS's unified clearing and settlement vehicle, CDSX, designed specifically for STP in a same-day and T+1 settlement environment, was a major step forward in terms of efficiency.

### **3.0 Direct Registration Systems – Electronic Name-On-Register Option**

For a variety of reasons some investors prefer to hold securities in their own name outside of the industry's indirect nominee system. Traditionally, these holdings are represented by share certificates. As part of dematerialization initiatives, Canadian transfer agents intend to introduce a book-entry, or electronic, equivalent name-on-register option that will parallel functionality available in the U.S. since 1997. This environment is known as a Direct Registration System or DRS. DRS in the U.S., used by 38 million investors, allows investors in the direct registration system to represent their holdings in electronic form (with the option, if required, to issue a certificate at any time) and complements the securities industry's nominee model. Investors through their investment dealers are able to move their securities electronically, with security and ease, between these two inter-connected book-based environments.

### **4.0 Purpose**

The CCMA is seeking specific comments from transfer agents, issuers, investment managers, broker/dealers, custodians, utilities, marketplaces, service providers, vendors, investors and other interested stakeholders on the DRS deadlines, implementation issues and other questions that have been listed at the back of this document as **Appendix #1**. The Canadian Securities Administrators (CSA) will be re-issuing its STP Readiness Survey in early 2004 and, if necessary, additional mechanisms may be introduced if progress is considered insufficient to meet the major milestone of 100-per-cent best-practices-and-standards compliance and industry-wide STP by June 2005. Please review this document carefully within your organization (front, middle and back office) and with your counterparties and vendors to assess the impact that these changes will have on both your organization and the markets in which your firm operates and to ensure that these targets can be met.

### **5.0 Methodology**

These DRS best practice and standards are the result of consultation with a broad range of Canadian industry representatives under the auspices of the CCMA. Building on industry white papers and documentation developed over the last three years, they reflect best practices and standards for DRSs expected to operate in the Canadian marketplace. They were developed by leveraging similarities with the U.S. marketplace, while recognizing the unique nature of Canadian capital markets. The work was undertaken by members of the CCMA's Dematerialization Working Group and by the Securities Transfer Association of Canada.

## 6.0 Scope

These DRS best practices and standards apply to domestic transactions. They are proposed minimum requirements that Canadian participants performing the noted activities must meet to achieve cross-industry STP.

## 7.0 Major Milestones

The CCMA's major milestones for STP are:

<b>December 2003:</b>	Final industry standards and best practices published
<b>December 2004:</b>	Legislative, regulatory and rule changes enacted
<b>June 2005:</b>	Industry-wide STP implemented 100-per-cent compliance with best practices and standards.

## 8.0 DRS Best Practices and Standards Highlights

As noted above, a key best practice is that issuers issue, and security holders hold, securities in electronic form. It is recommended that a specific deadline be developed, after which the default for securities issuance would be in electronic format unless an investor requested a certificate.

As mentioned, the nominee model works well and is the key premise on which Canada's move to STP is founded. Best practices and standards for book-based nominee processing, which takes place through CDS, are reflected in CDS operational procedures.

In terms of an electronic name-on-register option, new best practices and standards are required for activities created by the development of DRSs and their electronic interaction with CDS's new CDSX participant messaging systems. They are best practices and standards pertaining to the completeness and edits of data transmitted electronically by all participants in the processing chain and the data that should be collected in standard form. To be embodied in the DRS Best Practices and Standards of the Securities Transfer Association of Canada (STAC), they include:

- DRS ownership statements will be issued within two business days of any change affecting the number of DRS securities held in a DRS holder's account; statements for inactive accounts (e.g. , where there has been no change to account holdings in the past 12 months) will be delivered to holders a minimum of once per year
- Ownership statements from various transfer agents will be similar in format and location of key data elements and will be personalized with transfer agent and/or with issuer identification
- DRS statements that are lost/never received will be replaced on request or made available to the DRS holder within two business days
- Discrepancies between the DRS holder's recordkeeping and the DRS ownership statement received in writing will be responded to within 10

- business days for discrepancies identified within six months of issuance; for discrepancies older than six months, within 20 business days
- A transfer agent that assumes transfer agent services will send to the DRS holder written notice of this assumption together with a new ownership statement and any change to his/her shareholder reference number (SRN) confirming the effective date of the DRS holdings converted within two business days after the effective date
  - Ownership statements received by a financial institution need not be forwarded to the transfer agent once the financial institution has made its CDSX deposit as DRS is designed as a true STP process
  - The “paperless legals” initiative as proposed by both the U.S. Securities Industry Association (SIA) and CCMA committees, will eliminate the need for participants to submit other forms of support documents such as corporate resolutions and estate documents
  - All CDSX DRS deposits must include the following fields or face rejection and possible fees from the transfer agent:
    - Shareholder reference number recorded in the certificate number field on the CDSX deposit
    - Shareholder registration as shown on the ownership statement
    - An indicator to reflect if the financial institution is forwarding additional support material, e.g., corporate resolution, estate documentation, etc..

Other best practices and standards already exist for transfer agents (e.g., certificate request turnarounds, inquiry response turnarounds) and remain unchanged but will formally be described and also be published as part of the STAC Best Practices and Standards.

## **9.0 Request for Comments**

Given the extensive consultation that has taken place, CCMA members believe that the best practices and standards developed for DRS are reasonable and should be implemented to allow STP by June 2005. The CCMA is requesting input regarding any oversights or impediments to implementation, with clear examples of the problem and alternative ways to address issues raised. Please send written comments, using the Response Sheet provided in Appendix #1, **by January 30, 2004**, to:

Canadian Capital Markets Association  
Attention: Anna Brill  
10<sup>th</sup> Floor, 85 Richmond Street West  
Toronto, Ontario, Canada M5H 2C9  
E-mail: [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca)  
Fax: 1 416 365-8700  
Tel: 1 416 815-2046.

## 10.0 Additional Information

For additional information on STP and its benefits, the CCMA initiatives that these best practices and standards are based on, the institutional, entitlements and securities lending best practices and standards issued in June 2003 or the CCMA:

- contact your industry association
- review the detailed white papers and other material on [www.ccma-acmc.ca](http://www.ccma-acmc.ca)  
or
- e-mail the CCMA at the co-ordinates above.

Information relating to the U.S. STP initiative is available at [www.sia.com](http://www.sia.com). (**Note:** For an explanation of terminology used in this document, refer to the CCMA's Glossary and Acronyms on the CCMA's Web site, [www.ccma-acmc.ca](http://www.ccma-acmc.ca), Best Practices and Standards page, Definitions section).

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## Section 1: BEST PRACTICES AND STANDARDS – DIRECT REGISTRATION SYSTEM (DRSs)

### 1.0 Highlights

**Goal:** The ultimate goal of dematerialization is to facilitate the electronic processing of trades to or from security holders through a trade's entire life cycle without manual handling or duplicate/redundant processing by eliminating the need to hold a certificate or other physical evidence of ownership and by allowing the purchase or sale of securities without requiring the delivery or receipt of security certificates.

**Problems:** The problems that STP seeks to address include the unnecessary costs, risk of loss/replacement costs and inconvenience that arise from holding, transferring, safekeeping and pledging securities in certificated form. These issues, which exist today, become more of a problem in an STP or T+1 environment. As well, the legal foundation for securities holding has not kept pace with evolving market practice, which is away from certificate-based and towards book-based ownership.

**Current practices/standards, rules and metrics:** Traditional certificate-based processing is well defined and documented with appropriate and measurable timeframes. Book-based processing, which currently takes place through The Canadian Depository for Securities Limited (CDS), is covered in CDS operational procedures and rules.

**Required best practices and standards, rules, governance, and metrics:** As noted above, the nominee model works well and is well defined through CDS procedures and rules. This document recommends as a best practice the default issuance in electronic form of all securities to complement the nominee model, and identifies industry best practices, standards and controls created by the Securities Transfer Association of Canada (STAC) for the development of Direct Registration Systems – an electronic name-on-register alternative to the certificated model – and their electronic interaction with CDS's new CDSX participant messaging system. New best practices and standards pertaining to the completeness and edits of data transmitted electronically by all participants in the processing chain and the data that should be collected in standard form are required.

Legislative/regulatory changes to support the milestones include adoption across all relevant jurisdictions of the *Uniform Securities Transfer Act* (recently released in draft form) as well as (i) changes to some provincial company acts to specifically provide for dematerialization of securities by allowing ownership statements to replace certificates and (ii) changes to permit electronic ways to achieve the goals of legending on certificates. The proposed *Uniform Securities Transfer Act* (USTA) will play a role in supporting the dematerialization of securities in both indirect (nominee) and direct (DRS) holding systems, modernizing the legal foundation of commercial law governing securities holding and settlement systems without forcing market participants to change their current practices. It is critical

that the USTA enacted in each provincial or territorial jurisdiction be identical across Canada to avoid the serious difficulties investors seeking to pledge, or otherwise deal, with their assets might face – an issue of concern raised in a U.S. report on an earlier version of the U.S. Uniform Commercial Code.

## 2.0 Current Problems

Current impediments to full book-based ownership and problems in terms of certificate holding include:

- Costs arising from the issuance, transfer, delivery, safekeeping and record-keeping processes supporting physical certificates – costs ultimately born by the issuer and their investors
- Investor inconvenience – investors currently have to deliver their physical certificates in good transferable form to a broker in time for the sale and the investor's challenges in doing this can be access restricted to a financial institution's business hours, completing the transfer panel on the reverse of the certificate, getting the signature guaranteed by an authorized party, etc.
- Risk and cost of losing a physical certificate – the replacement of certificates lost, destroyed or stolen can be costly and time-consuming, often requiring an affidavit of loss and the purchase of a surety bond costing two to six per cent of the face or market value of the securities being replaced
- Costs to intermediaries of fraudulent, forged or lost certificates.

**References:** Refer [www.ccma-acmc.ca](http://www.ccma-acmc.ca), Media/publications page, White Papers – February 13, 2003: CCMA Dematerialization White Paper Addendum November 5, 2001: CCMA Dematerialization White Paper.

## 3.0 Current Best Practices and Standards, Rules and Metrics

Traditional certificate-based processing is well defined and documented with appropriate and measurable timeframes. Current industry roles and responsibilities for stock transfer are outlined in the Registration and Transfer of Securities section of "Introduction to Stock Transfer and Bond Trusteeship Operations, June 2001" of the Institute of Canadian Bankers.

Current service levels are documented and governed by CDS transfer agent bilateral agreements and similar standards for U.S. transfers are set out in Depository Trust and Clearing Corporation (DTCC) agreements.

Specifically, Canadian standards for regular transfers are:

- Through CDS 48 hours after receipt of all material at the transfer office
- Over-the-counter/direct mail 72 hours after receipt of all material at the transfer office.

There are shorter rush services available at all transfer offices. Other processing

standards are based on record, payable and expiry dates.

In a dematerialized world, the same processing steps occur; however, new technology (CDS's recently built clearing and settlement platform, CDSX, and, in the future, transfer agent DRSS) means that current methods of notification and validation of book-entry transfers will change.

Commercial legislation in Canada does not support the direct or indirect holding, transfer and pledging of uncertificated securities as effectively as it should. Furthermore, legislation and regulations perpetuate the use of legends on certificates.

#### **4.0 Dematerialization Target STP Milestones**

- ▶ **July 2004:** Implement book-based direct registration systems (DRSS) for issues incorporated in jurisdictions that provide for an alternative to issuing a share certificate
- ▶ **December 2004:** Have 50 issuers using book-based DRSS
- ▶ **December 2004:** Enact any outstanding legislative, regulatory or rule changes needed (e.g., elimination of legal requirement to hold or legend physical certificates, book-based issuance as the default) for effect by June 2005
- ▶ **July 2005:** Achieve 100 per cent of new securities issued electronically.

#### **5.0 Proposed Best Practices and Standards**

To develop best practices and standards, the CCMA's Dematerialization Working Group examined its white paper and white paper addendum, comments received on these, developments in the Canadian nominee system and material developed in the U.S. and elsewhere. In the U.S., the Securities Industry Association (SIA) is "rais[ing] the possibility of, and solicit[ing] comments on [the Depository Trust and Clearing Corporation's (DTCC's)] establishing a securities ownership default "standard" that firms would follow (e.g., upon purchase of a security, ownership would default to street-name [nominee] registration or, if the investor requests direct ownership, then it would default to DRS, if available.)"

Apart from regulatory and self-regulatory bodies such as the Canadian Securities Administrators (CSA), Toronto Stock Exchange and others, which the CCMA will be asking to put in place rules requiring the issuance of securities to default to electronic unless a certificate is requested by an investor or must be in certificate form to meet legal (including company by-law) requirements, there will be two main industry groups that have developed or will develop the best practices and standards applicable in a dematerialized environment:

- **The Canadian Depository for Securities Limited:**

In the nominee model, market participants follow the documented policies and deposit and withdrawal procedures set out in CDSX operational procedures for

deposit and withdrawals through CDS:

- CDSX procedures (deposit and withdrawal)
  - CDS transfer agent bilateral agreements
  - Signature guarantee/electronic medallion to confirm validity of endorsement or assignment
  - Cross-border DRS deposits/withdrawals (a U.S. investor wishing to deposit a Canadian DRS position through a U.S. broker and the reverse in Canada).
- **The Securities Transfer Association of Canada:**
    - ***Direct Registration System***
      - STAC Operating Procedures for DRS through CDSX
      - Ownership statement (format, frequency and timing)
      - Security Reference Number format and how the security holder is provided with the number
      - Business continuity planning
    - ***Dematerialization of Certificates***
      - Issued from Treasury
      - By deposit into CDS & Co. (CDS's nominee)
      - By withdrawal from CDS & Co.
      - By surrendering certificates directly to the transfer agent to be cancelled and the holding added to DRS.

CDSX operational procedures are available through CDS. Legal changes are reflected in the CCMA's Detailed Required Amendments List or DRAL (see [www.ccma-acmc.ca](http://www.ccma-acmc.ca), Media Publications, White Papers). The other best practices and standards are reproduced in the table below:

## DIRECT REGISTRATION SYSTEMS (DRS) BEST PRACTICES AND STANDARDS

#	Activity	From	To	Timing	Market Practice/Standard	Governing Body/ Compliance Measure	Benchmarking/ Metrics
1.	<b>Issuance</b>	Issuer	Depository Agent (e.g., transfer agent or CDS)	At time of issuance	Issuance from treasury in book-entry form unless certificates are specifically requested.	Securities Transfer Association of Canada (STAC) Best Practices and Standards, Transfer agents, Regulatory Services Inc., CDS,	Securities Transfer Association of Canada (STAC), Transfer agents, Regulatory Services Inc., CDS
2.	<b>DRS Deposit through CDSX</b>	FI/CDSX Participant	TA	Immediate (within minutes, with exceptions noted)	<p>When depositing DRS shares to a participant's CDS account, the participant makes a normal deposit request through CDSX, entering the shareholder reference number obtained from the client in the certificate number field and the registration of the holder in the appropriate CDSX registration fields. There is no requirement to forward the DRS ownership statement to the transfer agent (TA).</p> <p>DRS deposits made through CDSX are to be confirmed or rejected by the TA within minutes of receiving the required information by the TA validating the deposit.</p> <p>If additional support information is being forwarded by the financial institution (FI), extra time is required for the TA to receive the material and validate the deposit.</p> <p>Because of the (batch) design of CDSX deposits, if the participant includes certificates and DRS in the same CDSX deposit request, the entire deposit of securities will not be "validated or rejected" until the certificates are received by the TA. Normal turnaround for certificated deposits is two business days after receipt by the TA.</p> <p>As a result, FIs wishing to receive immediate credit for DRS deposits are advised to ensure certificates are not included with ownership statement shares on the same deposit request.</p>	Securities Transfer Association of Canada (STAC) Best Practices and Standards CDS Transfer Agent Agreement	None proposed unless further analysis reveals they are required.
3.	<b>Finality of</b>	TA	FI	Immediate	As per the TA agreement with CDS (Section 4.5	CDS Transfer Agent	None proposed

## DIRECT REGISTRATION SYSTEMS (DRS) BEST PRACTICES AND STANDARDS

#	Activity	From	To	Timing	Market Practice/Standard	Governing Body/ Compliance Measure	Benchmarking/ Metrics
	<b>Transfer</b>			(within minutes)	Representation and Warranty on Deposit), all deposits confirmed by the transfer agent through CDSX have the same effect as if the TA had issued securities in CDS nominee name.	Agreement	unless further analysis reveals they are required.
4.	<b>DRS Deposits Rejected through CDSX</b>	TA	CDSX Participant	Immediate (within minutes)	Transfer agents will confirm or reject and advise of the reason for the rejection by use of the reject codes specified in the CDSX procedure manual, plus supplementary comments as required, in the comment field provided.	Securities Transfer Association of Canada (STAC) Best Practices and Standards and CDSX Operating Procedures	None proposed unless further analysis reveals they are required.
5.	<b>Notice of Assumption or Termination of Transfer Agent Services</b>	TA	CDS	On or before the later of 10 calendar days prior to effective date or date of notice	<p>A transfer agent that ceases to perform transfer agent services on behalf of an issuer of securities... shall send written notice of such termination to the... depository on or before the later of 10 calendar days prior to the effective date... or the day the transfer agent is notified...</p> <p>From time to time, services are suspended or terminated by a transfer agent and no other TA is immediately appointed. When this occurs there is a process whereby the issue is "cease traded" by the exchange until a successor agent has been found or the reasons for suspension have been resolved. In a DRS environment, the improvement over the certificated world is that there are no outstanding transfers in progress that get caught in the processing pipeline. The moment the TA has suspended services, no new transfers can be processed through CDSX (they would be rejected immediately with the appropriate message code).</p>	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.
6.	<b>Paperless legals (elimination of requirement to forward hard copy legal documents)</b>	CDSX Participant	TA	N/A	There is a proposal circulating within the SIA and the CCMA to eliminate the requirement to forward additional support documents (unless requested specifically by the TA) on all CDSX deposits, such as, corporate resolutions and estate documents. The proposal is titled "Paperless Legals."	CDS Participant Rules	None proposed unless further analysis reveals they are required.
7.	<b>Issuance of</b>	TA	DRS	Within two	DRS ownership statements will be issued within two	STAC Best Practices	None proposed

## DIRECT REGISTRATION SYSTEMS (DRS) BEST PRACTICES AND STANDARDS

#	Activity	From	To	Timing	Market Practice/Standard	Governing Body/ Compliance Measure	Benchmarking/ Metrics
	<b>ownership statement</b>		Holder	business days	business days of any change affecting the DRS holdings in a DRS holder's account.  Transfer agents will use a standard format of the ownership statement where key information required for processing will be printed in fixed positions.	and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	unless further analysis reveals they are required.
<b>7a.</b>	<b>Issuance of ownership statements to inactive accounts</b>	TA	DRS Holder	Annually	Inactive DRS holders will receive ownership statements at least annually from the transfer agent.	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.
<b>7b.</b>	<b>Replacement of ownership statements</b>	DRS Holder	TA	Within two business days	DRS statements declared lost/never received can be replaced on request or made available to the DRS holder within two business days.	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.
<b>7c.</b>	<b>Written inquiries on ownership statements</b>	DRS Holder	TA	Within 10 business days	Discrepancies between the DRS holder's recordkeeping and the DRS ownership statement received in writing (e-mail, fax or letter) will be responded to on current inquiries (within six months of issuance) within 10 business days and, for discrepancies older than six months of issuance, within 20 business days.	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.
<b>8.</b>	<b>Notice to DRS holders on assumption or termination of transfer agent services</b>	TA	DRS Holder	Within two business days after effective date	A transfer agent that assumes transfer agent services shall send to the DRS holder written notice of such assumption together with a new ownership statement and, if required, a new shareholder reference number (SRN) confirming the DRS holdings converted and the effective date of such assumption within two business days after the effective date of the assumption.	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.

## DIRECT REGISTRATION SYSTEMS (DRS) BEST PRACTICES AND STANDARDS

#	Activity	From	To	Timing	Market Practice/Standard	Governing Body/ Compliance Measure	Benchmarking/ Metrics
9.	Entitlements	Anybody	TA	As specified	Disbursements of entitlements will be as prescribed in the notice of payable and record dates.	STAC Best Practices and Standards  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.
9a.	Entitlements	Issuer/TA	CDS	Refer Entitlements Best Practices and Standards	Issuers are strongly encouraged to make use of the Canadian Payments Association's (CPA) Large Value Transfer System (LVTS) for the forwarding of payments of large value corporate entitlements. Entitlement payments exceeding the CPA's ceiling for the clearing of paper-based payment items (e.g., cheques) must be made using LVTS. Transfer agents receiving such funds via LVTS for distribution to security holders in the indirect holding system, will forward the entitlement payment via LVTS to CDS. The use of LVTS for transactions under the ceiling imposed by the CPA is subject to the transfer agent having received the funds via LVTS.	CDS Transfer Agent Agreement  No compliance mechanisms proposed unless further analysis reveals they are required.	None proposed unless further analysis reveals they are required.

The end result of DRSs and the ongoing increase in securities eligible for CDS is that investors will increasingly receive ownership statements instead of security certificates. Additionally, as noted above, work is underway to determine the requirements to ensure that as many, if not all, new securities are issued electronically by default and that, as certificates are returned to a DRS or CDS, they remain in book-entry form unless physical certificates are specifically requested by the investor.

The results of best practices and standards development efforts are, and will remain, consistent with solutions developed or under development in the U.S.

The recent introduction of a draft *Uniform Securities Transfer Act* will address some of the issues governing book-entry processing in the direct and indirect holding systems.

## **6.0 Other Considerations**

Many issues and considerations have been reviewed as in developing the proposed best practices and standards. For a detailed itemization of these, please view the documents listed in Section 2.0 above.

## **7.0 Rule/Regulatory/Implementation Governing Body**

The main entities responsible for dematerialization best practices and standards are CDS through its rules and operating procedures and STAC.

Supporting the DRS best practices and standards contemplated will require:

- Provincial legislative authorities to enact the USTA in identical form in each province, and to enact related amendments to personal property security laws and conforming amendments to corporate laws
- Securities commissions and self-regulatory organizations to amend rules.

The above changes are itemized in the latest version of the CCMA's Detailed Required Amendments List or DRAL (see [www.ccma-acmc.ca](http://www.ccma-acmc.ca), Media Publications, White Papers).

As well, providing further support:

- CDS and participants will be asked to amend/develop new agreements and procedures
- Custodians and transfer agents will amend/develop a new bilateral agreement.

It should be noted that many best practices and standards are reflected in trust documents and indentures.

## 8.0 Compliance/Conformance Mechanisms

Specific compliance mechanisms are not identified as being required at present unless a regular problem of non-compliance is identified.

Reconciliation of counterparty records will, however, support compliance, e.g.:

- Transfer agent register to issuer records (issued and outstanding from treasury)
- CDS to transfer agent register
- Participant to CDS register.

Should formal compliance mechanisms be required, a variety of compliance processes can ensure that counterparties comply with the best practices and standards. Conformance mechanisms can range from disclosure to incentives, penalties and progressive penalty structures.

## 9.0 Metrics/Progress Tracking

The key performance measurements evidencing progress towards stated dematerialization goals include:

- Percentage of book-entry to total transactions (and deposits versus withdrawals from CDSX of physical certificates)
- Percentage of registered investors using DRS.

These will be tracked by the transfer agents.

Tracking against the specific best practices and standards in the table above is not contemplated unless, as noted in 8.0 above, a regular problem of non-compliance is identified.

## 10.0 Implementation

Task Name	Start Date	End Date
<b>Oversee/Monitor Development and Implementation of Best Practices and Standards</b>	<b>1/1/03</b>	<b>6/30/05</b>
Amend DRS best practices as required and provide to "owners" for promulgation	10/16/03	12/31/03
Monitor DRS best practices and standards implementation	6/1/04	6/30/05
<b>Monitor Industry Progress Against STP Milestones</b>	<b>7/1/03</b>	<b>6/30/05</b>
Measure progress towards dematerialization goals	7/1/03	6/29/05
Develop/agree on methodology, tools, benchmarks, resources, timelines for assessing headway towards best practices and standards	8/1/03	3/30/04
Measure industry achievements against benchmarks developed for best practices and standards	4/1/04	6/30/05

## RESPONSE SHEET

Please respond to the following points, returning your response, **by January 30, 2004**, to:

Canadian Capital Markets Association  
 10<sup>th</sup> Floor, 85 Richmond Street West  
 Toronto, Ontario, Canada M5H 2C9  
 E-mail: [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca)  
 Fax: 1 416 365-8700  
 Tel: 1 416 815-2046.

<b>Firm Name</b>	
<b>Contact Name</b>	
<b>Title</b>	
<b>Phone Number</b>	
<b>E-mail</b>	

Given extensive comments received during the white paper development process between 2000 and 2003, it is assumed that the DRS best practices and standards developed are practical and can be implemented within a reasonable time period. The CCMA is requesting input of participants in the securities processing chain regarding any oversights or impediments to implementation, with clear examples of the problem and alternative ways to address the issue.

If you have questions as you develop your response, please contact [info@ccma-acmc.ca](mailto:info@ccma-acmc.ca).

**Note:** Comments received from interested stakeholders will be shared with the relevant CCMA committee so that proposed changes can be discussed. The names of responding firms and an unattributed summary of comments received will be publicized via the CCMA Web site so that respondents can be assured that their input has been heard before the best practices and standards are finalized.

### DRS BEST PRACTICES AND STANDARDS QUESTIONS

**1. Best Practices and Standards Content:** Are there any significant errors or problems identified in the following and, if so, what are they and what alternative would make the best practice successful?

- a. The roles and responsibilities of the participants?
- b. The timelines proposed?

**2. Governance and Compliance:**

Are there any better alternatives to the proposed governing body(ies) and compliance process(es) proposed to ensure that the best practices and standards are implemented, monitored, maintained and improved over time?

**3. Implementation Timelines:**

- a. If the DRS best practices and standards affect your firm, what, if anything, would inhibit your firm's ability to comply with the best practices and standards by the June 2005 final deadline?
- b. What would accelerate your firm's ability to meet the deadline if applicable?

**4. Other:** What has not been included in this document that should have been for the best practices to be implemented successfully within the Canadian industry?