RETAIL TRADE PROCESSING WORKING GROUP
WHITE PAPER ADDENDUM

INVESTMENT FUNDS AND OTHER PRODUCTS

Release Date: September 2003

CCMA Canadian Capital Markets Association
ACMC Association canadienne des marchés des capitaux

EXECUTIVE SUMMARY

1.0 Purpose

This paper is an addendum to the April 2002 Retail Trade Processing White Paper issued for comment by the Canadian Capital Markets Association (CCMA)[1] Retail Trade Processing Working Group (RTPWG).[2] The main focus of the addendum is investment funds rather than other typical retail products, such as debt and equity. This is because the vast majority of retail debt and equity transactions are processed in the nominee model, which is essentially an STP model. Further, when the institutional trade processing and entitlement best practices and standards issued in June 2003 are finalized, a more detailed review of the applicability of these best practices and standards to the retail environment should take place.

This addendum further analyzes and makes recommendations regarding ways to increase efficiency, minimize risks, reduce trade processing costs and improve customer service through straight-through processing (STP) in the context of client name and nominee business models.

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. It is considered a pre-requisite to shortening the settlement cycle to the day following trade date (T+1) with the U.S., which remains a target that will be revisited once STP has been achieved.[3] Industry-wide STP is critical both to helping position firms for future growth and to maintaining the competitiveness of Canada's capital markets.

Achieving STP is important for both client name and nominee business models. Even highly automated firms still encounter many manual transactions and paper-based processes (e.g., retirement savings plans (RSP) transfers, low-dollar-value accounts, etc.) resulting in a significant amount of manual intervention, errors and added effort.

The CCMA is therefore seeking specific comments from investment fund manufacturers, brokers and other investment fund distributors, retail securities product issuers and other industry participants, **by October 31, 2003,** on the specific recommendations included here (**Appendix #1**) regarding issues relating to:

1. Client name (and segregated fund) business
2. Money movement alternatives
3. Electronic standards
4. Fund accounting
5. Non-fund products
6. Legal and regulatory issues
7. Roles and responsibilities – potential best practices and standards.

2.0 Summary of Conclusions

The following is a summary of the high-level findings in the addendum; detailed recommendations can be found in **Appendix #1**. Information on the Retail Trade Processing Working Group's scope of work, methodology, milestones, etc. follows.

2.1 Client name (and segregated fund) business

Client name processing must become electronic. Documentation exchanged between broker/distributor and fund company must be minimized and where possible eliminated through the development and implementation of Documentation Agreements and electronic alternatives. Documentation Agreements would allow the distributor to maintain the documentation on behalf of the fund company for transactions involving minimum liability and risk to the fund company, the fund and/or the client. The ability to successfully implement Documentation Agreements is dependent on regulatory changes, set out in the paper. FundSERV involvement is also required.

As a principle, all investment fund transactions, to buy or sell, in client name or nominee, should settle according to the standard industry settlement cycle. The method by which a transaction is initiated should have no impact on the timeframe in which it settles. In this regard, the placement and settlement of direct orders for client name accounts must progress towards full automation.

2.2 Money movement

The use of physical cheques in the retail product process flow must be greatly reduced, with the long-term goal of elimination. This principle most greatly impacts dealers transacting in client name who place orders electronically but process settlement manually. Dealers and their clients will benefit from not having to respectively collect and issue multiple cheques to support multiple transactions.

FundSERV's Net $ettlement Messaging (N$M), formerly known as the Clearing and Settlement System (CSS), is the most effective means currently to transmit funds supporting mutual fund transactions and should be used wherever possible. The Subcommittee recommends further consideration of two options to address those dealers unable to meet the minimum N$M participation requirements. Both designs are based on the dealer's acceptance, verification and keying of an investor's banking information at the point of sale:

1. Send the transaction order directly to the fund company for complete processing

2. Send the transaction order to FundSERV, where banking information is routed to the financial institution for confirmation; the order (without banking information) is sent to the fund company for processing and funds are netted at FundSERV and forwarded to the fund company.

Further exploration of these concepts is key to providing dealers with realistic alternatives or risk having them choose to go completely manual for both order placement and settlement. As well, regulatory changes may be required and FundSERV involvement is important.

2.3 Electronic standards

All transaction orders and rejects, for both client name and nominee accounts, should take place electronically on order date to facilitate STP requirements. Fund companies must use the correct error code to reject a transaction to support timely correction and processing of the trade. Fund companies must examine situations where the same reject code occurs and take steps to address the problem.

Additional development of FundSERV systems is necessary to support seamless processing of investment transactions, including the areas of rejects, settlement and automation of manual transactions. FundSERV is therefore expected to play a leading role in the review, analysis and implementation of recommendations.

2.4 Fund accounting

No changes are required to current fund accounting procedures for either business model to facilitate STP; however, further review of fund accounting issues, processes and systems will be required should Canada move to a shorter settlement timeframe.

2.5 Non-fund products

While debt and equity are the primary investment products in the retail brokerage market, they are also institutional investments. Retail debt and equity securities currently have a high STP rate due, for example, to locked-in trade processing at an exchange. Once industry comments on the institutional and entitlements best practices and standards are received and analyzed by the CCMA, a Subcommittee will review their applicability from a retail perspective and determine the changes required to support STP of exchange and non-exchange traded securities. On the one hand, there may be value in having as much consistency as possible between the post-trade processing of equity and debt trades, whether retail or institutional; on the other, there are a number of key differences between institutional and retail trade processing, e.g., not all of the 26 data elements required to initiate an institutional notice of execution are required at a retail level, allocations are not required and retail investors rarely use a custodian.

With respect to other forms of non-fund products, as a principle, all new retail products introduced in the Canadian marketplace, regardless of the supporting business model, should be compatible with STP, supporting online functionality, same-day corrections, etc.

Further investigation is required to determine if the processing of guaranteed investment certificates (GICs) as well as non-fund insurance products requires improvements to be made on an industry basis to facilitate STP. At a minimum, the initial purchase and issuance of GIC interest and other payments should be done electronically.

2.6 Legal and regulatory

A number of legal and regulatory amendments are necessary to implement many aspects of the courses of action proposed by the RTPWG Subcommittees and partners, including FundSERV and the Investment Funds Institute of Canada (IFIC). For example, elements of securities regulation, such as National Instrument 81-102, Mutual Funds, need to be changed so that a trade cycle matches a fund's settlement cycle; as well, insurance requirements (e.g., segregated funds) need to be changed for documentation and client signatures. The successful enactment of a supporting regulatory environment is critical to achieving the straight-through processing of retail products by June 2005.

2.7 Roles and responsibilities – potential best practices and standards

A number of roles and responsibilities for potential best practices and standards are presented in this paper. Some would require little work to implement immediately while others are new concepts that call for industry review and comment in order to proceed to the next step of developing the supporting detailed systems and operational requirements and processes. Industry feedback on the potential retail trade processing best practices and standards presented in this paper is key to implementing STP processing of retail trade products in Canada. Consistent with the above, further consideration for developing best practices and standards relative to retail trade processing of debt and equity transactions will take place later.

3.0 Scope

The scope of the RTPWG's work is the electronic processing of an investment transaction among all parties involved from the time a transaction is initiated with a dealer through to settlement, complying with industry rules/regulations and standards.

Within these parameters, included in the RTPWG addendum are:

- retail securities products, whether processed through automated industry clearing and settlement entities such as FundSERV and The Canadian Depository for Securities Ltd. (using payment facilities such as N$M or the

Canadian Payments Association's Large Value Transfer System (LVTS)) or whether processed outside these facilities,

and excluded are:

- equities and debt securities – while they remain the primary investment products in the retail brokerage market, they are touched on only in the exception here as referred to above – as well, retail equity and debt transactions conducted through a marketplace (i.e., exchange/non-exchange traded) are increasingly processed electronically and are already moving towards an STP basis (e.g., via the internet)

- investment fund and other retail products that do not settle on the current T+3 basis at present and would be expected to continue with a different settlement cycle, including certain products priced only monthly where the settlement period can be considerably longer than T+3 and products that already settle on a same-day or T+1 basis.

When the focus of industry efforts switched from shortening the settlement cycle to T+1 to STP, the RTPWG agreed to continue to examine issues raised in a T+1 context as the T+1 goal could be reinstated when shortening the settlement cycle is reviewed next, likely in 2004.

In setting the scope of its work, the RTPWG also recognized that the size, level of operational sophistication and business models of firms in the retail securities marketplace vary considerably. A key goal in developing recommendations was not to disenfranchise any participant, group of participants or distribution channel, but rather to provide realistic alternatives for achieving STP and to raise awareness of challenges and barriers.

4.0 Milestones

The retail trade processing STP recommendations developed were tested in terms of their ability to meet the CCMA's overall milestones for STP, which are:

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

As well, the RTPWG recommendations were reviewed for consistency with retail-trade-processing-specific milestones:

- **December 2003:**
  - Establish industry standards and best practices on who should do what by when in terms of data quality, message protocols and timing
  - Achieve industry-wide affirmation (acknowledgement) on T+1 for 80 per cent of domestic transactions

- **December 2004:** Enact any legislative, regulatory or rule changes needed for effect by June 2005
- **June 2005:** Achieve:
  - 100 per cent of industry participant compliance with industry best practices and standards
  - 99-per-cent STP (electronic transaction processing).

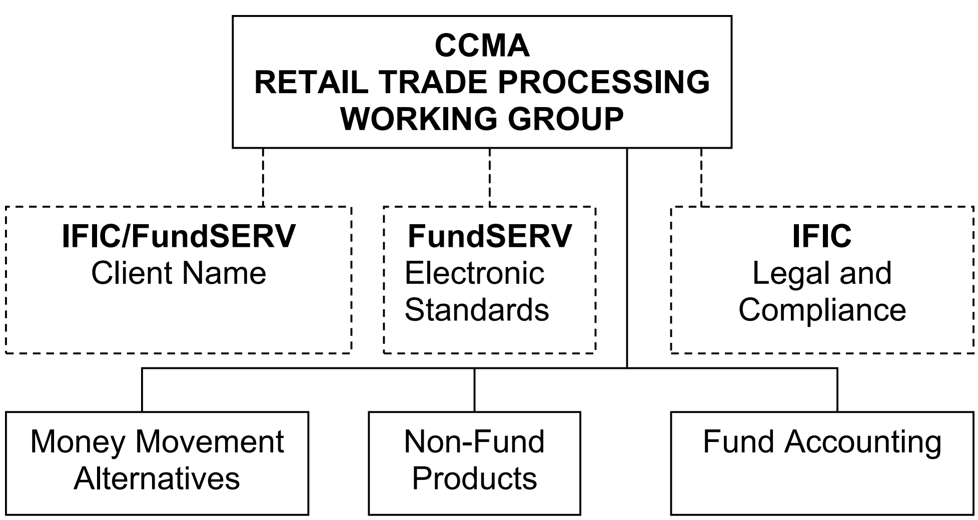
Note: The above milestones, issued in November 2002, are being reviewed and may be adjusted. At present, it is expected that the June 2005 deadline at least will remain unchanged.

5.0 Methodology

This addendum was developed based on a further review of the April 2002 Retail Trade Processing White Paper and of the comments received on the paper, as well as other relevant material such as the November 2002 Client Name Issues Paper[4] and the CCMA Legal/Regulatory Working Group's Detailed Required Amendments List (DRAL). Background CCMA documents can be found on the CCMA Web site, www.ccma-acmc.ca, Media/Publications, White Papers section:

- April 23, 2002 (white paper) (the guiding principles and recommendations from this paper are included here as **Appendix #2** to the full addendum)
- November 29, 2002 (matrix of comments received)
- December 19, 2002 legal/regulatory Detailed Required Amendments List
- A summary of action taken on each recommendation and comment received (to be posted shortly).

This addendum was completed under the direction of the CCMA's Retail Trade Processing Working Group. RTPWG divided its tasks into six areas, with RTPWG retaining oversight and a number of the bigger-picture issues. Where possible, RTPWG relied on existing industry committees; where none existed, RTPWG established subcommittees. These are shown in the diagram below.



Each group was tasked with (1) reviewing Principles and Recommendations from the April 2002 white paper in light of comments received and any new issues and industry developments that had arisen since the paper was published from an STP perspective and (2) identifying what changes were desirable to address challenges to industry-wide STP and the requirements to successfully implement them.

The issues of the different groups were quickly found to be interrelated as there may be legal reasons (e.g., for a signature) that require paper, which in turn implies a manual process rather than an electronic standard. Given the interrelationships between the work of the various committees, there is some overlap of issues raised in the different sections (for example, manual transactions were investigated by both the Client Name Working Group and Electronic Standards Subcommittee). As well, as legal and potential best practices and standards issues were common to all subject areas, the legal and potential best practices and standards sections draw out recommendations on these topics from the work of the other groups, leading to some duplication but facilitating review of these two specific areas of interest.

Note: Each section, with minor formatting and editorial changes for overall consistency, is the original work of the RTPWG and partner Subcommittees described above. Each is intended to be able to be used as a standalone document as the RTPWG recognized that different stakeholders have different profiles, which would likely mean that stakeholders may not be interested in segments that do not relate directly to their lines of business. We nevertheless encourage all interested parties to read and comment on the broader document.

6.0 Subcommittee Mandates

6.1 Client name (and segregated fund) business

The Client Name Working Group (CNWG) was mandated by the Joint IFIC/FundSERV Operations and Procedures Committee (O&P) to determine and recommend solutions to address issues that impede the timely and accurate electronic processing of transactions, with information passing seamlessly between distributors and fund companies, for investment funds registered in client name. Client name business varies from firm to firm and client name accounts are estimated to make up 25-40 per cent of total Canadian investment fund accounts. Due to the nature of the client name business model, it is expected that significant changes will be required to meet the requirements of STP. The scope of the CNWG's work therefore included developing a comprehensive overview of the current client name business model and issues that impede STP, setting out possible solutions and recommending the best solution for enabling the client name business model to move with the investment fund industry (as part of the larger financial services industry) to an STP environment by June 2005.

Specific issues inherent in the current client name business model addressed were:

1. Reliance on receipt of documentation by fund companies to initiate processing or complete the settlement cycle for the majority of transactions – documentation signed by the client is required because the account is held on behalf of the investor on the fund company records; in reviewing the documentation currently required between (1) the retail client and the distributor, (2) the distributor and fund company and (3) the fund company and client, the CNWG determined that the documentation exchanged in phase 2 – between distributor and fund company – needed to be the focus of its work.

2. The practice of sending transactions directly to the fund company for processing as direct trades – the volume of direct orders received and processed differs from fund company to fund company, but is estimated at 30-50 per cent of client name transactions, usually for one of four reasons:

    1. Some transactions cannot be placed electronically due to industry or product restrictions
    2. Some distributors prefer to send orders directly to the fund company because it is a more convenient business process for them
    3. Fund companies process direct trades upon receipt of the documentation, often on trade date, meaning the transaction is processed faster than if it had been sent electronically
    4. Fund companies and distributors do not adopt all of FundSERV's electronic standards due to business decisions, leading to inconsistent administrative processes throughout the industry where direct trades become the only way to conduct business for transactions that have not been automated.

3. The distributor practice of sending physical cheques to the fund companies for settlement – while there are various reasons why this occurs, the primary one is that some distributors do not operate trust accounts.

The scope of the CNWG's final STP assignment included a review of the issues related to documentation and order placement for investment fund products that trade electronically through the FundSERV network – mutual funds, segregated (seg) funds and labour sponsored investment funds (LSIFs), with client name issues relating to settlement and movement of money being addressed by the RTPWG's Money Movement Alternatives Subcommittee. Excluded from the CNWG's work were:

- Non-fund products and nominee and third-party intermediary accounts

- The use of certificates (issues and recommendations relating to this topic are being addressed by the CCMA's Dematerialization Working Group)
- Point-of-sale disclosure documentation (this topic is being addressed through the Joint Forum of Financial Market Regulations Consultation Paper 81-403).

6.2 Money movement alternatives

The Money Movement Alternatives Subcommittee was created to identify and address money-movement-related impediments to STP and eventually T+1. After extensive initial analysis, it became clear that the focus should be working towards eliminating physical cheques from the retail product order flow primarily in the context of mutual fund products being transacted in client name, although segregated funds and guaranteed investment certificates (GICs) were also within scope. In this regard, the greatest impact is on those dealers operating predominantly in client name, where cheques are collected at point of sale and made payable to the fund company.

6.3 Electronic standards

The RTPWG mandated the Subcommittee to review all aspects of the order entry system operated by FundSERV Inc. and assess whether current procedures are valid for achieving STP. Even highly automated firms still encounter manual transactions (e.g., RSP transfers, low-dollar-value accounts, etc.) which, even if constituting only a small percentage of overall activity, may still result in a significant amount of manual intervention and added effort.

The findings of the Subcommittee were to be applied to improve the processing efforts of all manufacturers and distributors by reducing exceptions and the related cost and risk.

6.4 Fund accounting

The Fund Accounting Subcommittee was mandated to review the possible impact STP would have on fund accounting operations. The Subcommittee examined both institutional trades and retail/mutual fund transactions settling in a T+1 environment. Within the scope of the Subcommittee's work was the establishment of policies and procedures to effectively manage fund accounting in a T+1 environment. The Subcommittee determined that shareholder record-keeping systems and the ability to provide timely and accurate reports of trading activity were outside the scope of its work. As Subcommittee members were unaware of systems that currently run queries to show what transaction flows are at a point in time, the ability of shareholder systems to provide timely information to investment managers was also determined to be outside the scope of review.

6.5 Non-fund products

The Non-Fund Products Subcommittee was mandated to consider where changes were required to support cross-industry STP of retail investment products that were not investment funds. The Subcommittee examined a broad range of non-fund products.

6.6 Legal and regulatory issues

Legal and regulatory issues straddled the mandates of the IFIC Legal and Compliance Issues Working Group (LCIWG), the CCMA's Legal/Regulatory Working Group (LRWG) and most of the above Subcommittees. The IFIC LCIWG reviewed the list of fund-related legal/regulatory recommendations set out in the DRAL and determined that further business input was required. A small RTPWG team worked to analyze previous LRWG recommendations to confirm that they remained issues following the move from T+1 to STP and to provide additional business analysis on those issues identified in the DRAL where further consideration had been recommended.

6.7 Potential areas for development of best practices and standards

Each Subcommittee or partner was asked to identify, within the overall recommendations being developed, those roles and responsibilities that potentially could pertain to best practices and standards. Best practices and standards are viewed as crucial to most effectively achieving STP.

7.0 Next Steps

During October, members of the Retail Trade Processing Working Group listed in **Appendix #3** to the full addendum expect to hold information sessions on the addendum and recommendations to help answer questions that may assist participants develop their response.

Once we have received comments from interested stakeholders, responses will be summarized and shared with the RTPWG so that the proposed procedures, legislative/regulatory changes, communications required and implementation steps can be finalized. The summary will be publicized via the CCMA Web site so that respondents can be assured that their input has been heard. The RTPWG will also examine the finalized institutional trade processing and entitlements best practices and standards to determine if there is any impact on retail trade processing and in developing retail trade processing best practices and standards.

The comments will be analyzed and the proposed models refined, with any significant points of disagreement to be discussed by the Canadian Capital Markets Association Board of Directors and/or the relevant industry association(s). These include the Investment Funds Institute of Canada, Investment Dealers Association of Canada, Mutual Fund Dealers Association of

Canada, FundSERV, Canadian Life and Health Insurance Association and others.

A final plan, as well as dissemination and implementation steps, will be publicized later this year.

8.0 Request for Comments

The CCMA is requesting that input on the addendum recommendations be provided using the **Response Sheet** in **Appendix #4** to the full addendum, **by October 31, 2003,** to:

Canadian Capital Markets Association
Attention: Rosa Sosin
10th Floor, 85 Richmond Street West
Toronto, Ontario, Canada M5H 2C9
E-mail: info@ccma-acma.ca
Fax: 1 416 365-8700
Tel: 1 416 815-2046.

Endnotes

1 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.

2 The Retail Trade Processing Working Group is composed of a cross-section of industry representatives with extensive experience in all aspects of the investment industry. Its mandate is to investigate requirements for and make recommendations to facilitate moving the retail sector (including investment funds and other retail securities products) to a straight-through processing environment.

3 In May of 2002, the U.S. Securities Industry Association (SIA) announced that it would re-examine its June 2005 target implementation date for shortening the securities settlement cycle to T+1 from the current T+3 (three days following trade date) basis. In July 2002, the SIA concluded that the industry would focus on STP in 2003 and 2004, rather than on moving to T+1 in 2005, and said that shortening the settlement period should be evaluated again in 2004. Given the conclusions in the November 2000 CCMA-commissioned Charles River economic analysis that there was no benefit for Canada in moving equities settlement to T+1 ahead of the U.S., and consistent with the CCMA's stated general strategy of maintaining the same settlement cycle as the U.S., the CCMA announced on July 19, 2002, that it would defer its announcement of a possible change in the settlement period until 2004 and focus on achieving industry-wide STP in Canada.

4 Written by Gilles Bouillon, Peter Hildyard, Judy Van de Sype and FundSERV.

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APPENDICES

Section 1:
CLIENT NAME ISSUES

1.1 Introduction

Overview

The mandate of the client name straight-through processing (STP) report is to determine and recommend solutions to address issues that impede the timely and accurate electronic processing of transactions for investment funds registered in client name.

The client name STP mandate was assigned to the Client Name Working Group (CNWG) by the Joint IFIC/FundSERV Operations and Procedures Committee (O&P). The CNWG presented its findings to the Canadian Capital Markets Association's (CCMA) Retail Trade Processing Working Group (RTPWG) for consideration as part of its ongoing initiative to identify, analyze and recommend options to meet the challenges facing the retail sector.

The RTPWG was originally established to investigate the requirements for moving the retail sector to a T+1 settlement cycle. The RTPWG prepared a T+1 White Paper that was circulated to the investment funds industry for comment. It then requested the O&P further review the comments and issues relating to client name accounts.

The current priority for the CCMA and the financial sector is to promote STP strategies among industry participants and implement industry-wide STP by June 2005.

This report provides a comprehensive overview of the current client name business model and outlines the issues that impede STP. It sets out the possible solutions that address the issues identified and recommends the best solution from those presented. Each possible solution requires the implementation of industry standards and best practices. The goal of the recommended solutions is to enable the client name business model to move with the investment fund industry (as part of the larger financial services industry) to an STP environment by June 2005.

In addition to the T+1 issues and comments received by the RTPWG, the Client Name Issues Paper[1] published in November 2002 was also reviewed and issues that affect client name identified by both these sources have been addressed throughout the document.

[1] Written by Gilles Bouillon, Peter Hildyard, Judy Van de Sype and FundSERV

STP Definition

The industry definition of STP as defined by the RTPWG is as follows:

> The electronic processing of an investment transaction among all parties involved from the time a transaction is initiated with a dealer through to settlement, meeting industry timelines and data quality standards for completeness and accuracy.

Within the investment fund industry, a move to STP will result in information passing electronically and seamlessly between the distributors and the fund companies. STP is a primary objective for the investment fund industry and will result in the following operational benefits:

- Reduced back-office costs and elimination of many inefficient processes
- More efficient and better service
- Establishment of the foundation for a shorter settlement cycle and
- Minimized duplication of effort and exception processing.

In order to move to STP, industry participants must examine their business processes and systems with a view to removing all manual and redundant steps. This review exercise is required for every phase of the transactional life cycle.

It is important to note that STP should not be mistaken for or used interchangeably with T+1; rather, STP provides a framework within which T+1 could be facilitated. Once STP is implemented, the move to T+1 simply requires a tightening of settlement times. At that point, it is expected that the process required to implement T+1 processing would be similar to what the industry experienced when it moved from T+5 to T+3 – an acceleration of existing processes rather than a total overhaul of the existing infrastructure.

Deliverables and Scope

It is difficult to determine the amount of client name business in the investment fund industry because it varies from firm to firm. However, it has been estimated that client name accounts could make up 25-40 per cent of all Canadian investment fund accounts. Due to the nature of the business model, it is expected that significant changes to the way client name accounts are administered will be required in order to meet the requirements of STP.

In particular, the CNWG has undertaken to review and provide recommendations regarding the following issues inherent to the current client name business model:

1. Documentation must be received by the fund company to complete the settlement cycle for most transactions

2. Direct trades are placed for transactions that can be placed electronically as well as for those that are not currently automated.

The scope of CNWG's STP assignment includes a review of the issues related to documentation and order placement for investment fund products that trade electronically through the FundSERV network. For the purpose of this report, investment funds include mutual funds, segregated funds (seg funds) and labour sponsored investment funds (LSIF). Nominee and third party intermediary accounts are also not included in this review.

Use of certificates within the investment fund industry is not included in this review. Issues and recommendations relating to this topic are being addressed by the CCMA's Dematerialization Working Group.

Point of sale disclosure documentation is also not within the scope of this report. This topic is being addressed by the Joint Forum of Financial Market Regulators Consultation Paper 81-403.

1.2 Current Business Model Review

Introduction

The three operational challenges inherent to the client name business model that are major impediments to the processing of client name business in an STP environment are:

1. Reliance on receipt of documentation by fund companies to initiate or complete processing for the majority of transactions. The documentation signed by the client is required because the account is held on behalf of the investor on the fund company records.
2. The practice of sending transactions directly to the fund company for processing as direct trades. This is done either because the industry or a particular fund company does not support the placement of the order electronically or because the distributor chooses to place the order manually in line with its particular business practice.
3. Distributors send physical cheques to the fund companies for settlement. There are various business reasons why this occurs, the primary one being that some distributors do not operate trust accounts.

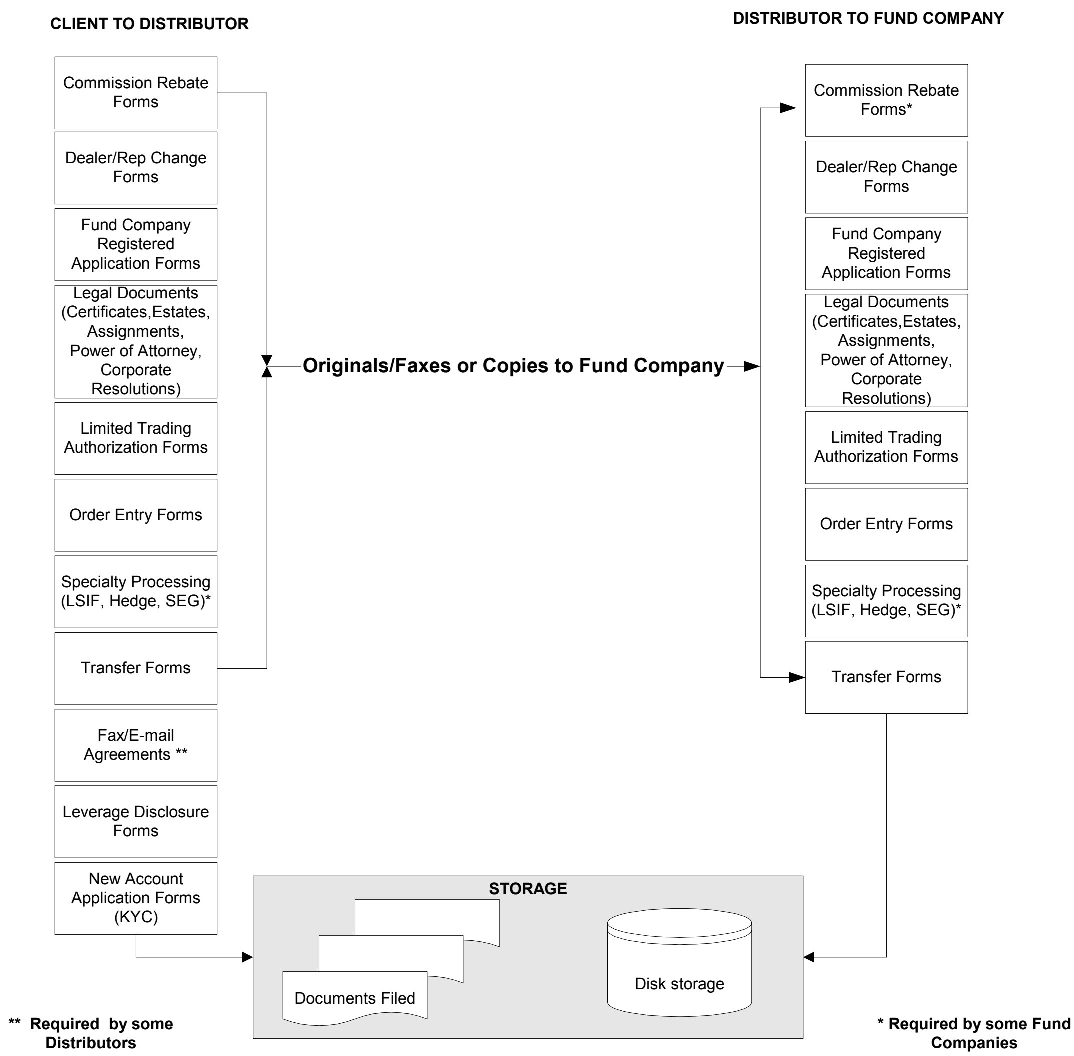
This report focuses on documentation requirements and direct trades. It provides a comprehensive view of the issues, possible solutions and recommendations to establish a seamless and electronic process for client name accounts.

Client name issues relating to settlement and movement of money are being reviewed and addressed by the RTPWG's Money Movement Alternatives Subcommittee.

Documentation Overview

There are three primary phases to the documentation cycle – between the retail client and distributor, the distributor and fund company, and the fund company and client. The CNWG reviewed the documentation in each phase and determined that in order to achieve STP, the documentation exchanged in Phase 2 – between the distributor and the fund company – needs to be minimized and where possible eliminated.

The following diagram depicts the documentation collected by the distributor and indicates the forms forwarded to the fund company to support ongoing processing requests:



As demonstrated in the above diagram, the majority of documentation collected by the distributor is forwarded to the fund company. As well, the distributor maintains a file for the client and reviews all documentation to ensure that it is in good order prior to initiating a trade. This practice results in duplication of effort and additional costs relating to mailing and storage. In addition, the time required to send the documentation to the fund company delays the completion of a transaction.

A complete list describing the documentation used in the industry is included in this report as **Appendix CN.1.** A glossary of terms is also found in **Appendix CN.2.**

Direct Order Process Overview

The volume of direct orders received and processed differs from fund company to fund company. However, it is estimated that 30-50 per cent of client name transactions are placed as direct orders. There are four primary reasons that orders are sent directly to the fund company:

1. Some transactions cannot be placed electronically due to industry or product restrictions.
2. Some distributors prefer to send orders directly to the fund company because it is a more convenient business process for them.
3. Fund companies process direct orders upon receipt of the documentation, often on trade date. This results in the transaction being settled faster than if it had been sent electronically and completed through the normal settlement cycle. For example, a faxed redemption request is processed and settled on the day it is received and the proceeds paid the next day. At the earliest, a redemption wire order is settled on T+1, but often not until T+3 or later.
4. Industry members (distributors and fund companies) have not uniformly adopted all the ESG standards available to them. This practice results in inconsistent administrative processes throughout the industry and sending documentation directly to the fund company for processing is the only way to conduct business for transactions that have not been automated.

In order to achieve STP, placement and settlement of direct orders for client name accounts need to move towards full automation. The method by which a trade is initiated should have no impact on the timeframe in which it settles. As a principle, all investment fund trades, to buy or sell, in client name or nominee, should settle according to the industry standard settlement cycle.

1.3 Possible Solutions for Client Name Documentation Issues

Overview

Industry members agree that the primary operational issue impeding STP for client name accounts is the requirement that fund companies receive documentation to initiate a trade or to complete the settlement/transaction cycle. The dependency on receipt of documentation must be minimized in order to meet STP requirements.

The CNWG explored a number of options to address the documentation issue. The primary alternatives discussed are:

- Documentation Agreements
- Electronic documentation
- Electronic signatures.

A high-level synopsis of each of the potential solutions is presented below, along with the benefits and potential issues that must be overcome. This section of the report concludes with recommendations to address the documentation issue.

Documentation Agreements

Under the proposed Documentation Agreement business model, there would be an agreement between the fund company and distributor requiring the distributor to maintain all relevant client documentation. The distributor would receive and review the instructions from the client, place the order and maintain the documentation in the client's file. The distributor, through contractual agreements with the fund company, would assume liability for the transaction and be responsible for providing the documentation to the fund company if requested.

In this model, the client would also sign an acknowledgement at the time an account is opened with a distributor. This disclosure would form part of the distributor's account opening documentation, indicating that the client understands the distributor is responsible for maintaining all documentation and is liable for all orders placed with the fund companies.

The precedent for distributors to retain documentation already exists. The fund companies do not currently receive documentation when establishing new non-registered accounts, switches or purchases placed by wire order for clients with existing accounts. As well, there is a current industry initiative underway to eliminate the need for documentation for certain types of transfers.

Implementation of the first phase of Documentation Agreements as an industry practice can eliminate approximately 50-75 per cent of the documentation fund companies currently receive – this estimate is based on the average number of relevant transactions received and processed by several fund companies. These agreements would be contractually binding and would clearly place liability on the distributor for any transaction that is initiated on behalf of the client.

Documentation Agreements may raise the same concerns regarding bankruptcy of the distributor that were raised when Electronic Processing Agreements were considered in prior years. Assets that qualify as "customer name securities" are returned directly to the client upon the bankruptcy of a distributor, pursuant to Part XII of the Bankruptcy and Insolvency Act (BIA), provided the client is not indebted to the distributor. These assets do not go into the pool for administration by the trustee in bankruptcy and are not subject to levy for costs of administering the bankruptcy. This issue is discussed further under the BIA Section in **Appendix CN.3**, Synopsis of Documentation Agreement Legal Issues.

Documentation Analysis

A documentation analysis was completed as part of the research conducted to prepare this report. This study indicated that Documentation Agreements are a viable solution for certain transactions for both mutual and segregated funds. The findings of the study are presented below.

a) Mutual Funds

Documentation Agreements are a viable solution for the following types of mutual fund transactions in addition to the transactions that are currently allowed:

- Non-financial changes*
- Amount and frequency changes to pre-authorized chequing (PACs) and systematic withdrawal plans (SWPs)*
- Commission rebate purchases
- Dealer/rep changes*
- Some redemptions
- New registered accounts and
- Transfers.

* XML messaging or similar functionality is required to support electronic exchange of the data

The analysis found that original documentation would continue to be required for mutual fund transactions where the risk to the fund company, the fund and/or the client is deemed to be significant. In particular, original documentation is required for legal situations as well as for redemptions where there is deemed to be high risk of fraud.

b) Segregated Funds

The administration of segregated funds presents some unique documentation requirements, primarily because the account application is an Individual Variable Insurance Contract (IVIC). At present, the insurer requires original written evidence of this contract. The insurer is not prepared to allow the distributor to maintain this documentation, even subject to strict audit procedures and Documentation Agreements.

There is a very significant business risk to the insurer because these accounts are insurance policies. Irrevocable beneficiaries must be taken into account every time a request is made. There are also issues involving the creditor protection feature, which requires that written evidence of the contract can be produced when a request is received that attempts to seize the insurance assets.

Segregated funds, being insurance policies, are based on the life of the annuitant and not the beneficial owner.

There may be separate “policy years” held within the same account, each with a different time horizon and guaranteed minimum amount (GMA) payable upon death or maturity. As a result, death claims processing becomes very complicated, requiring adjudication by the insurance company and special “top-up” transactions, when the market value is lower than the guarantee amount. Deposit maturity processing is also complex, involving special instructions to the insurer and top-up transactions where necessary.

The way the guarantee structure is built necessitates manual processing in many instances.

Partial transfers are disallowed because the GMA cannot be apportioned between two accounts.

The administrative nature of the segregated fund product does not lend itself to the use of Documentation Agreements for all transactions. However, the CNWG’s analysis indicates it would be possible to implement Documentation Agreements and have the distributor maintain the documentation for certain transactions such as purchases for existing accounts, some non-registered transfers, some transactions for registered accounts and some non-financial requests.

c) Labour Sponsored Investment Funds (LSIFs)

For the purpose of this report, LSIFs will be treated in the same manner as mutual funds unless noted as an exception.

Consideration for Specific Transactions

a) Redemptions

Redemptions are considered high-risk transactions and are prone to fraudulent activity. Fund companies may not be comfortable with the distributor maintaining redemption documentation. As a result, one possible proposal is to require documentation to be delivered to the fund company for certain redemptions and payment types in order to minimize the risk to the fund company and the client.

Further analysis is necessary to determine when the fund company may require documentation to complete a redemption transaction. Initial findings indicate that these parameters could focus on the following considerations:

- Amount of the redemption – documentation is necessary only if the redemption is for an amount higher than an established threshold
- Recipient of the proceeds – documentation is only necessary if the recipient is someone other than the client, the distributor or another financial institution provided that the fund company allows for third-party payments and
- Account history – documentation is necessary if there have been multiple transactions in a short period of time or a recent address, name or banking change.

These parameters may require further review and be different for segregated funds due to the insurers' requirements and standards.

A field to indicate that the documentation will follow will have to be added to the electronic order process if redemptions are broken into high- and low-risk categories. Fund companies would have to establish procedures so that the redemption is not settled until the paper documentation is received, provided that it is received within standard industry settlement timelines. However, this process may very well delay the client receiving the payment for the redemption. Clients requesting low-risk redemptions could potentially receive their proceeds faster than those requesting high-risk redemptions.

If the requirement for documentation for high-risk redemptions is maintained, it will result in the requirements for STP not being met and therefore service provided to the client may be inconsistent. From a best practice and consistency perspective, it would be preferable to implement use of Documentation Agreements for all redemptions. However, it may be possible to begin by phasing in implementation of Documentation Agreements for low-risk redemptions and re-evaluating this practice once it has been in place for a reasonable period of time.

b) New Registered Accounts

The CNWG explored a number of alternatives to deal with registered account application forms as Canada Customs and Revenue Agency (CCRA) requires that issuers obtain an application with a client signature in order to establish and register a retirement plan. The client's signature indicates that he/she has received a copy of the declaration of trust (DOT) and acknowledges understanding of the terms and conditions of the plan. With the exception of CCRA and the trustees who are following the guidelines established by CCRA, there is no provision under National Instrument (NI) 81-102, Mutual Funds, or similar legislation stating that the fund company has to receive the application forms.

The Working Group discussed various alternatives relating to registered application forms, including:

- Fund companies providing the option of account opening on their Web sites. For this to be possible, an account or reference number would be generated at the time the application is completed. The reference number would then be captured at time of order entry so that the fund companies are aware that an application had been submitted electronically.

  The issue with this alternative is that a signature would not be available unless the form was downloaded and signed by the client – bringing the process back to paper documentation. As well, not all members in the industry would adopt use of the Web for 100 per cent of account openings.

- Scanning and sending paper-based applications electronically to the fund companies.

  This option is not practical because it would require a common infrastructure to support the capture and movement of the documentation.

- Scanning and sending the applications by e-mail to the fund companies.

  This alternative is operationally feasible but is not practical from an administrative perspective, as it would require a new infrastructure to support receiving, storing and retrieving documentation.

- Separating the client's signature from the information captured on the application form. The account would be opened on the Web site and the fund company would include the DOT with the confirmation sent to the client once a purchase has been processed. The assumption would be that the client received the documentation because it was forwarded to the client's address on record.

This alternative would probably not be adopted by all members of the industry due to the costs involved in developing Web-based account opening facilities.

- Having the client sign an acknowledgment of receipt of the DOT on the distributor "know your client" (KYC) forms. These forms would be maintained by the distributor but would be available to the fund company, the trustee or CCRA upon request.

  This option is administratively feasible. However, it is not efficient to have two processes in place – one for new registered accounts and Documentation Agreements for most other transactions.

The CNWG reviewed the various alternatives and recommends that registered accounts be included in the transactions addressed by the Documentation Agreement. This option is the most cost-effective and provides a more consistent business approach from an operational perspective.

c) Banking Information – PACs, SWPs and EFT (Electronic Funds Transfer)

Technically, the distributor will be able to provide the fund company with the PAC, SWP and EFT details electronically, including banking information, once XML messaging or similar functionality is available. With Documentation Agreements in place, the distributor would maintain the documentation relating to the PAC, SWP or EFT details.

Fund companies, however, may not be comfortable with this process since they are the parties that actually debit or credit the client's bank account. As a result, fund companies may require a copy of the documentation to ensure they have been given the authority to debit/credit the client's bank account and verify that the information is correct.

If fund companies continue to require documentation, a field to indicate that the documentation will follow would have to be added to the electronic order process and fund companies would have to establish procedures so that the banking information is not updated on their system until a review of the documentation has been conducted. This process may delay the client receiving EFT payments or debits to/from his or her new bank account.

Another solution would be for distributors to administer the systematic plans. They would manage the banking aspects of the transaction and initiate wire orders with the fund companies. This option is feasible but is not practical as the administrative and system infrastructure to support this process would need to be built.

To facilitate STP, the most effective solution would be to have the distributors complete the order entry and maintain the documentation as per the terms of the Documentation Agreement. However, as with high-risk redemptions, the industry may wish to consider a phased-in approach by first sending documentation and reevaluating this practice once it has been in place for a reasonable period of time.

d) Registered Education Savings Plans (RESPs)

In order for an individual to establish an RESP and receive the Canada Education Savings Grant (CESG), the fund company as promoter must obtain specific instructions from the client. The application for CESG is normally contained on the promoter's application form. Promoters are not permitted to default the grant application to automatically be "yes"; rather, the subscriber must actively request it. This is done by physically checking off the box on the application requesting the promoter to apply for CESG. In addition to the specific request to apply for the grant, the promoter must receive information from the subscriber regarding the beneficiary(ies) in order to determine eligibility, e.g., promoters must receive the beneficiary’s social insurance number and residency status.

In addition, Human Resources Development Canada (HRDC) conducts audits with promoters to ensure adherence to Department of Human Resources Development Act and CESG Regulations. The documentation associated with account openings and trades on the RESP must be provided to substantiate the transaction on the promoter's records.

Should the distributor maintain the application on behalf of the promoter, significant programming would be needed to ensure the required information is forwarded to the promoter in order to establish the RESP, apply for registration and CESG, and obtain copies and, possibly, the original documentation for transactions on an RESP account. Promoters, trustees and HRDC would have to be comfortable with an arrangement between promoters and distributors to ensure that documentation can be provided if requested.

The audit process with a trustee and HRDC would also change in that the promoters would have to receive specific account numbers to arrange for documentation to be retrieved from the distributor's storage.

At present, all documentation is held with the promoter/fund company, allowing for immediate retrieval of account documentation and the administration of RESPs. The CNWG recommends that this practice continue until the administrative issues associated with RESPs are resolved.

e) Group Accounts

Automating the establishment and transactional activity associated with group plans would require significant system and administrative enhancements. In the current environment, the majority of group plans are established manually, with the fund company receiving the original applications, contribution listings and money directly from the group plan sponsor. The ongoing administration for contributions to the plan is a tedious and manual process as paper documentation for contributions is forwarded to the fund company from the plan sponsor directly. Often, this results in the fund company being the primary contact with the plan sponsor and the distributor only being aware of the transactions occurring after the trade has been placed. Concern has been raised that this arrangement is in effect off-book trading.

The option discussed by the CNWG involved enhancing the distributor, FundSERV and fund company systems to allow the distributor to administer group accounts electronically via FundSERV. The enhancement would not only address account openings but would enable the distributor to place bulk purchases that would automatically be deposited to existing accounts and invested as per the investment instructions on the fund company's records. By creating this program, the distributor would be able to maintain control and accuracy of the group account and receive confirmation of trade activity via FundSERV immediately. The fund company's system would require enhancements to ensure accurate group plan reporting to the plan sponsor and the distributor.

With these enhancements, the distributor and financial advisor would be the primary contact with the plan sponsor and could create arrangements for electronic delivery of contribution information and money to the distributor directly. The distributor would place the trade via FundSERV with the appropriate fund company, maintain the documentation and only forward the funds as per its existing arrangement with the fund company, thus creating a more efficient process.

Another option would be to build automated links between all parties so that the sponsor could electronically trade with the fund company, with the distributor also receiving the data.

These options are administratively feasible but would require significant change to the way business is currently conducted, including system development for all industry parties. Due to the complexity of the process and the unique administrative issues of group plans, the CNWG recommends that further analysis be conducted to determine the most efficient method of administering group plans in an STP environment.

f) Legal Transactions (Estates, Certificates, Corporate Resolutions)

The CCMA Dematerialization Working Group is investigating the possibility that Canadian financial institutions would use their medallion stamp guarantees to streamline processing of certain security transfers. In some transfers, such as those related to estate settlements, extensive legal documentation must often be collected and forwarded to transfer agents, who must then review the documents prior to processing the requested transfer of registration. The New York Stock Exchange (NYSE) has proposed rules that would allow its members to use their medallion guarantees to warranty corporate resolutions or the signature of the legal owner who has endorsed a certificate or signed instructions to transfer the security. The CCMA Dematerialization Working Group is investigating the possibility of using the process in Canada, including whether a rule similar to the NYSE rule is needed.

Legal Considerations

The CNWG briefly reviewed some of the legal issues that need to be considered in addressing the current need for documentation. In particular, several pieces of legislation were identified that may affect the ability of a fund company to rely on a Documentation Agreement to obtain and disseminate personal information and execute trades on behalf of investors.

Appendix CN.3 provides a synopsis of the legal issues associated with the following topics:

- Personal Information Protection and Electronic Documents Act (the "PIPEDA")
- Proceeds of Crime (Money Laundering) and Terrorist Financing Act
- Corporations Act
- Securities Act
- Bankruptcy and Insolvency Act
- CCRA and
- National Instrument 81-102.

Documentation Analysis – Summary of Findings

The analysis conducted by the CNWG focused on identifying the documentation required for each phase of the cycle and determining whether or not the document impacted STP. As well, the review process determined the recommended documentation requirements for each party in the documentation cycle. The following outlines the high-level findings of the analysis assuming that Documentation Agreements are adopted by the industry.

Phase 1 - Client and Distributor

- The distributor would continue to require that the client completes and signs KYC and other distributor documentation. Refer to **Appendix CN.1** for a complete list of documentation that is completed by the client.
- The client would also need to sign an acknowledgement outlining that the distributor will be assuming responsibility for maintaining all documentation for transactions initiated on his/her behalf with the fund company. This acknowledgement will form part of the distributor's KYC form.
- A change to the current point-of-sale disclosure documentation is being addressed by the Joint Forum of Financial Market Regulators Consultation Paper 81-403. As a result, it is not addressed in this report.

Phase 2 - Distributor and Fund Company

Implementation of Documentation Agreements as an industry practice would address the following issues in the current process:

- The distributor currently maintains a client file and keeps a copy of all documentation that is forwarded to the fund company as per self-regulatory organization (SRO) rules. The fund company also maintains the client documentation. This practice results in duplication of effort and additional expenses for mailing and maintaining physical documentation.
- The fund company does not generally authenticate the signature on the documentation received but relies on the distributor to verify it by way of signature guarantee.

Phase 3 - Fund Company and Client

- The account documentation that the fund company forwards to the client and the distributor under the current rules would continue to be required, e.g., confirms, statements, etc. Note that some documentation is sent to the client by the fund company on behalf of the distributor, e.g., confirmations.
- This documentation would not need to be in paper form and could be sent electronically to both the client and the distributor if the fund company chooses to do so and has the ability to provide documentation via electronic means in a secure manner. To prepare the industry to send this information electronically, the client's e-mail address and permission to distribute all documents to the client electronically should be captured at the time a new account is established, if applicable.

Benefits and Issues with Documentation Agreements

The benefits and issues associated with the industry implementing use of Documentation Agreements to facilitate the move to STP are as follows:

Benefits	• Fund company does not depend on physical delivery of document to execute and settle trades • Eliminates duplication of effort – only one party is maintaining the physical documentation • Provides a consistent business approach throughout the industry and • Eliminates work and costs involved with copying and mailing documentation.
Issues	• Liability is shifted from the fund company to the distributor. This may result in higher capital requirements and insurance premiums for the distributor • Regulatory agreement will have to be obtained and standard documentation requirements will be needed throughout the industry • Changes procedures and responsibilities for the distributor. (However, it should be noted that the distributor already maintains complete and accurate books and records as per SRO rules) • Small distributors may have difficulty establishing the administrative infrastructure required to support Documentation Agreements • Ensuring compliance with terms of Documentation Agreements by fund companies and regulators and • Administrative issues with storing and maintaining the Agreements.

Electronic Documentation

Overview

Development of an industry-wide mechanism to store and retrieve client documentation is a potential solution to the documentation issues inherent to client name business. This option would entail developing a comprehensive imaging system that is accessible and used by all parties within the industry.

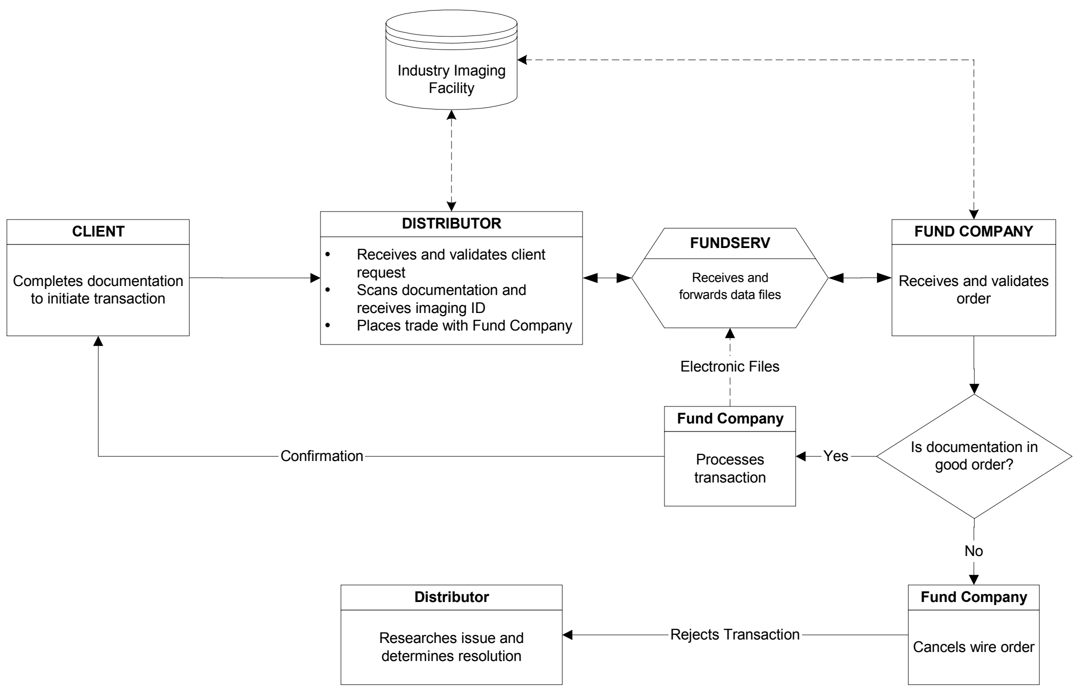
At a high level, the process for electronic documentation would be as follows:

1. Distributor receives and reviews client documentation.

2. Distributor scans documentation and receives imaging number.
3. Distributor places order electronically and enters imaging number to reference documents that support the order.
4. Fund company receives order and reviews documentation stored on the industry imaging system.
5. Fund company accepts or rejects the transaction based on whether supporting documentation is complete.

Information Flow

The basic overview below outlines how the information would flow between the relevant parties - the client, the distributor and the fund company.



An industry-wide imaging system and development of the infrastructure required to support storage of electronic documentation is technically possible. However, it is not a practical solution in the short term due to the costs involved in building the infrastructure. In addition, this solution would require significant development to ensure that proper security is in place to adhere to the Personal Information Protection and Electronic Documents Act.

Benefits and Issues with Electronic Documentation

The benefits and issues associated with the industry adopting electronic documentation are as follows:

Benefits

- All industry parties would utilize the same infrastructure and have access to the documentation before

- settlement and
- Reduces the redundancy related to document management functions.

Issues

- Infrastructure to support electronic documentation is costly, time-consuming and difficult to build
- Significant issues exist around privacy of client information and ensuring that only the relevant parties have access to the client information
- Responsibility and maintenance of imaging system adds additional complications to the infrastructure and
- Challenging to get industry parties to agree to adopt the initiative.

Electronic Signatures

Overview

Electronic signatures are technically and legally possible. Electronic commerce legislation is in force in a number of jurisdictions and the Mutual Fund Dealers Association of Canada (MFDA) permits the use of electronic or digital signatures as outlined in Member Regulation Notice MR-0016. As detailed in MR-0016, most provincial legislation clarifies that an electronic signature does not have to look like a "physical signature" in order to be valid and binding. The signature can be a code, a sound or symbol of any kind and can be a part of or separate from the document as long as the association with the document is clear.

The Electronic Commerce Act (Ontario) is designed to facilitate the execution of agreements in a fully electronic environment. In that context, it is possible for investor transactions to be conducted electronically from start to finish. In the greater context of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act*,* it may be difficult for a securities dealer to discharge its duty to identify investors without having them physically attend and execute account opening agreements. Once an account has been opened, however, there is nothing preventing that person from purchasing mutual fund securities from the distributor's office or through its Web site.

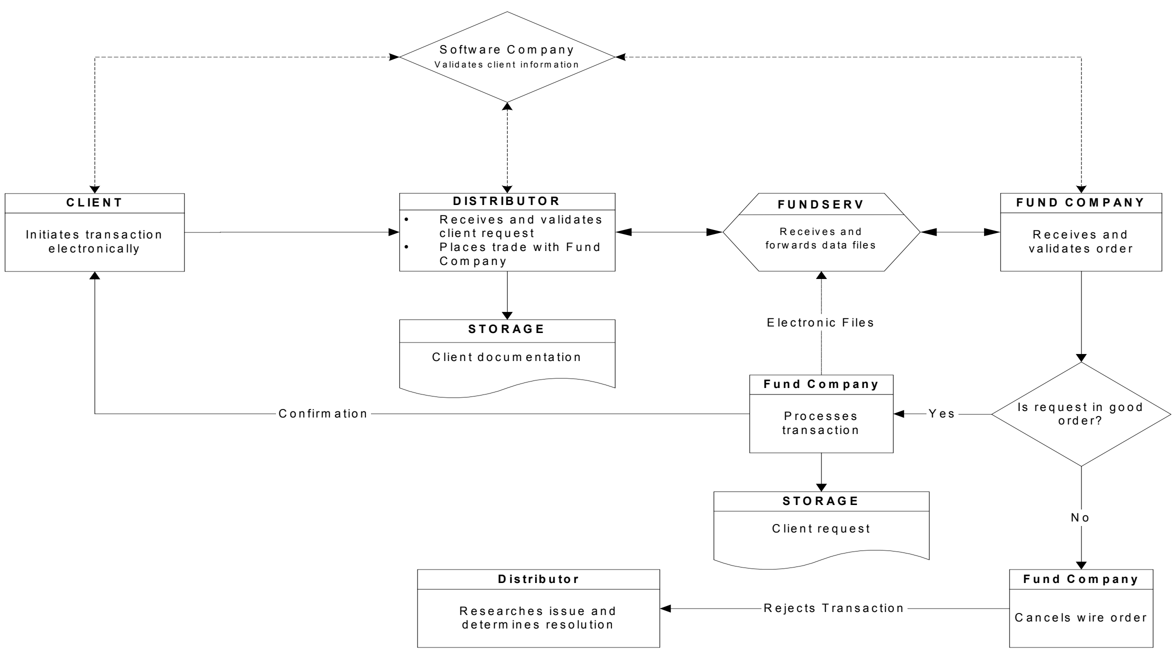
In theory, the industry could adopt the use of electronic signatures. In order to accommodate electronic signatures, all parties to the order would require electronic signature software. This software uses Public Key Infrastructure (PKI) or a similar approach to read and validate the authority associated with the user through a trusted third-party source.

At a high level, the process for utilizing electronic signatures would work as follows:

1. Client communicates the order details electronically using PKI-type-enabled software.
2. Distributor receives the order and validates the client's authority and the order details.
3. Distributor places the order, attaches the electronic signature and forwards the transaction electronically to the fund company if the request is in good order.
4. Fund company receives the order and reviews transaction details as well as validates the electronic signature through the certificate authority (or equivalent trusted third-party source).
5. Fund company accepts or rejects the transaction.

<u>Information Flow</u>

The basic overview below outlines how the information would flow between the relevant parties – the client, the distributor and the fund company. All parties to the order process would need to use software supplied by the same vendor or software that is interoperable.



It is feasible to develop the infrastructure to support electronic signatures from an industry perspective. However, it is not a practical solution due to the costs involved in building the infrastructure and having all members of the industry subscribe to a standard software approach. In addition, this solution would depend on all clients having electronic signature capabilities, which is not a realistic expectation.

Benefits and Issues with Electronic Signatures

The benefits and issues associated with the industry adopting electronic signatures to facilitate a move to STP are as follows:

Benefits	• Eliminates physical documentation for the distributor as well as the fund company and • Establishes a fully electronic order process from the client through to the fund company.
Issues	• Infrastructure to support electronic signatures is difficult and costly to establish – all parties including the client require the ability to deliver and receive electronic signatures • Challenging to get everyone in the industry to simultaneously adopt the approach • Unrealistic to expect that all clients have access to electronic signature software • Certain instructions cannot be processed using electronic signatures, e.g., orders involving powers of attorney where the power of attorney is not on file with the fund company, as electronic signatures are not valid on a power of attorney • Legal and confidentiality issues surrounding the identity of the client • Order entry infrastructure has to be modified to be able to include attachments and • Higher risk for trading to occur without the distributor's knowledge (off-book transactions).

1.4 Documentation Recommendation

Overview of Recommendation

The CNWG reviewed the various alternatives relating to documentation for client name accounts and recommends the industry adopt the following solution as a best practice:

> Implement the use of Documentation Agreements for mutual fund and segregated fund transactions where there is minimum liability and risk to the fund company, the fund and the client. The agreements would cover off the legal obligations with the distributor maintaining the documentation on behalf of the fund company.

As previously noted, under the Documentation Agreement model, a disclosure would form part of the distributor's account opening documentation indicating that the client is aware that the distributor is responsible for maintaining all documentation and is liable for all orders placed with the fund companies. The distributor would be responsible for receiving and reviewing any requests from the client. They would initiate the order with the fund company and maintain the documentation in the client's file. The distributor would be responsible for providing the documentation to the fund companies if requested.

Documentation Agreements are expected to remove the requirement that the appropriate documentation be forwarded to the fund company before settlement for all transactions with the exception of legal and high-risk transactions, e.g., estates, court orders and redemptions. Implementation of the first phase of a Documentation Agreement business practice could eliminate approximately 50-75 per cent of the documentation fund companies currently receive – the estimate is based on the average number of direct trades received and processed by several fund companies. As an industry, work needs to continue towards increasing the types of transactions that are covered off by Documentation Agreements with the end result being that all documentation is maintained by the distributor.

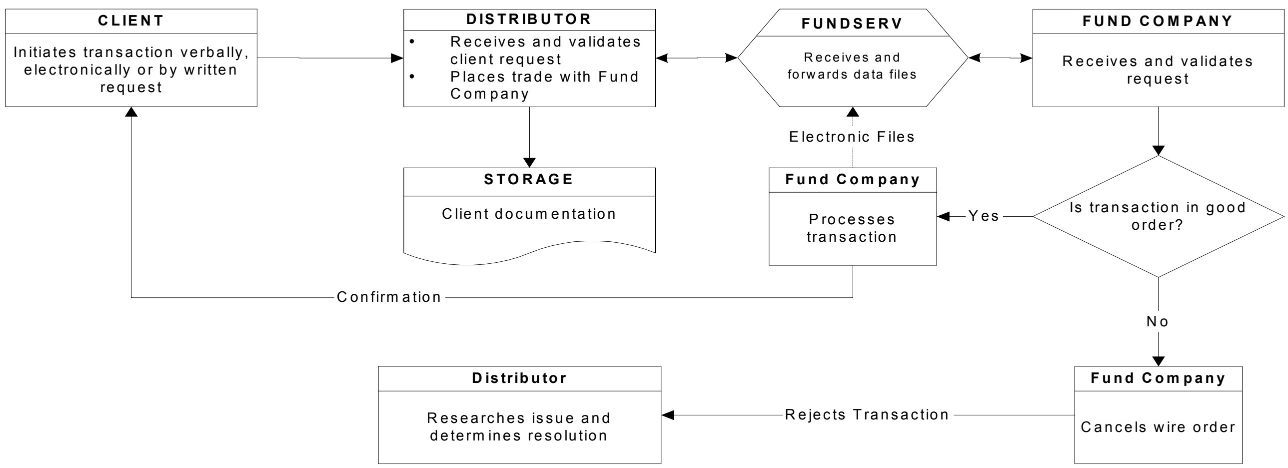
Implementation of Documentation Agreements would also minimize the volume of direct trades that are currently being sent to the fund companies. This is based on the assumption that a high percentage of direct orders are placed because the fund company requires documentation regardless of whether or not the order is placed electronically. Once the need for documentation is eliminated, the amount of direct orders is expected to decrease substantially.

The CNWG recommends that Documentation Agreements be standard industry practice in all provinces. To facilitate use of Documentation Agreements, changes to relevant federal and provincial regulations, as well as SRO by-laws, that impact the mutual fund and insurance industries would be required so that the responsibilities and liability of all parties continue to be clearly defined in an STP environment. Regulators impacted include, but are not limited to, the Canadian Securities Association (CSA), Canada Customs and Revenue Agency (CCRA), the Mutual Fund Dealers Association (MFDA), Bureau des Services Financiers (BSF), The Canadian Life and Health Insurance Association Inc. (CLHIA) and the Investment Dealers Association of Canada (IDA).

It is important that a change of this magnitude in the way client name business is conducted is supported by legislation and, therefore, the CNWG recommends that adherence to industry regulations be mandated by the appropriate governing bodies. Regulatory audits in addition to any reviews conducted by the fund companies as per the terms of the Documentation Agreement would ensure that the distributor has adequate policies and controls in place to ensure adherence to the regulations.

Proposed Process

The following flow chart outlines the high-level business process associated with the use of Documentation Agreements if an electronic order is initiated with a fund company:



Impact of Recommendation

The recommendation to implement Documentation Agreements would impact the industry parties in the following manners:

Distributor:

1. Assumes additional administrative responsibilities associated with maintenance of the documentation. However, this may not result in additional resources or costs because these administrative functions are already being performed by the distributor as per SRO rules.
2. Assumes liability for all transactions placed on behalf of the client.
3. Reduces costs associated with copying and mailing documentation.
4. Possible increase in staffing requirements due to additional data entry responsibilities.

Fund company:

1. Reduces costs associated with filing and maintaining documentation.
2. Changes administrative focus to verifying data and requesting documentation to support transactions

received and conducting audits
3. Possible decrease in staffing requirements due to less manual processing.
4. Changes operational procedures regarding receipt of documentation.

Dependencies

The following are the high-level tasks that need to be completed to implement Documentation Agreements as a best practice:

- Receive industry agreement in principle
- Finalize what mutual fund and segregated fund transactions can be covered off by a Documentation Agreement
- Identify what changes to regulations, including NI 81-102 and industry by-laws, are required to support the use of Documentation Agreements
- Submit recommendations to the regulators for approval, including the CSA, MFDA, IDA, BSF, CCRA and CLHIA
- Obtain CCRA, HRDC and the trustees' approval of the distributor maintaining the application forms for registered accounts
- Agree on terms and draft Documentation Agreements and wording for new client acknowledgement to form part of the distributor's KYC form
- Circulate draft Documentation Agreements and new client acknowledgement to industry members for comment and finalize documents
- Determine how to manage and maintain the agreements, e.g., centralized depository or each company maintaining information
- Establish infrastructure and procedures for maintaining the agreements
- Develop and implement administrative and system procedures to support use of Documentation Agreements, e.g., process to follow if documentation is not received within the settlement period
- Develop ability to place identified transactions electronically
- Implement XML messaging or similar functionality to support electronic movement of transactional information
- Develop and adhere to the XML messaging capabilities and any new ESG standards by both distributors and fund companies
- Develop and implement standard documentation requirements for all fund companies
- Develop and implement standards to produce documentation when requested by fund companies for audits or verification
- Develop and implement system enhancements required to track and monitor when documentation is to follow an electronic trade and
- Liaise with other CCMA Committees and Working Groups to implement Documentation Agreements as a best practice.

Implementation Strategy and Timeline

Implementation of Documentation Agreements will require operational and legal members of the industry to work together to determine the contractual terms and the administrative process. A small group made up of CNWG members and CCMA Legal/Compliance Working Group members should be established to perform the following:

- Determine the transactions to be covered off by Documentation Agreements for mutual funds and segregated funds
- Identify the regulations that need to change to support the use of Documentation Agreements
- Draft the terms and conditions to be included in the Documentation Agreements and the new client authorization
- Determine the administrative and audit process related to the use of Documentation Agreements
- Obtain approval from CCRA and trustees for the distributor to maintain the application forms and
- Determine how Documentation Agreements will be maintained by the industry.

The work of this group should commence once industry members have provided their feedback and have agreed in principle to Documentation Agreements as a best practice. The tasks associated with this deliverable are scheduled to be completed within 90 days of industry agreement to a best practice.

A sub-group of the CNWG needs to review the transactional analysis and finalize what transactions can be supported by Documentation Agreements and what transactions require documentation be sent to the fund company for settlement.

The work of this group should commence once industry members have provided their feedback and have agreed in principle to Documentation Agreements as a best practice. The tasks associated with this deliverable are scheduled to be completed within 30 days of industry agreement to a best practice.

1.5 Possible Solutions for Direct Orders

Overview

Industry members are in agreement that in addition to the need for documentation to complete the settlement cycle, the volume of direct trades received by the fund companies is a major operational issue impeding STP for client name accounts. The dependency on receipt of documentation at the fund company for client name accounts is a contributing factor to the use of direct trades.

The CNWG explored a number of options to address direct orders and determined that there is only one feasible approach to this issue as outlined below. A high-level synopsis of the analysis is presented along with the benefits and potential issues that must be overcome. This section of the report concludes with recommendations intended to address the direct order issue.

Electronic Orders

In an STP environment, administration of client name business needs to move towards full automation when it comes to the placement and settlement of orders. In order to achieve this objective, the only viable solution is for the industry to adopt a best practice of only accepting electronic orders. A process to ensure adherence by distributors and fund companies to a best practice based on electronic movement of data would need to be developed. To this end, regulators could legislate electronic processing.

In an electronic order environment, direct trades would only be allowed in certain circumstances where it is not possible to place electronic orders. Fund companies would set up wire orders for any direct orders received that could have been sent electronically. This practice will ensure that all orders follow the same administrative process and settlement cycle. System programming would be required so that these internal wire orders would settle automatically on settlement day without requiring further intervention.

Implementation of Documentation Agreements would have a bearing on the volume of direct orders fund companies receive. This is based on the assumption that distributors often use direct trades because they have to send documentation regardless of whether the trade is electronic or direct to the fund company. The elimination of documentation for certain transactions will provide distributors with a strong operational reason to change their business practices and initiate orders electronically.

As a first step in the process, the CNWG identified those transactions that fall into special circumstances and would be established as exceptions to the electronic best practice standard.

Order Analysis

The analysis on order delivery for mutual fund transactions was conducted as part of the research done by the CNWG. The analysis indicated that the majority of transactions would be able to be sent electronically and only a small percentage of trades/activities would be considered exceptions. Each transaction falls into one of the following categories:

Category	Transaction or Activity
Already automated – Used by all fund companies	• Financial transactions – redemptions, switches and most transfers • Purchases including commission rebates • Life Long Learning and Home Buyer's Plan redemptions
Already automated – Not used by all fund companies and distributors due to business decisions or not developed because distributors are not sending electronically	• Transaction sequencing • Non-ATON external transfers • Messaging • Seg fund resets • Maturity date • Gender code • FundCOM • Purchases for T2033 proceeds • Systematic financials (set-up for PACs) • Free units/10% free trades
Requires automation* – XML messaging or similar functionality	• Systematic financials (changes to PACs) • Systematic financials (set-up and changes to SWPs) • Registered transfers (marriage breakdown, retiring) • Non-financials (demographic changes, name corrections, FA, beneficiary and dealer changes) • New registered accounts without an associated purchase transaction to facilitate receipt of transfer proceeds • Banking information at time of account set-up • Changes to banking information
Requires automation	• Error corrections • Group account processing (set-up and order placement) • Allowance/severance pay (T2030 RIF to RSP, T2033 RSP to RSP)* • Excess withdrawals (T3012) • Transfers that are not currently automated
Special circumstances	• RESP redemptions and transfers (at this time due to tracking notional information) • Estates • Pension transfers (T2151) • Locked-in redemptions and transfers • Prescribed RIF transfers • Legal name changes • Legal documentation – lost certificates, assignments, garnishments, court orders,

Category	Transaction or Activity
	bankruptcy (generally these activities are not associated with an actual transaction)

*Some of these transactions may already be automated by some fund companies and/or distributors.

Refer to the Mutual Fund Transactional Analysis (**Appendix CN.4**) and Segregated Fund Transactional Analysis (**Appendix CN.5**) for complete details including the rationale for the transactions that are in the special circumstances category.

Benefits and Issues with Electronic Orders in Place of Direct Orders

The benefits and issues associated with the industry adopting an electronic order best practice are as follows:

Benefits

- Decreases manual work done by all industry parties resulting in cost savings
- Provides more efficient and timely business approach throughout the industry
- Provides more consistent administrative processes and costs for nominee and client name processing and
- Ensures that all transactions are settled according to the industry standard settlement cycle.

Issues

- Changes procedures for distributors that rely on sending orders directly to the fund company
- Adherence with the best practice
- Automating transactions that are not currently automated
- Shifts data entry from the fund company to the distributor for direct trades. However, the distributor is already establishing the relevant client, account and transaction as per SRO rules
- Small distributors may have difficulty establishing the system infrastructure required to support an electronic best practice and
- Changes how business is conducted, resulting in system enhancements and procedural changes for fund companies.

1.6 Direct Orders - Recommendations

Overview of Recommendations

The recommendations to address the issues associated with direct orders are as follows:

1. Establish a best practice to trade mutual fund and segregated fund transactions electronically unless a transaction falls into a special circumstance category (transactions that cannot be placed electronically due to industry/product restrictions or the nature of the request).
2. Establish a best practice for mutual fund companies to enter wire orders for any direct trades that are received that do not fall into the special circumstances category.
3. Identify mutual fund and segregated fund transactions that can be placed as wire orders and automate them either by providing the ability to send information through XML messaging or by expanding the order process to include the necessary information.

Implementation of these recommendations is expected to dramatically reduce the practice of placing trades directly with the fund company. As a first phase, these recommendations will eliminate approximately 70-80 per cent[*] of the direct trades that are currently being sent to the fund companies. As an industry, work needs to continue towards decreasing the transactions that fall into the special circumstances category with the end result being that all orders are placed electronically.

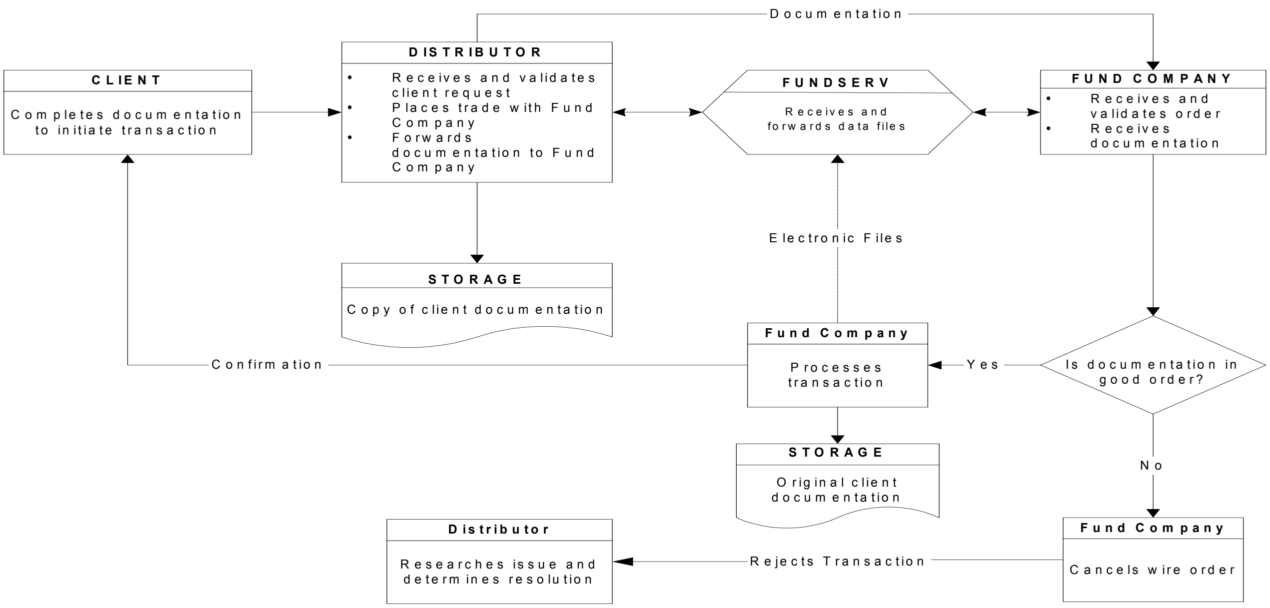
In addition, the eventual move to a shorter settlement cycle will necessitate a significant change in how transactions are processed, in that trades received will have to be processed and completed on T+1. To this end, fund companies will have to automatically process all transactions upon receipt and release confirmations and redemption proceeds on the next day. This is the same manner that switches and some transfers are currently handled by the industry.

Although STP can exist within a T+3 environment, the industry should start reviewing what is required to automatically settle all transactions during the night of trade date so that they are completed on T+1.

Proposed Process

The following flow chart outlines the high-level business process associated with implementing an electronic order best practice if documentation is required by the fund company:

[*] Estimate is based on the average number of direct trades received and processed by several fund companies.



Impact of Recommendations

The recommendations associated with electronic orders replacing direct orders will impact the industry parties in the following manners:

Distributor:

1. Streamlines operational activity in that all relevant orders will be placed electronically.
2. Decreases costs associated with mailing direct orders to the fund companies.

Fund company:

1. Decreases the amount of direct orders received.
2. Decreases costs associated with processing direct orders.
3. Changes operational procedures regarding internal placement of wire orders when direct orders are received by the fund company.

Dependencies

The following are the high-level tasks that need to be completed to implement electronic orders as a best practice:

- Receive industry agreement in principle
- Finalize which mutual and segregated fund transactions can be automated and what transactions will be categorized as special circumstances
- Determine what changes to regulations are required, implement the changes and ensure adherence to electronic processing

- Develop the ability to send certain transactions electronically
- Implement XML messaging or similar functionality to support electronic movement of some of the transactional information
- Develop and adhere to the XML messaging capabilities and any new ESG standards by both distributors and fund companies
- Determine and implement process and system changes needed to establish and settle wire orders by fund companies and
- Liaise with other CCMA Committees and Working Groups to implement electronic orders as a best practice.

Implementation Strategy and Timeline

Implementation of an electronic business model will entail operational and legal members of the industry working together to determine the administrative framework.

A sub-group of the CNWG needs to review the transactional analysis and finalize those transactions requiring automation and those that XML can support. A preliminary list has been prepared and forms part of this report. Once finalized, the list will be forwarded to the FundSERV Electronic Standards Group (ESG) for review and implementation.

The work of this group should commence once industry members have provided their feedback and have agreed in principle to the best practice. The tasks associated with this deliverable are scheduled to be completed within 30 days of industry agreement to a best practice.

Implementation of an electronic best practice will entail operational and legal members of the industry working together to determine the regulatory issues and the administrative process. A small group made up of CNWG members and RTPWG legal members should be established to identify the regulations that need to change to support the proposed electronic business model Documentation Agreements.

The work of this group should commence once industry members have provided their feedback and agreed in principle to a best practice. The tasks associated with this deliverable are scheduled to be completed within 90 days of industry agreement to a best practice in order to meet the RTPWG timelines to establish and publish standards and best practices.

1.7 Proposed Business Model

Introduction

The proposed changes to the client name business model address the operational issues inherent with client name business related to documentation and direct orders. Implementation of Documentation Agreements and electronic orders do not eliminate use of documentation or placement of direct orders.

However, it is estimated that the proposed model would significantly reduce the paperwork that flows between the distributor and the fund company. It also provides a practical and cost-effective solution for manual trades in that the best practice will be to trade electronically.

The CNWG recommends that once the proposed business model is in place for a reasonable period of time, a review be conducted to determine the amount of direct orders being placed. At that time, the review group should determine whether or not further legislation or enforcement mechanisms are required. As well, the review group should evaluate the use of Documentation Agreements and whether or not additional transactions can be addressed through use of the agreements.

Some small distributors may not have the administrative and system infrastructure in place to support the new business model. There may be a perception among these distributors that automation is very expensive and difficult to administer. However, there are various business alternatives available for these distributors that can provide them with the necessary automation at reasonable costs.

These options include outsourcing arrangements that perform a range of administrative functions as well as utilizing basic record-keeping software from a reputable vendor. The CNWG recommends that an analysis of the issues specific to these distributors be conducted with a view to determining the business options available in order to assist them in adopting the proposed STP business model.

Business Flows

The charts and business flows on the following pages outline the high-level business process that would be in place if Documentation Agreements and electronic orders were adopted as best practices by the industry. There are three administrative scenarios in the proposed business model:

- Electronic orders when the distributor maintains the documentation
- Electronic orders when the documentation is forwarded to the fund company and
- Direct orders.

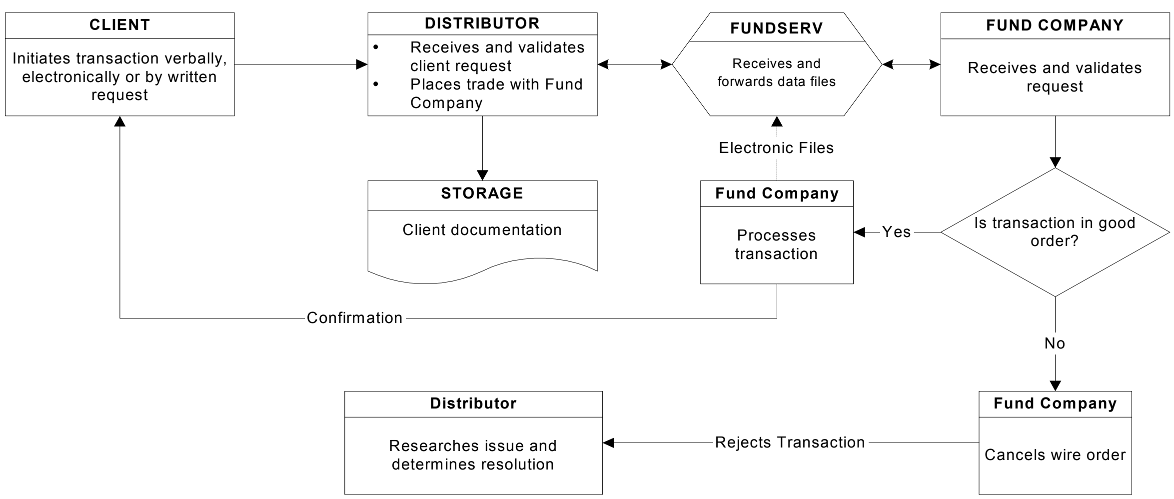
Changes of this magnitude to the way business is conducted need to be supported by legislation and therefore the CNWG recommends that adherence to industry standards be mandated by the appropriate governing bodies. As a result, changes to relevant regulations including MFDA, BSF, CLHIA and IDA by-laws would be required so that the responsibilities and liability of all parties continue to be clearly defined in an STP environment.

Electronic Orders – Distributor Maintains Documentation

The process for placing electronic orders when the distributor maintains the documentation in the proposed business model would work as follows:

1. Distributor receives and reviews all client documentation to ensure it is in good order.
2. Distributor indicates review of documentation by signing and dating the paperwork.
3. Distributor places all relevant orders electronically and maintains the original documentation in client's file.
4. Fund company receives and processes transaction to client's account.
5. Fund company requests and reviews documentation based on administrative requirements.

The overview below outlines how the information would flow between the relevant parties – the client, the distributor and the fund company:



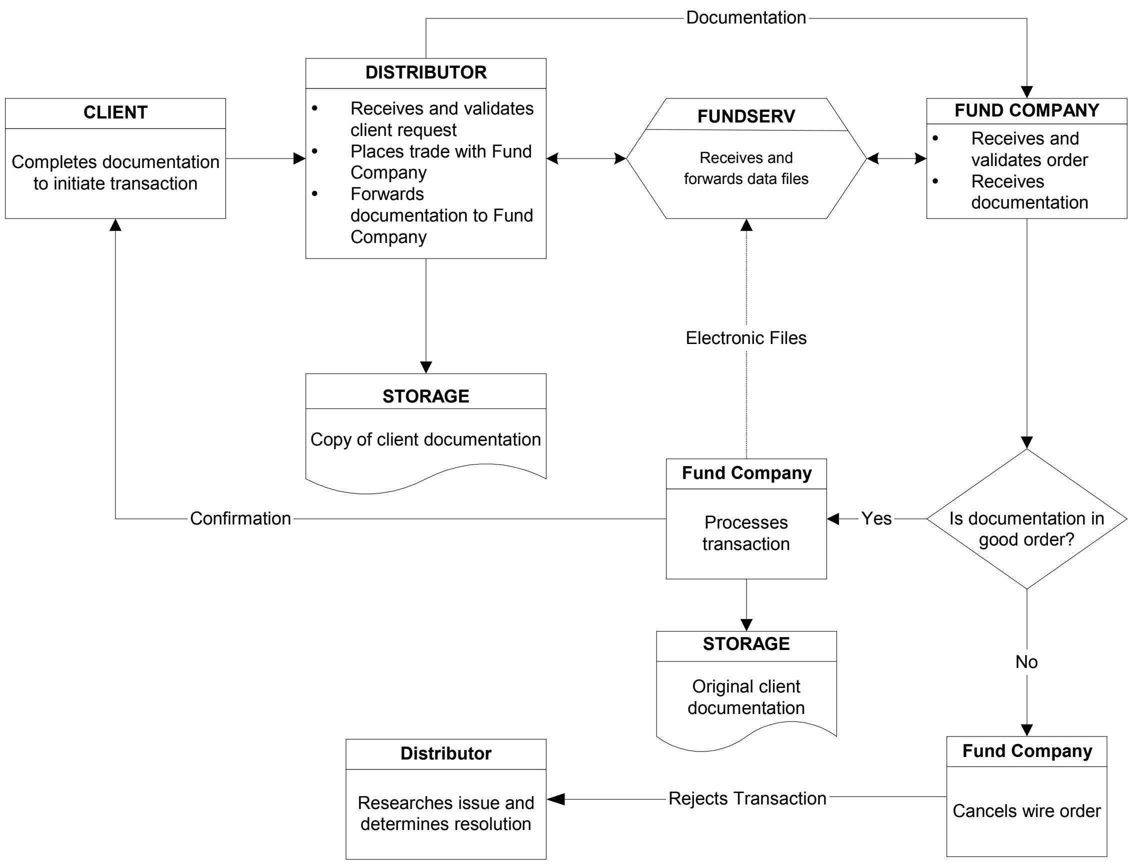
Electronic Orders - Documentation Forwarded to Fund Company

The process for placing electronic orders when the distributor forwards the documentation to the fund company in the proposed business model would work as follows:

1. Distributor receives and reviews all client documentation to ensure it is in good order.
2. Distributor indicates review of documentation by signing and dating the paperwork.
3. Distributor places relevant orders electronically indicating that the documentation will follow.

4. Distributor maintains a copy of the documentation in client's file.
5. Fund company receives documentation and processes transaction to client's account.

The overview below outlines how the information would flow between the relevant parties – the client, the distributor and the fund company:



System enhancements would be required to track when documentation is to follow an electronic transaction.

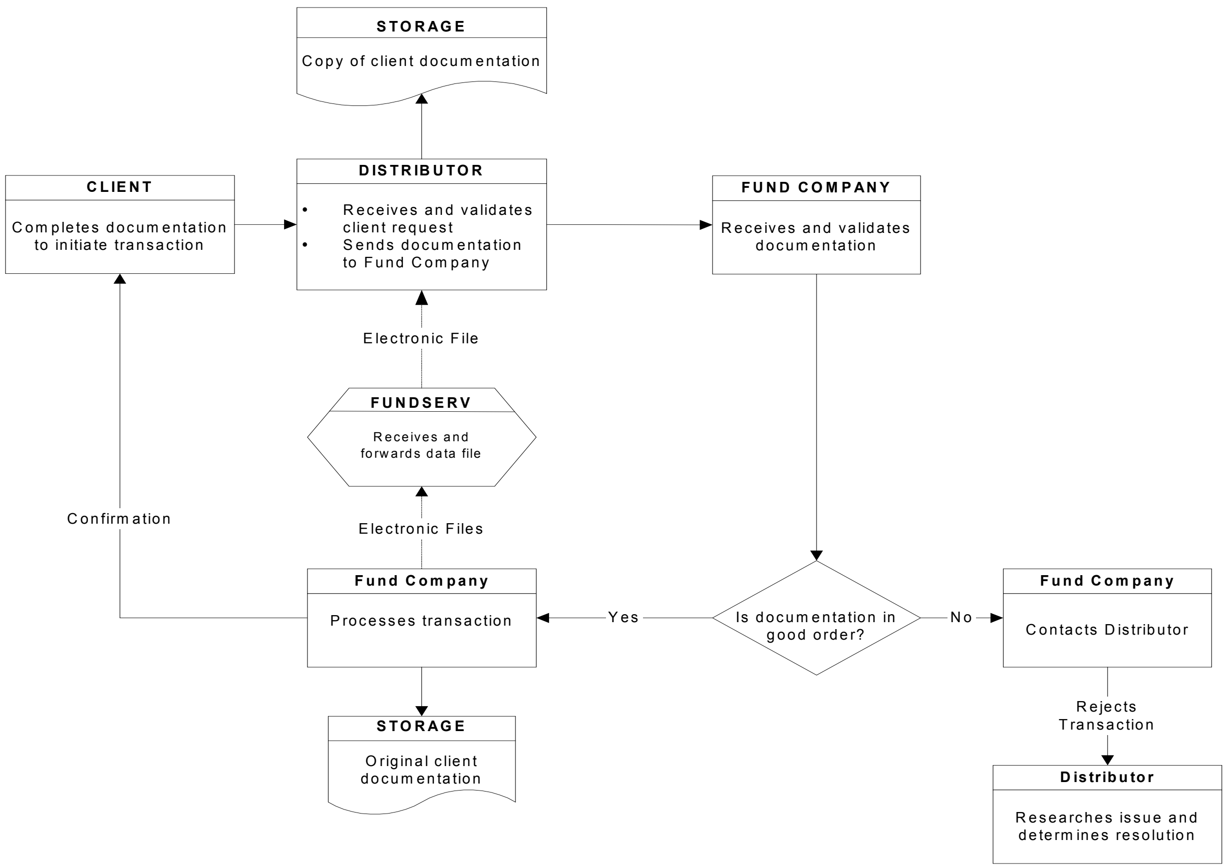
Direct Orders for Special Circumstances

The process for direct orders in the proposed business model would work as follows:

1. Distributor receives and reviews all client documentation to ensure it is in good order.
2. Distributor indicates review of documentation by signing and dating the paperwork.
3. Distributor sends documentation to fund company.
4. Distributor maintains copy of documentation in client file.

5. Fund company processes transaction if it falls within the special circumstances category or places a wire order if the transaction is not defined as special circumstance.

The overview below outlines how the information would flow between the relevant parties – the client, the distributor and the fund company:



The fund company would enter a wire order for settlement within industry standard timelines if the transaction does not fall into the special circumstance category.

Transactional Overview

The following chart provides a draft outline of how mutual fund transactions would be categorized in the proposed business model if Documentation Agreements and electronic orders were implemented as best practices:

Electronic Orders - Distributor Maintains Documentation	Electronic Orders – Documentation Forwarded to Fund Company	Direct Orders - Documentation Forwarded to Fund Company
• New accounts ➢ RSP/RIF/Group RSP ➢ Open • Purchases – Open/RSP • Group purchases • Low-risk redemptions • Switches • Labour sponsored fund redemptions • Changes of ownership • Plan amalgamations • Transfers – Open/RSP/RIF • Marriage breakdown transfers (T2220) • Retiring allowance/severance transfers (TD2) • Excess withdrawals (T3012) • T2030 transfers • Systematic transaction changes • Commission rebates • Financial advisor changes • Address changes • Social Insurance Number changes • Date of birth changes • Name corrections	• High-risk redemptions • Hedge fund purchases • Changes of ownership • Indiv – Indiv in trust • Marriage breakdown transfers – Locked-in accounts (T2220) • Excess withdrawals – Locked-in account (T3012) • Homebuyer’s plan withdrawals • Life long learning withdrawals • PAC/SWP set-ups • Banking information changes • Beneficiary changes • Error corrections	• Estate transactions • Assignment of accounts • Lost certificates • Garnishment/court orders • Bankruptcy • Locked-in redemptions • Locked-in transfers • T2030 Locked-in transfers • RESP redemptions • RESP transfers • Legal name changes

A method to indicate that documentation is to follow the order would be required. Fund companies would require system changes to accommodate receipt of documentation for specific transactions. Documentation is required by settlement date or the transaction will be forced-settled and losses charged to the distributor.

It is important to note that procedures and best practices established for STP will be implemented in the current settlement cycle. Receipt of documentation by the fund companies by settlement day is possible within the current timelines.

However, documentation will have to be received within the acceptable timeline when the industry moves to T+1 or the transaction will be forced-settled.

Changes to settlement timelines in relevant regulations and by-laws are required to ensure a consistent settlement process for all transaction types. In particular, settlement for redemptions needs to be changed to be in line with settlement timelines for purchases, e.g., T+3 rather than T+10.

Transactional Differences – Mutual Funds and Segregated Funds

The following chart summarizes the high-level differences between mutual funds and segregated funds in the proposed business model:

Category	**Transaction**	**Mutual Funds Proposed Process**	**Segregated Funds Proposed Process**
Legal	• Powers of attorney • Corporate resolutions • Trust agreements • LTA	The distributor would maintain the documentation on behalf of the fund company.	Seg fund issuers would require that the original documents be provided.
Purchases	• New account purchases • Existing account purchases	New account applications and purchase instructions would be maintained by the distributor.	Seg fund issuers must receive the original contract application, as it must be provided to the insurer. Automation required for purchase restrictions when an annuitant reaches maximum age.
Redemptions and switches	• 10% free switches	Ability to place switches electronically for 10% free units are permitted, but remain a business decision with each fund company as to whether distributors would be able to place the order electronically.	Seg funds do not permit switches of 10% free units. They must be done as a sell and a buy due to the effect on guarantees. Deposit maturities must be done as direct orders so that the top-up can be calculated and credited to the client account.
Non-registered	• Change of	Documentation would be maintained by the	A new insurance contract will continue to

Category	Transaction	Mutual Funds Proposed Process	Segregated Funds Proposed Process
account transfers	ownership ➢ Individual → Individual in trust ➢ Individual in trust → Beneficial owner • Plan amalgama-tions • Plan changes • Dealer changes	distributor.	be completed and forwarded to the seg fund issuer.

1.8 Conclusion

Summary of Recommendations

The following summarizes the primary recommendations made in this report to address the documentation and order delivery issues in the current client name business model:

1. As a principle, all trades should be electronic and settle according to the standard industry settlement cycle:
   a) Establish a best practice to trade mutual fund and segregated fund transactions electronically unless a transaction falls into a special circumstance category (transactions that cannot be placed electronically due to industry/product restrictions or the nature of the request). Special circumstance transactions include estate transactions, assignment of accounts, lost certificates, garnishment/court orders, bankruptcy, locked-in redemptions and transfers, T2030 locked-in transfers, RESP redemptions and transfers and legal name change.
   b) Identify mutual fund and segregated fund transactions that can be placed as wire orders and automate them either by providing the ability to send information through XML messaging or by expanding the order process to include the necessary information.
   c) Establish wire order trades for any direct trades received that do not fall into the special circumstances category. These transactions would follow the standard industry settlement cycle.
2. Implement the use of Documentation Agreements for mutual fund and segregated fund transactions where there is minimum liability and risk to

the fund company, the fund and/or the client. The agreements would cover off the legal obligations, with the distributor maintaining the documentation on behalf of the fund company. As a first phase, Documentation Agreements would be used to complete: non-financial changes, amount and frequency changes to PACs and SWPs, commission rebate purchases, dealer/rep changes, new registered accounts as well as some redemptions and transfers. (Refer to **Appendix CN.4 and CN.5** – mutual fund and segregated fund transactional analysis for complete transactional details.)

3. Change relevant federal and provincial regulations, as well as SRO by-laws, to support the proposed business model and ensure adherence to the best practices.
4. Implement an ongoing review process to ensure continuous focus on achieving STP as follows:
    - Determine the amount of unnecessary direct trades and identify actions required to minimize them
    - Determine if transactions in the special circumstances category can be automated and work with industry representatives to automate them and
    - Identify additional transactions that can be addressed through the use of Documentation Agreements and work with industry representatives to add them to the documentation that can be retained by the distributor.
5. Conduct further analysis of the current business model for the administration of group accounts to recommend the changes required to administer these accounts in an STP environment.
6. Conduct an in-depth analysis of the issues specific to small distributors to determine the business options available to them in order to assist them in adopting the proposed STP business model.

There are a number of tasks that will require completion in order to implement the recommendations. They are detailed in the relevant recommendation sections of this document.

The proposed changes to the client name business model address the issues and support the recommendations that were identified in the RTPWG's T+1 White Paper and the November 2002 Client Name Issues paper[2].

The CNWG's summary of recommendations categorized as General, Legal and Roles and Responsibilities – Potential Best Practices and Standards is as follows:

[2] Written by Gilles Bouillon, Peter Hildyard, Judy Van de Sype and FundSERV, November 2002

General Recommendations

	Client Name Working Group		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**CNWG and LCIWG**	• Finalize the mutual and seg fund transactions that currently cannot be transmitted electronically • Provide a list of transactions that can be placed as wire orders to the FundSERV's ESG Working Group with a view to automating them either by providing required information through XML messaging or expanding the order entry process to include the necessary information	Within 90 days of industry agreement
2.	**CNWG/FundSERV**	• Conduct a review to determine the amount of unnecessary "direct trades" being placed after the new business model has been in place a reasonable period of time and determine if further legislative or enforcement mechanisms are required to ensure adherence with the electronic order best practice	To be determined
3.	**CNWG and LCIWG**	**Documentation Agreements:** • Confirm transactions to be covered • Identify regulations that need to change • Draft terms for agreements • Determine administrative and audit process • Work with CCRA and trustees to obtain approval from CCRA for distributor to maintain relevant documentation • Determine how Documentation Agreements will be managed by the industry	Within 90 days of industry agreement
4.	**CNWG Subgroup**	**Documentation Agreements:** • Review transactional analysis and finalize what transactions require automation • Outline types of information XML needs to support • Forward to ESG for consideration when finalized	Within 30 days of industry agreement
5.	**CNWG Subgroup**	Conduct an in-depth analysis of the issues specific to small distributors to determine the business options available to them in order to assist them in adopting/adapting to the proposed STP business model	Within 90 days of industry agreement
6.	**TBD**	Conduct an analysis of the current business model for the administration of "group accounts" to determine the changes required to administer these accounts in an STP environment	Within 90 days of industry agreement

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Specify any current requirements**	Critical	MFDA, BSF, CLHIA, IDA, CCRA	Set current requirements if any, and	Ensure rules and by-laws addressing legal obligations of all	Elimina-tion of paper	Dec. 2004	CNWG and LCIWG	Within 90 days of industry agreement to

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
	for Documen-tation Agreements			incorporate necessary oversight.	parties are clearly defined				pursue implementing Documentation Agreements: • Determine transactions to be covered • Determine if there is a need to exclude high-risk redemptions and define the characteristics of such • Identify regulations that need to change • Draft terms for agreements • Determine administrative and audit process • Work with CCRA and trustees to obtain approval from CCRA for distributor to obtain approval
2.	**Specify any current requirements for electronic processing of direct trades outside the**	Very important	To be determined	To be determined	Ensure rules and bylaws support electronic processing of direct trades	Elimina-tion of paper	Dec. 2004	CNWG and LCIWG	To be determined

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
	special circumstance category								
3.	**Ontario Securities Act**	Important	Ontario Securities Commission	Current rules seem to indicate that an advisor acts as an agent for an investor on a front-load purchase, but acts as an agent for the fund company on deferred-load purchases.	Need a clearer definition of "who owns the client." The advisor should always be seen as acting as an agent for an investor. What impact might there be on any contemplated Documentation Agreements?	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
4.	**N/A**	Important	MFDA, CSA	None	Previous attempts by the industry to introduce forms of the recommended Documentation Agreement were unsuccessful due to fund company reluctance to rely on the dealer indemnification. Explore the minimum amount of insurance to be carried by a dealer that would give fund companies a comfort level to enter into such	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
					agreements.				
5.	**Bankruptcy and Insolvency Act**	Important	Federal	Determination of dealer assets by the trustee in bankruptcy.	Consider whether securities purchased and held in client name under the recommended Documentation Agreement would be considered as in the control of the dealer, and therefore be deemed to be assets of the dealer. This is similar to the current scenario of accounts operating under a limited trading authorization agreement.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
6.	**To be determined**	Very Important	CCRA, CLHIA	Requirements to obtain an application with client signature in order to establish a registered plan or an account.	To be determined. Address requirements in order to implement Documentation Agreements.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
7.	**PIPEDA**	Important	Federal government	Disclosure of client information.	Clarify if dealers using third-party service providers need to obtain client consent to transfer or disclose personal information.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Activity	Business Practice From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking / Metrics
1.	**Order Entry**	Dealer	Fund Company		All mutual and seg fund orders, except for those falling into the special circumstances category, must be entered electronically.	Special circumstance transactions, trades that cannot be placed electronically due to industry/product restrictions or the nature of the request, include estate transactions, assignment of accounts, lost certificates, garnishment/court orders, bankruptcy, locked-in redemptions and transfers, T2030 locked-in transfers, RESP redemptions and transfers and legal name change.	To be determined	To be determined
2.	**Settlement**	Dealer	Fund Company		Establish wire orders to settle any direct trades received that do not fall into the special circumstance category.	As a principle, all investment fund trades, to buy or sell, in client name or nominee, should settle according to the industry standard settlement cycle.	To be determined	To be determined
3.	**Client Documen-tation**	Dealer	Fund Company		Implement the use of Documentation Agreements for investment fund and segregated fund account openings and selected transactions.	Agreements between the fund company and distributor would require the distributor to obtain and maintain all relevant client documentation required for fund account openings and transaction settlements. Distributors would be required to provide the documentation to the fund company, if and when requested.	To be determined	To be determined

Request for Comments

The purpose of this report is to outline the STP issues and possible solutions for client name accounts and to obtain feedback from industry members on the development of industry standards and best practices. In particular, the CNWG requires specific input on the following categories:

1. Have the client name issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan?

Please refer to **Appendix #4** of the full paper and send your written comments regarding the client name account recommendations presented in this paper.

Expected Next Steps

Once comments have been received, responses will be analyzed and the proposed business model refined with input from the relevant industry associations. This information will be published via the CCMA, IFIC and FundSERV Web sites so that respondents can be assured that their comments have been received.

CNWG Participants

This report is the result of a study conducted by the members of the CNWG. Members of the CNWG represent a cross-section of industry partners that deal in client name – fund companies, distributors, banks, service providers and insurance companies. Representatives from a legal firm as well as from industry associations (IFIC, FundSERV) also participated in this review. A list of the industry representatives who were involved with this analysis and preparation of this report can be found in **Appendix #3** to the full paper.

Appendix CN.1

Documentation Summary and Definitions

The following is a summary of the documentation that is used by the industry parties in the three primary phases to the documentation cycle – between the retail client and the distributor, between the distributor and the fund company and between the fund company and the client.

CLIENT TO DISTRIBUTOR

- Commission Rebate Forms
- Dealer/Rep Change Forms
- Fax/E-mail Agreements **
- Fund Company Registered Application Forms
- Legal Documents (Certificates,Estates, Assignments,Power of Attorney, Corporate Resolutions)
- Limited Trading Authorization Forms
- Order Entry Forms
- Specialty Processing (LSIF, Hedge,SEG)*
- Transfer Forms
- Leverage Disclosure Forms
- New Account Application Forms (KYC)

DISTRIBUTOR TO CLIENT

- Account Statements
- Disclosure Documents (Prospectus, Financial Reports)

DISTRIBUTOR TO FUND COMPANY

- Commission Rebate Forms*
- Dealer/Rep Change Forms
- Fund Company Registered Application Forms
- Legal Documents (Certificates,Estates, Assignments,Power of Attorney, Corporate Resolutions)
- Limited Trading Authorization Forms
- Order Entry Forms
- Specialty Processing (LSIF, Hedge, SEG)*
- Transfer Forms

FUND COMPANY TO CLIENT

- Account Statements
- Confirmations
- Legal Documents (Certificates, Assignments)
- Declaration of Trust/ Addenda
- Annual /Semi Annual Financial Reports
- Correspondence (NSF,RIF/LIF, Age 69 Roll Over/ Welcome)
- Proxy
- Tax Slips

FUND COMPANY TO DISTRIBUTOR

- Account Statements
- Contracts/Confirms
- Commission/Trailer Reports
- Processing Rejects
- Marketing and Disclosure Materials
- Reports (Age 69, Invalid SIN,Missing Aplications/ Information,RIF/LIF Letters)

Client receives copies of all documentation.

**** Used by some Distributors**

The Distributor via the Financial Advisor distributes copies of disclosure documents to client

*** Required by some Fund Companies**

Documentation – Definitions

Name of Form	Description of Form	Client to Distributor	Distributor to Client	Distributor to Fund Company	Fund Company to Client	Fund Company to Distributor
Commission Rebate Forms*	This form is used to provide disclosures about rebate information in situations where the client has incurred DSC redemption charges and the MFR wants to reimburse some or all of those charges from commissions received on the new fund purchase.	□		□		
Dealer/Rep Change Forms	Form is used to change from one dealer/rep. to another.	□		□		
Fax/E-mail Agreements**	An agreement that is used by some distributors that allows a MFR to act on faxed or e-mailed instructions from the client.	□				
Fund Company Registered Application Forms	Application forms specific to individual fund companies that are used to register plans with CCRA.	□		□		
Legal Documents (Certificates, Estates, Assignments, Corporate Resolutions, Powers of Attorneys)	Certificate – A legal document that signifies ownership of a specific number of units or shares.	□		□		
	Estate – All the assets a person possesses at the time of death – such as securities, real estate, interests in business, physical possessions and cash. The estate is distributed to heirs according to the dictates of the person's will or, if there is no will, a court ruling.	□		□		
	Assignment – Pledge of account assets such as mutual fund units to a third party (such as a bank) as collateral for a loan. Such units cannot be redeemed by an investor until the loan is paid and release is received from a third party.	□		□		
	Corporate Resolution – A legal document signed by the board of directors of a corporation that identifies the people with signing authority on behalf of the corporation for a mutual fund account.	□		□		
	Power of Attorney – Authority to act on behalf of another person in matters concerning their affairs in general and/or their mutual fund account in particular.	□		□		

Name of Form	Description of Form	Client to Distributor	Distributor to Client	Distributor to Fund Company	Fund Company to Client	Fund Company to Distributor
Leverage Disclosure	An acknowledgement that is signed by the client stating that the client has received the leverage disclosure anytime a MFR becomes aware a client is using borrowed monies to make a purchase.	□		□		
Limited Trading Authorization (LTA)	The LTA provides the MFR with the authority to act on verbal/fax/e-mail instructions from a client.	□		□		
New Account Application (KYC)	The KYC form is used to collect client information relating to identification, investment knowledge and objectives. This form is mandatory for all new clients.	□				
Order Entry Forms	A processing form used for transactions that do not require a fund company-specific form. This can be a multi-purpose form (everything in one) or an individual form that is used to capture details of financial and non-financial transactions.	□		□		
Specialty Processing (LSIF, Hedge, Seg)*	A processing form that is used for specialty products offered by some fund companies.	□		□		
Transfer Forms	Form used for the transfer of units in cash or in kind to a new administrator or trustee.	□		□		
Account Statements	An account statement that shows the details of the client's holdings. It lists the quantity of each security held, the current market value and lists all transaction activities for the period being reported.		□		□	□
Disclosure (Prospectus, Financial Reports)	Prospectus - A legal document that describes an offering of mutual fund units. It contains all the details needed by potential investors to make an informed investment decision.		□			□
	Financial Reports (annual and semi-annual) - Releases by companies of all information, positive or negative, that might bear on an investment decision, as required by the securities commission and the stock exchanges. These documents are distributed to the client at time of sale and on an ongoing basis.		□		□	□
Confirmations	An acknowledgement providing the details of a completed mutual fund transaction. The confirmation must be mailed or delivered to the investor within 24 hours of completing the transaction. Fund companies issue confirmations on behalf				□	

Name of Form	Description of Form	Client to Distributor	Distributor to Client	Distributor to Fund Company	Fund Company to Client	Fund Company to Distributor
	of distributors.					
Correspondence (NSF, RIF/LIF, Age 69 Rollover, Welcome)	Correspondence sent to clients providing information regarding their accounts or requesting information in order to administer their accounts properly.				□	
Declaration of Trust/Addenda	Terms and conditions under which the registered plan is administered and by which the plan holder is bound. Addenda are supplements to an RSP or RIF plan that contain additional administration rules based on provincial or federal regulations.				□	
Proxy	Written authorization given by a shareholder to someone else, who need not be a shareholder, to represent him or her and vote his or her shares at a shareholders' meeting.				□	
Tax Slips	Supplementary slips issued to unit holders for tax filing depending on the plan that they hold; copies are sent to CCRA.				□	
Contracts/Confirms	An acknowledgement of the details of a financial transaction. Generally forwarded to the distributor electronically.					□
Marketing and Disclosure Materials	Printed materials such as fund company forms or new product offering, fund mergers, fund objective changes and fund capping.					□
Processing Rejects	A form used to inform the distributor of processing rejects that require correction or amendment to complete a transaction.					□
Reports (Age 69, Invalid SIN, Missing Applications/Information, RIF/LIF Letters)	Reports that list client accounts that require additional information to complete the “in good order” requirements or notification letters to clients.					□

Appendix CN.2

Glossary of Terms

Client Name (also known as "off-book" for brokers): An account registered directly in the name of the beneficial owner of the account on the fund company records.

Custodian: A person or company that holds and administers securities and financial instruments on behalf of others.

Direct Trade: A financial order initiated by documentation that is received and is necessary at the fund company to settle the trade when the order is received by the fund company. The order is placed and settled (paid for) at the same time. Receipt of documentation in good order initiates the order.

Distributor: Any financial firm with the authority to sell mutual fund units to the public. This can include broker/dealers, banks and mutual fund management companies (if they are registered as dealers).

Forced-Settled (also know as "deemed settled"): An industry regulation whereby the fund company must offset the order with a purchase for a failed redemption order, or with a redemption for a failed purchase order, if settlement is not received by settlement date. The distributor is responsible for paying any losses incurred and the fund retains any gains.

Fund Company: A company that provides day-to-day management of the operations of an investment fund.

FundSERV: A service provider that operates the network and related systems that allow mutual fund and other investment companies to exchange orders, confirmations, reports and other information.

Individual Variable Insurance Contract (IVIC): A term generally interchangeable with seg fund. An individual variable insurance contract entered into between a contract holder and the life insurance company. Maturity and death benefits guarantees are provided to contract holders and beneficiaries pursuant to an IVIC. Purchasers of an IVIC hold an insurance contract that gives them certain benefits based on the value of one or more specified segregated funds (or groups of funds).

Intermediary: A term generally interchangeable with "third party."

Investment Fund: A term generally interchangeable with "mutual fund;" also includes segregated funds.

Investment Fund Dealer: A securities firm.

Investment/Asset/Money Manager: A term that is interchangeable with "portfolio manager." A portfolio manager is a professional money manager who manages a fund.

Manufacturer: Another term for fund company.

Medallion Stamp Program: A program approved by the U.S. Securities Transfer Association (STA) that enables participating financial institutions to guarantee signatures. The Medallion Stamp Program confirms that the individual signing the certificate or stock power is in fact the registered owner as it appears on the stock certificate or stock power. The STA represents the major transfer agents in both the United States and Canada.

Mutual Fund: An investment entity that pools shareholder or unit holder funds and invests in various securities. The units or shares are redeemable by the fund on demand by the investor. The value of the underlying assets of the fund influences the current price of units.

Mutual Fund Representative: A firm or individual that specializes in giving advice about investing in securities and managing a securities portfolio. MFRs do not offer trading services.

Net Asset Value (NAV): The value of all the holdings of a mutual fund, less the fund's liabilities. The NAV is divided by the number of units outstanding to determine the price per unit.

Nominee Account (also known as "on-book" for brokers): An account registered in the name of a dealer or third-party administrator on behalf of the beneficial owner of the account.

PAC: Pre-Authorized Cheque Plan. A program that authorizes the company to debit the client's bank account for a specified amount at regular intervals.

Promoter: An organization that offers RESP plans to the public.

Segregated Fund: A pool of assets owned by a life insurance company and held by the life insurance company separate and apart from other similar pools and its general assets. A segregated fund contract can be registered as a registered savings plan (RSP)/ retirement income fund (RIF), etc., without the need for a trustee, unlike investment funds or other securities.

SWP: Systematic Withdrawal Plan. Regular scheduled payments are made to the client by redeeming a specified amount at regular intervals from the client account.

Third Party: A financial firm, other than the fund company or dealer, that administers an investor's plan.

XML Messaging: XML is an inexpensive mark-up language designed for the Web that enables users to create their own vocabularies to describe data.

Appendix CN.3

Synopsis of Documentation Agreement Legal Issues

The CNWG identified the following pieces of legislation that may affect the ability of a fund company to rely on a Documentation Agreement to obtain and disseminate personal information and execute trades on behalf of investors.

Personal Information Protection and Electronic Documents Act (the "PIPEDA") and An Act Respecting the Protection of Personal Information in the Private Sector (Quebec) (the "Quebec PI Act")

It must be determined whether the personal information forwarded by the distributors to the fund company or to other third parties, is being transferred or disclosed in order to determine what steps are required under PIPEDA and the Quebec PI Act. In some circumstances, PIPEDA allows an organization to transfer (e.g., "outsource") personal information to a third party for processing, and in such a case, the organization remains responsible for the personal information and must use contractual or other means to provide a comparable level of protection while the personal information is being processed by the third party. If the personal information is considered to be disclosed to a third party for purposes the individual did not intend, then adequate consent with respect to such disclosure, collection or use of the personal information must be obtained from the individual. The Quebec PI Act also contains requirements to similar effect with respect to the transfer to, and collection, use and disclosure by, agents and mandataries; again, adequate contractual measures must be taken to permit this. Similarly, the Quebec PI Act requires the obtaining of additional consent from the individual where the collection or disclosure of personal information is not for the purpose the individual previously consented to.

However, in either case, under both statutes, an adequately drafted consent from the accountholder to the distributor and fund company should be sufficient to address and permit the distributor to transfer or disclose the accountholder's personal information to the fund company. The fund company, in turn, can rely on the consent to pass on that information to its third-party service providers.

In all respects, the contractual relationship between the distributor, fund company and third-party service providers would have to insure that there is adequate safety and security of the information. As a result, the Documentation Agreement between the distributor and the fund company as well as any agreements between service providers and the fund company will need to be carefully reviewed.

Anti-Money Laundering and Terrorist Financing

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act places obligations on "securities dealers" to monitor, record and report on suspicious transactions. Fund companies are considered to be securities dealers under this legislation. The obligation to identify clients, record transactions and report on suspicious transactions rests with both the fund company and the distributor (mutually exclusive of each other). The legislation specifically exempts fund companies from the requirement to identify clients where the fund company has reasonable grounds to believe that another financial institution (like the securities dealer) has already verified identity. However, there are no provisions to exempt fund companies from complying with the requirement to report suspicious transactions if a securities dealer is reporting suspicious transactions. The fact that fund companies will not receive documentation under the proposed STP process does not hinder the fund company's ability to detect suspicious transactions as redemptions made to third parties are considered high-risk. Under the Documentation Agreement, presumably a fund company will also be entitled to request original documentation if it detects a potentially suspicious transaction. This request for original documentation from the securities dealer should not trigger the tipping offence as the fund company is not alerting the investor to the suspicious transaction but rather the securities dealer. The Act also does not prohibit the fund company from using agents (the distributors) for record-keeping obligations.

Corporations Act

There is a requirement under the Business Corporations Act (Ontario) and the Business Corporations Act (Canada) that upon demand, certificates evidencing the ownership of shares of a corporation must be issued by the corporation. Mutual funds created as corporations are subject to this requirement. It should be noted that in order to perfect a security interest in securities under the Personal Property Security Act (Ontario), the secured party must perfect by possession and, as a result, certificates may be required.

This particular issue is not in the scope of this analysis. It is being addressed by the CCMA's Dematerialization Working Group.

Securities Act

There are very few direct obligations of a fund company under the Securities Act (Ontario) after a trade is completed. Fund companies may, but are not obliged to, deliver confirmations of trades to security holders. Distributors are obliged to deliver confirmations of trades to security holders and may let the fund companies discharge that duty for them. Ongoing record-keeping and other compliance matters can be dealt with through contract with service providers.

Bankruptcy and Insolvency Act ("BIA")

Account information held by the distributor may be considered to be an asset of the distributor, which vests in the trustee of bankruptcy. If, however, the account information is determined to be third-party property, the trustee in bankruptcy is obliged to return the property. If a distributor was to assign itself or be petitioned into bankruptcy, persons who have a right to property held by the distributor would have to make a written request to the trustee in bankruptcy for the return of that property. Information held by the distributor, which is held not to be the distributor's property, would have to be returned to the fund company.

A well-drafted agreement between the distributor and the fund company should impose a condition that the information remains the property of, and is held in trust for, the fund company. This may be sufficient to convince a trustee,or, if need be, a court, that the intention of the parties was that this property at all times belonged to the fund company.

In addition, trustees in bankruptcy are interested in maximizing realizations. It is likely that the trustee would wish to work cooperatively with a revenue source, such as the fund company, if access to the records is necessary to generate the payment of trailer fees and trade commissions.

Securities that qualify as “customer name securities” are returned directly to the client pursuant to Part XII of the BIA, provided the client is not indebted to the distributor. These securities do not form part of the customer pool fund and are not subject to levy of costs for administering the bankruptcy. The assets (originally held by or in the name of the distributor) vest in the trustee in bankruptcy who distributes them (subject to any shortfall in amounts owing to clients and the costs of administering the bankruptcy) to the dealer’s customers on a pro rata basis.

There was, prior to the introduction of Part XII of the BIA, uncertainty as to whether certain assets were “customer name securities.” Additionally, when the distributor was operating as an agent for a trustee under a registered plan sponsored by the mutual fund dealer, and was registering client assets in the name of the distributor (even if it was registered as “dealer X as agent for trustee Y”), it was unclear whether such assets would be “customer name securities.” The introduction of Part XII of the BIA provides specific guidelines on the determination of what securities are “customer name securities.”

CCRA

CCRA requires that issuers obtain a completed application that contains at minimum the annuitant’s and/or contributor’s name, address, date of birth, Social Insurance Number and signature in order to establish and register the plan. The RESP plan requires additional information specifically pertaining to the beneficiary. The issuer often delegates this obligation in addition to other administrative functions to the fund company (referred to as the “agent”) through an agency agreement. It is possible for the fund company (agent) to delegate the receipt and maintenance of the client application through a detailed Documentation Agreement with a distributor. The Documentation Agreement would have to clearly detail the responsibilities the distributor is assuming and include a provision that the fund company and/or the issuer have the ability to retrieve client applications at any given time or within a reasonable timeframe in order to satisfy CCRA requirements. Prior to establishing any such agreement, the issuer must be consulted as ultimate responsibility for the registered plan remains with the issuer.

While not a CCRA requirement, many fund companies’ applications include a section for beneficiary designations. The electronic submission of this information may be of concern to fund companies and issuers due to the potential risks in paying out to an incorrect beneficiary.

National Instrument 81-102, Mutual Funds

Section 9.2 of National Instrument 81-102 contemplates the transmission of written documentation via courier or priority post from securities dealers to fund companies for purchases. No changes to this section are required as the section also contemplates transmission of purchase orders through telephone or electronic means.

Section 10.1 of National Instrument 81-102 only permits redemptions if:

- All outstanding share certificates are re-deposited or an investor provides the mutual fund with an indemnity with respect to the lost certificate. While share certificates do not form part of the analysis of this working group, any redemptions, switches or transfers in accounts with outstanding share certificates will not be able to be processed under the proposed documentation process unless legislative changes to this area are made; and

- The fund company receives a written redemption request or prior arrangements with the investor have been made to allow for receipt of redemption requests through telephone or electronic means. These prior arrangements have traditionally formed part of the fund company's application form – with the proposed Documentation Agreement process, fund companies will not receive their applications forms back. Accordingly, securities dealers (acting as agents for the fund company) must ensure that the necessary arrangements are made so that written redemption requests need not be transmitted to fund companies. Alternatively, legislative changes must be made to this section permitting fund companies to process redemptions without receiving written documentation provided that securities dealers receive the necessary written documentation.

Appendix CN.4 – June 2003

	Mutual Fund - Client Name Transactional Analysis							
			Proposed Process					
			Documentation		Order Delivery			
	Transaction	Current Process	Original to Fund Company	Distributor Maintains	Electronic	Direct	Summary of Process	Comments
Legal	Estates	**Documentation:** Legal documentation required at fund company - based on individual fund company requirements. **Order Delivery:** Wire order and directs allowed, but wire orders discouraged.	√			√	**Documentation:** No change. **Order Delivery:** No change.	Industry standardization of estate documentation required.
	Assignments	**Documentation:** Original bank hypothecation agreement required at fund company. **Order Delivery:** N/A	√			√	**Documentation:** No change. **Order Delivery:** No change.	
	Powers of Attorney, LTA, Corporate Resolution, Trust Agreements	**Documentation:** Legal documentation required based on individual fund company requirements. **Order Delivery:** N/A		√	N/A		**Documentation:** Distributor would maintain documents and ensure that valid signing authority received prior to placing trade. **Order Delivery:** N/A	**Assumption:** Clients would sign an agreement stating that the fund company would not be receiving client signature and that the distributor would be acting on client's behalf. The type of transaction requested by the client would be bound by the additional rules stipulated throughout this document. For example, change of ownership would require the distributor to forward all pertinent documentation to the fund company by settlement.
	Lost Certificates	**Documentation:** Original affidavits from client with payment required at fund company. Fund company applies for bond unless client has obtained bond. **Order Delivery:** Direct only.	√			√	**Documentation:** Original affidavits/bonds would continue to be required by the fund company to replace or cancel certificates. **Order Delivery:** Direct only.	
	Garnishment, Court Order, Bankruptcy	**Documentation:** Original documentation required at fund company. **Order Delivery:** N/A	√			√	**Documentation:** Original legal documents would continue to be required by the fund company. **Order Delivery:** Direct only.	

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

Mutual Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process: Documentation: Original to Fund Company	Proposed Process: Documentation: Distributor Maintains	Proposed Process: Order Delivery: Electronic	Proposed Process: Order Delivery: Direct	Proposed Process: Summary of Process	Comments
Purchases	New Registered Accounts	**Documentation**: Application required on settlement with payment. **Order Delivery:** Direct and wire orders allowed.		√	√		**Documentation:** Completed client application with purchase instructions would be held by the distributor. **Order Delivery:** No direct orders allowed with exception of RESPs. Client information forwarded to the fund company via wire order.	Major system modifications required to automate RESP accounts. Discussions with trustee and HRDC required. Require CCRA/trustee approval for the distributor to maintain the application form. Method to establish new accounts without a purchase order is required for pending registered plan transfers.
	New GRSP Accounts	**Documentation:** Client account must be set up on fund company systems before purchases can be done. Normally application is attached to contribution listing and standing instructions are added to account for future contributions. **Order Delivery:** Plan sponsor forwards application and contribution listing/money directly to fund company.		√	√		**Documentation:** Completed client application and contribution listing would be held by the distributor. **Order Delivery:** Client information forwarded to the fund company via wire order. No direct orders allowed.	Significant system enhancements required by all parties. More analysis required.
	New Non-Registered Accounts	**Documentation:** Client information required on settlement with payment. **Order Delivery:** Wire orders and directs allowed.		√	√		**Documentation:** Completed client application with purchase instruction would be held by the distributor. **Order Delivery:** Client information and purchase instructions forwarded to the fund company via wire order. No direct orders allowed.	
	Existing Registered Accounts	**Documentation:** Client documentation is not required. **Order Delivery:** Wire orders and directs allowed.		√	√		**Documentation:** No change. **Order Delivery:** No direct orders permitted. All purchases are to be submitted via wire order.	
	Existing GRSP Accounts	**Documentation:** Physical submission of contribution listing and payment forwarded to fund company from plan sponsor. **Order Delivery:** Money submitted with contribution listing directly from plan sponsor to fund company.		√	√		**Documentation:** Distributor would maintain the contribution listing. **Order Delivery:** No direct orders allowed. Direct orders would result in charge to distributor. Purchases submitted to the fund company via wire order.	Major system enhancements required by all parties to accommodate bulk purchase orders to avoid distributors placing numerous individual trades for one group account. Group account must be set up in order for contribution to be made.

Mutual Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
	Existing Non-Registered Accounts	**Documentation:** Client documentation is not required. **Order Delivery:** Wire orders and directs allowed.		√	√		**Documentation:** No change. **Order Delivery:** No direct orders permitted. All purchases must be submitted via wire order.	
Purchases	Hedge Funds	**Documentation:** Subscription form required by the fund company. **Order Delivery:** Wire orders and directs allowed.	√		√		**Documentation:** Subscription form required by fund company on settlement as valid signing officer of the fund company must approve. **Order Delivery:** All purchases must be submitted via wire order.	
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

Mutual Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process: Documentation – Original to Fund Company	Documentation – Distributor Maintains	Order Delivery – Electronic	Order Delivery – Direct	Summary of Process	Comments
Redemptions and Switches	Redemptions – Low-Risk	**Documentation:** Client authorization is required at fund company. **Order Delivery:** Direct orders and wire orders are allowed.		√	√		**Documentation:** Distributor would maintain client authorization. **Order Delivery**: No direct orders are allowed. All redemptions are to be submitted via wire order.	Standard guidelines need to be established for defining low-risk redemptions within the industry. Guidelines should address the following issues: - Dollar threshold - Cheque payment - Recent address changes - Recent banking information changes - Signature guarantees Assumption: Does not apply to units held in certificate form or assigned.
	Redemptions – High-Risk	**Documentation:** Client authorization is required at the fund company affixed with distributor signature guarantee. **Order Delivery:** Direct orders and wire orders are allowed.	√		√		**Documentation:** Distributor would forward client authorization to the fund company on settlement. **Order Delivery:** No direct orders are allowed. All redemptions are to be submitted via wire order.	Method to indicate that documentation is to follow the wire order is required.
	Switches	**Documentation:** Wire orders settle automatically overnight without documentation. **Order Delivery:** Direct orders and wire orders are allowed.		√	√		**Documentation:** No change to current process. **Order Delivery:** No direct orders allowed. All switches to be submitted via wire order.	Assumption: Ability to place wire orders for 10% free and DSC/mature units to front-end funds will remain a business decision with fund company. Exception: Currency conversions would remain direct with the fund company.
	Locked-In Account Redemptions > Temporary Income > Small Amounts > Shortened Life > Non-Resident	**Documentation:** Client authorization is required at fund company. **Order Delivery:** Only direct orders are allowed.	√			√	**Documentation:** Original documentation is required at the fund company. **Order Delivery:** Direct orders only.	
	RESP Redemptions	**Documentation:** Client authorization is required at fund company. **Order Delivery:** Only direct orders are allowed.	√			√	**Documentation:** Original documentation is required at the fund company. **Order Delivery:** Direct orders only.	RESP Accounts - More time is required to automate systems to accommodate various RESP withdrawals. RESP withdrawals should be revisited in the future to determine if further automation is possible, i.e. refund of contributions.

Mutual Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Redemptions and Switches	Labour Sponsored Investment Funds	**Documentation:** Redemption form is required by some fund companies. **Order Delivery:** Direct and wire orders are allowed.		√	√		**Documentation:** Redemption form to be retained by the distributor. **Order Delivery:** No direct orders are allowed. All redemptions are to be submitted via wire order. Direct orders would result in a premium.	
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

Mutual Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Non-Registered Account Transfers	Change of Ownership > Indiv - Joint (vice versa) > Indiv - Indiv new owner > Indiv - Corporate	**Documentation:** Client authorization is required at the fund company. **Order Delivery:** Directs and orders are allowed.	√		√		**Documentation:** No change to current process due to risk of fraud. **Order Delivery:** All transfers are to be submitted via wire order. Documentation required on settlement. No direct orders allowed.	
	Change of Ownership > ITF - Indiv - ownership to beneficiary > Indiv - ITF - trustee remains same	**Documentation:** Client authorization is required at the fund company. **Order Delivery:** Directs and orders are allowed.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** All transfers are to be submitted via wire order. No direct orders allowed.	
	Non-Registered > Plan change - Open - RSP/RESP > Amalgamation - Open - Open	**Documentation:** Client authorization required at the fund company. **Order Delivery:** Directs and orders are allowed.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** All transfers to be submitted via wire order. No direct orders allowed.	Enhancements required to support electronic placement for RESP accounts.
	Dealer Change > CN - NN > NN - CN > CN - CN	**Documentation:** Client authorization required at the fund company. **Order Delivery:** Wire orders and directs are permitted.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** All transfers are to be submitted via wire order. No direct orders allowed.	
	Error Correction	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system enhancements will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

	Transaction	Current Process	Original to Fund Company	Distributor Maintains	Electronic	Direct	Summary of Process	Comments
Mutual Fund - Client Name Transactional Analysis								
			Proposed Process					
			Documentation		**Order Delivery**			
Registered Plan Transfers	Marriage Breakdown (T2220) RSP/RIF Accounts	**Documentation:** Require submission of T2220 form and separation agreement (where applicable). **Order Delivery:** Wire orders and directs allowed.		√	√		**Documentation:** Distributor would maintain T2220 and separation agreement. **Order Delivery**: All transfers to be submitted via wire order. No direct orders allowed.	
	Marriage Breakdown (T2220) Locked-In Accounts	**Documentation:** Require submission of T2220 form and separation agreement (where applicable). **Order Delivery:** Direct only.	√		√		**Documentation:** Distributor to forward T2220 and separation agreement (where applicable). **Order Delivery:** All transfers to be done via wire order. No direct orders allowed.	System enhancements required to monitor amount transferred so it does not exceed maximum allowed which varies by province. This is only permitted when transfer is occurring within same administrator. Transfers to another administrator must follow procedures for transfers between administrators noted below.
	Retiring Allowance/Severance Pay Transfers (TD2)	**Documentation:** Original transfer form (TD2) required. **Order Delivery:** Direct only.		√	√		**Documentation:** Distributor maintains transfer form (TD2). **Order Delivery:** All transfers are to be submitted via wire order. No direct orders allowed.	
	Locked-In/Pension Transfers > Pension Plan (T2151) transfers > Locked-In Transfers between administrators (not pension plan) > PRIF transfers	**Documentation:** T2151/Registered Transfer form, locked-in agreement, spousal waiver/consent (where applicable) and client application required at fund company. Fund company acknowledges and forwards locked-in agreement to relinquishing institution. **Order Delivery:** Relinquishing institution forwards the funds direct to fund company	√			√	**Documentation:** Fund company to receive T2151 and/or transfer form with locked-in agreement and where applicable the spousal waiver/consent. **Order Delivery:** No wire orders allowed. All orders must be submitted as direct. Distributor to set up account electronically via XML messaging if account does not exist on fund company records.	Both the receiving and relinquishing institutions must correspond with each other (locked-in agreement) in order to determine whether the transfer can be accommodated.
	T2030 Transfers RIF Accounts	**Documentation:** Original T2030 required by the fund company. **Order Delivery:** Direct orders only.		√			**Documentation:** Distributor would maintain documentation. **Order Delivery:** No direct orders allowed.	System enhancements required to fund company systems to ensure RIF minimum and/or requested amount is paid out prior to the transfer. Should be revisited in future to determine if automation is possible.
	T2030 Transfers LIF/LRIF Accounts	**Documentation:** Original T2030 required by the fund company. **Order Delivery:** Direct orders only.	√			√	**Documentation:** Distributor to forward T2030 to the fund company. **Order Delivery:** No wire orders allowed. All transfers to be submitted as direct.	

Mutual Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Registered Plan Transfers	Registered Account Transfers > RSP - RSP > RSP - RIF > RSP - RSPS > RSPG - RSP	**Documentation:** Registered account transfer form is required at fund company. **Order Delivery:** Direct orders and wire orders are allowed.		√	√		**Documentation:** Distributor would maintain documentation. **Order Delivery:** All transfers to be submitted via wire order. No direct orders allowed.	
	RESP Transfers	**Documentation:** Transfer form is required at fund company. **Order Delivery:** Direct orders are only allowed.	√			√	**Documentation**: Original/ documentation is required as information is needed from relinquishing institution. **Order Delivery**: No wire orders are allowed. All transfers to be submitted direct	Relinquishing institution must provide plan, notional and beneficiary details to the receiving institution in order to administer the plan properly.
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system enhancements will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

Mutual Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process: Documentation – Original to Fund Company	Proposed Process: Documentation – Distributor Maintains	Proposed Process: Order Delivery – Electronic	Proposed Process: Order Delivery – Direct	Proposed Process: Summary of Process	Comments
Registered Products	Excess Withdrawals (T3012)	**Documentation:** Fund company requires original form with CCRA approval. Form must be accompanied by a letter of direction from the client. **Order Delivery:** Direct orders only.	√		√		**Documentation:** No change, as RRSP issuer must complete section 5 of the form with details of the amount refunded and confirmation that a T4RSP receipt will be issued. Form required at settlement. **Order Delivery**: No direct orders allowed. All orders must be submitted via wire order.	
Registered Products	Home Buyer's Plan (HBP)	**Documentation:** Fund company requires original signature on form T1036 and needs to determine eligibility (90 day rules). Form must be accompanied by a letter of direction from the client. **Order Delivery:** Wire orders and directs permitted**.**	√		√		**Documentation:** No change, as RRSP issuer must complete section 2 of the form with amount and date of withdrawal, details on contribution (if any) made within 89 days of the withdrawal. Form required at settlement. **Order Delivery:** All orders must be submitted via wire order. No direct orders allowed.	Assumption: Fund company is able to accommodate edits.
Registered Products	Life Long Learning Plan (LLLP)	**Documentation:** Fund company requires original signature on form RC96. Form must be accompanied by a letter of direction from the client. **Order Delivery:** Wire orders and directs permitted.	√		√		**Documentation:** No change, as RRSP issuer must complete section 2 of the RC96 with the RRSP issuer information and withdrawal amount. Form required at settlement. **Order Delivery:** All orders must be submitted via wire order. No direct orders allowed.	Assumption: Fund company is able to accommodate edits.
Registered Products	Error Correction	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

Mutual Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Non-Financials	Systematic Transactions > PAC and SWP set-ups > Banking information change	**Documentation:** Client authorization with void cheque forwarded to fund company **Order Delivery:** Direct.	√		√		**Documentation:** Original client authorization forwarded to fund company authorizing the fund company to debit/deposit client bank account. **Order Delivery:** Information to be submitted via XML messaging. No direct orders allowed.	Fund company requires authorization to access bank account. Method may be required at the fund company to be able to receive XML messages and not update client's account until documentation is verified.
	Systematic Transactions > PAC & SWP changes Frequency/Amount/Stop/Stall	**Documentation:** Letter/phone call from client or dealer or financial advisor. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** All changes would be submitted electronically via XML messaging. No direct orders allowed.	
	New Registered Account set up without purchase > RSP > RIF > RESP > Locked-In	**Documentation:** Application required by the fund company. **Order Delivery:** N/A		√	√		**Documentation:** Dealer would maintain application **Order Delivery:** Client and plan information would be submitted electronically via XML messaging. No direct orders allowed.	XML messaging to accommodate unique requirements of all plans.
	Commission Rebate	**Documentation:** Authorization for commission rebate submitted to certain fund company. **Order Delivery:** Wire orders or directs.		√	√		**Documentation:** Dealer would maintain client documentation. **Order Delivery**: Electronic delivery via wire order. No direct orders allowed.	
	Financial Advisor Change	**Documentation:** Letter from client or dealer head office. **Order Delivery**: XML messaging or directs.		√	√		**Documentation:** Dealer would maintain client documentation. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	
	Address Change	**Documentation:** Letter/phone call from client or dealer to fund company. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	
	SIN and Date of Birth Change	**Documentation:** Letter/phone call from client or dealer or financial advisor. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer maintains documentation. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	

Mutual Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Non-Financials	Legal Name Change	**Documentation:** Letter from client with legal document attesting to name change. **Order Delivery:** Direct.	√			√	**Documentation:** Original client authorization and accompanying name change document forwarded to fund company.	All name changes to be submitted directly to fund company.
	Name Correction	**Documentation:** Letter/phone call from client or dealer or financial advisor. **Order Delivery:** Direct.		√	√		**Documentation:** Dealer maintains documentation. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	
	Beneficiary Designation	**Documentation:** Original client authorization required at the fund company. **Order Delivery:** Direct.	√			√	**Documentation:** Distributor maintains client authorization or application. **Order Delivery:** Beneficiary designation submitted electronically when registered plan established via wire order or via XML messaging.	Changes to estate settlement documentation requirements may be required to satisfy trustee and fund company risks or implement a client notification mailing when a beneficiary is designated on registered plan.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.

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Segregated Fund - Client Name Transactional Analysis								
			Proposed Process					
			Documentation		Order Delivery			
	Transaction	Current Process	Original to Fund Company	Distributor Maintains	Electronic	Direct	Summary of Process	Comments
Legal	Estates	**Documentation:** Legal documentation required based on fund company requirements. **Order Delivery:** Only directs allowed.	√			√	**Documentation:** No change. **Order Delivery:** No change.	Top-up purchase codes are not passed by FundSERV. Death claim processing: Valuation date is the day the documentations are deemed to be in good order by the insurer, not the date of death. If the GMA is greater than the M.V. then a top-up purchase is required.
	Powers of Attorney, Corporate Resolution, Trust Agreements	**Documentation:** Dealer provides legal documentation based on fund company requirements. **Order Delivery:** N/A	√			√	**Documentation:** No change **Order Delivery:** No change	It may be too risky for the distributor to maintain insurance products at this time.
	Garnishment, Court Order, Bankruptcy	**Documentation:** Insurance assets offer potential protection against seizure **Order Delivery:** N/A	√				**Documentation:** No change **Order Delivery:** No change	Creditor protection issue. Business risk if evidence of insurance contract could not be found as proof of creditor protection.
	Limited Trading Authorization (LTA)	**Documentation:** Legal documentation required based on individual fund company requirements. **Order Delivery:** N/A		√	√		**Documentation:** Distributor would maintain documents and ensure that valid signing authority received prior to placing trade. **Order Delivery:** N/A	Distributor signs agreement with fund company to indemnify it of any liability. Distributor must keep all LTAs on file.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

Segregated Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Purchases	New Registered Accounts	**Documentation**: Application required on settlement with payment. Written evidence of the insurance contract is be held by the insurer. **Order Delivery:** Direct and wire orders allowed.	√		√		**Documentation:** Original completed client application required at settlement. **Order Delivery:** No direct orders allowed. Client information forwarded to the fund company via wire order.	The original application must be held by the insurer. The insurer requires written evidence of the insurance contract. Annuitant information is necessary for actuarial files to the Insurer. It is an important component for risk assessment. Gender code information needs to be passed electronically.
Purchases	Existing Registered and Non-Registered Accounts	**Documentation:** Not required. **Order Delivery:** Wire orders allowed.		√	√		**Documentation:** No change. **Order Delivery**: No direct orders allowed. All purchases are to be submitted via wire order	Purchases can be done electronically, client instructions can remain with Distributors if proper LTA agreement signed.
Purchases	New Non-Registered Accounts	**Documentation:** Original application required on settlement with payment. Owner identity and third party determination form. **Order Delivery:** Wire order and directs allowed.	√		√	√	**Documentation:** Original client application must be forwarded to the fund company. **Order Delivery:** Client information and purchase instructions forwarded to the fund company via wire order. No direct orders allowed.	The original application must be held by the insurer. Electronic information not passed for successor owner, successor annuitant and gender code. Segregated fund-specific age restriction on maximum age of annuitant for non-registered accounts requires edits in place for accounts to be opened electronically.
Purchases	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

Segregated Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Redemptions and Switches	Redemptions – Low-Risk	**Documentation:** Client authorization is required at fund company. **Order Delivery:** Direct orders and wire orders are allowed.		√	√		**Documentation:** Distributor would maintain client authorization. **Order Delivery:** No direct orders are allowed. All redemptions are to be submitted via wire order.	Standard guidelines need to be established for defining low-risk redemptions within the industry. Guidelines should address the following issues: - Dollar threshold - Cheque payment - Recent address changes - Recent banking information changes - Signature guarantees Assumption: Does not apply to units held in certificate form or assigned.
	Redemptions – High-Risk	**Documentation:** Client authorization is required at the fund company affixed with distributor signature guarantee. **Order Delivery:** Direct orders and wire orders are allowed.	√		√		**Documentation:** Distributor would forward client authorization to the fund company on settlement. **Order Delivery:** No direct orders are allowed. All redemptions are to be submitted via wire order.	Method to indicate that documentation is to follow the wire order is required.
	Locked-in Redemptions	**Documentation:** Documentation is required at fund company. **Order Delivery:** Only direct orders are allowed.	√			√	**Documentation**: Original documentation is required for high-risk redemptions. **Order Delivery**: Only direct orders are allowed.	Note: Liability issue to be resolved as to who is responsible to the pension boards
	Switches	**Documentation:** Wire orders settle automatically overnight without documentation. **Order Delivery:** Direct orders and wire orders are allowed.		√	√		**Documentation:** No change to current process. **Order Delivery:** No direct orders allowed. All switches to be submitted electronically.	
	10% Free Units	Document order delivery must be done as sell, cannot be transferred to ISC.				√	**Documentation:** No change to current process. **Order Delivery**: Direct trades only at this time.	These transactions require special handling because of the impact on the GMA calculations.
	Deposit Maturity Processing	**Documentation:** Letter of direction required, as client can "roll" the contract into a new 10-year guarantee structure, or redeem. **Order Delivery:** Only directs allowed.				√	**Documentation:** No change to current process. **Order Delivery**: Direct trades only.	A top-up purchase may be required if GMA greater than M.V.
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions: 1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle. 2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation. 3. Further analysis is required for universal life products.

Segregated Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Non-Registered Account Transfers	Non-Registered Account Transfers - Change of Ownership > Indiv - Joint (vice versa) > Indiv - Indiv new owner > Indiv - Corp	**Documentation:** Client authorization required at the fund company, original application. **Order Delivery:** Direct orders only.	√		√		**Documentation:** No change to current process due to risk of fraud. **Order Delivery:** All transfers are to be submitted via wire order. Documentation required at settlement. No direct orders allowed.	
	Non-Registered Account Transfers - Change of Ownership > ITF - Indiv - ownership to beneficiary > Indiv - ITF - trustee remains same	**Documentation:** Client authorization required at the fund company, original application. **Order Delivery:** Direct orders only.	√		√		**Documentation:** Original application must be forwarded to the fund company. **Order Delivery:** No direct orders allowed. All transfers are to be submitted via wire order.	A new insurance contract would need to be filled out. Transfers may create tax implications.
	Non- Registered > Plan change - Open - RSP/RESP > Amalgamation - Open - Open	**Documentation:** Client authorization required at the fund company, original application. **Order Delivery:** Direct orders only.	√		√		**Documentation:** Process remains same due to the fact that guarantees could be affected. **Order Delivery:** No direct orders allowed. All transfers to be submitted via wire order.	A new insurance contract would need to be filled out. Transfers may create tax implications.
	Non - Registered - Dealer Change > CN - NN > NN - CN > CN - CN	**Documentation:** Client authorization required at the fund company for all client name to nominee transfers. **Order Delivery:** Wire order and direct orders allowed.	√		√		**Documentation:** Process remains same due to the fact that guarantees could be affected. **Order Delivery:** No direct orders allowed. All transfers to be submitted via wire order.	
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

Segregated Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process: Documentation – Original to Fund Company	Proposed Process: Documentation – Distributor Maintains	Proposed Process: Order Delivery – Electronic	Proposed Process: Order Delivery – Direct	Proposed Process: Summary of Process	Comments
Registered Plan Transfers	RESP Transfers	**Documentation:** Transfer form is required at fund company and spousal waivers where required. Original application required. **Order Delivery:** Direct orders only.	√			√	**Documentation**: Original documentation is required as information required from relinquishing institution. Original application required. **Order Delivery**: No wire orders are allowed. All transfers to be submitted direct.	Relinquishing institution must provide plan, notional and beneficiary details to the receiving institution in order to administer the plan.
	Prescribed RIFs (PRIF) Transfers	**Documentation:** Transfer form, spousal waiver and original client application required at fund company **Order Delivery:** Relinquishing institution forwards funds direct to fund company dealer to forward application and copy of transfer form direct to fund company for account.	√			√	**Documentation:** No change. **Order Delivery:** No change.	
	Marriage Breakdown (T2220) RSP/RIF Accounts	**Documentation:** Require submission of T2220 form and separation agreement (where applicable). Original application required. **Order Delivery:** Only directs allowed.	√			√	**Documentation:** Dealer must forward the relevant documentation to the fund company, including original application. **Order Delivery**: Only direct orders. Done as a sell and a buy at the fund company.	Partial transfers not permitted because of the different policy years of the GMA structure. Cannot allocate portions of GMA. Also, a new insurance contract is required.
	Marriage Breakdown (T2220) Locked-In Accounts	**Documentation:** Require submission of T2220 form and separation agreement (where applicable). **Order Delivery:** Direct only.	√		√		**Documentation:** Distributor to forward T2220 and separation agreement (where applicable). **Order Delivery:** All transfers to be done electronically. No direct orders allowed.	System enhancements required to monitor amount transferred so it does not exceed maximum allowed which varies by province. This is only permitted when transfer is occurring within same administrator. Transfers to another administrator must follow procedures for transfers between administrators noted below.
	Retiring Allowance/Severance Pay Transfers (TD2)	**Documenation:** Original TD2 and original application required. **Order Delivery:** Direct orders only.		√	√		**Documentation:** Original application still has to be forwarded to the insurer. **Order Delivery:** No directs orders permitted. All transfers are to be submitted via wire order	
	Locked-In/Pension Transfers > Pension Plan (T2151) transfers > Locked-In Transfers between administrators (not pension plan) > PRIF transfers	**Documentation:** T2151 and original client application required at fund company and spousal waivers where applicable. **Order Delivery:** Relinquishing institution forwards funds direct to fund company dealer to forward application and copy of transfer form direct to fund company for account set-up.	√			√	**Documentation:** As the receiving institution must advise the relinquishing institution of its ability to administer the locked-in plan, the T2151 must be forwarded and completed by fund company dealer to forward original client application with copy of T2151 to fund company.	Issue remains that there must be some functionality on FundSERV, on the account set up to place a “stop redemptions” flag. The locked-in indicator (Y or N) does not freeze the account. Business risk involved since the fund company is responsible to the pension boards.

Segregated Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
	T2030 Transfers RIF Accounts	**Documentation:** Original T2030 required, as well as original application. **Order Delivery:** Direct orders only.	√		√		**Documentation:** Original application must be forwarded to the fund company. **Order Delivery:** No direct orders allowed.	System enhancements required to fund company systems to ensure RIF minimum and/or requested amount is paid out prior to the transfer. Should be revisited in future to determine if automation is possible.
Registered Plan Transfers	T2030 Transfers LIF/LRIF Accounts	**Documentation:** Original T2030 required by the fund company. **Order Delivery:** Direct orders only.	√			√	**Documentation:** Distributor to forward T2030 to the fund company. **Order Delivery:** No wire orders allowed. All transfers to be submitted as direct.	
	Registered Account Transfers > RSP - RSP > RSP - RIF > RSP - RSPS > RSPG - RSP	**Documentation:** Registered account transfer form is required at fund company. **Order Delivery:** Direct orders and wire orders are allowed.	√		√		**Order Delivery:** All transfers to be submitted via wire order. No direct orders allowed.	
	Error Correction	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

Segregated Fund - Client Name Transactional Analysis

	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Registered Products	Home Buyer's Plan (HBP)	**Documentation:** Require original signature on form T1036. Determine eligibility (90-day rules). Form must be accompanied by a letter of direction from client. **Order Delivery**: Wire orders and directs allowed.	√		√		**Documentation:** No change, as RRSP issuer must complete section 2 of the form with amount and date of withdrawal, details on contribution (if any) made within 89 days of the withdrawal. Form required at settlement. **Order Delivery:** No direct orders allowed. All orders must be submitted via wire order.	Assumption: Fund company is able to accommodate edits.
	Life Long Learning Plan (LLLP)	**Documentation:** Require original signature on Form RC96. Form must be accompanied by a letter of direction from client. **Order Delivery:** Wire orders and directs allowed.	√		√		**Documentation:** No change, as RRSP issuer must complete section 2 of the RC96 with the RRSP issuer information and withdrawal amount. Form required at settlement. **Order Delivery:** All orders must be submitted via wire order. No direct orders allowed.	Assumption: Fund company is able to accommodate edits.
	Excess Withdrawals (T3012)	**Documentation:** Require original signature on form T3012. Form must be accompanied by a letter of direction from client. **Order Delivery:** Direct orders only.	√		√		**Documentation:** No change, as RRSP issuer must complete section 5 of the form with details of the amount refunded and confirmation that a T4RSP receipt will be issued. Form required at settlement. **Order Delivery**: No direct orders allowed. All orders must be submitted via wire order.	
	Error Corrections	**Documentation:** Letter of indemnity required by the fund company and the return of tax receipts where required. **Order Delivery:** Directs allowed.		√	√		**Documentation:** Distributor would maintain original documentation supporting the client's correct transaction request. **Order Delivery:** All error corrections must be submitted via wire order.	Business rules and system modifications will be required for electronic error corrections.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

	Transaction	Current Process	Proposed Process: Documentation – Original to Fund Company	Documentation – Distributor Maintains	Order Delivery – Electronic	Order Delivery – Direct	Summary of Process	Comments
Non-Financials	Systematic Transactions > PAC and SWP set-ups > Banking information change	**Documentation:** Client authorization with void cheque forwarded to fund company **Order Delivery:** Direct or XML messaging.	√		√		**Documentation:** Original client authorization forwarded to fund company authorizing the fund company to debit/deposit client bank account. **Order Delivery:** Information to be submitted via XML messaging. No direct orders allowed.	Issue with reconciling the client document with electronic request would need to be determined. Signature guarantees required. Development may be required to ensure that the PAC/SWP remains in a 'Hold' status until documents received.
	Systematic Transactions > PAC and SWP changes Frequency/Amount/Stop/Stall	**Documentation:** Letter/phone call from client, dealer or financial advisor. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer would maintain documentation. **Order Delivery:** All changes would be submitted electronically via XML messaging.	
	Financial Advisor Change	**Documentation:** Letter from client or dealer head office. **Order Delivery**: XML messaging or directs.		√	√		**Documentation:** Dealer maintains client documentation where applicable. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	Some companies still require a letter from the client. These are not accepted by telephone.
	Beneficiary Designation	**Documentation:** Letter from client with legal document attesting to name change. **Order Delivery:** Direct.	√			√	**Documentation:** Distributor maintains authorization or application. **Order Delivery:** Beneficiary designation submitted electronically when registered plan established via wire order or via XML messaging.	Changes to estate settlement documentation requirements may be required to satisfy trustee and fund company risks or implement a client notification mailing when a beneficiary is designated on registered plan.
	Address Change	**Documentation:** Letter/phone call from client or dealer to fund company. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer maintains client request. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	Some companies still require a letter from the client. These are not accepted by telephone.
	SIN and Date of Birth Change	**Documentation:** Letter/phone call from client or dealer or financial advisor. **Order Delivery:** Direct or XML messaging.		√	√		**Documentation:** Dealer maintains client request. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	Some companies still require a letter from the client. These are not accepted by telephone.

Segregated Fund - Client Name Transactional Analysis								
	Transaction	Current Process	Proposed Process					Comments
			Documentation		Order Delivery		Summary of Process	
			Original to Fund Company	Distributor Maintains	Electronic	Direct		
Non-Financials	Legal Name Change	**Documentation:** Letter from client with legal document attesting to name change. **Order Delivery:** Direct.	√			√	**Documentation:** Original client authorization and accompanying name change document forwarded to fund company. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed	Some companies still require a letter from the client. These are not accepted by telephone.
	Name Correction	**Order Delivery:** Direct.		√	√		**Documentation:** Dealer maintains documentation. **Order Delivery:** Electronic delivery via XML messaging. No direct orders allowed.	Some companies still require a letter from the client. These are not accepted by telephone.

Assumptions:

1. Financial transactions that require original documentation to be forwarded to the fund company and the order to be placed electronically will require documentation to be received by the fund company within the settlement cycle.
2. Client and irrevocable beneficiary (if applicable) authorization has been granted on documentation.
3. Further analysis is required for universal life products.

Section 2:
MONEY MOVEMENT ISSUES

2.1 Introduction

The Money Movement Alternatives Subcommittee (MMASC) was created by the Retail Trade Processing Working Group (RTPWG) to examine items from the RTPWG White Paper relating to money movement issues deemed to be impediments to STP and eventually T+1. (A list of Subcommittee members is found in **Appendix #3** to the full paper.)

The Subcommittee reviewed the white paper principles and recommendations pertaining to money movement issues as well as comments received. After extensive initial analysis, it became clear that the Subcommittee should focus on working towards the elimination of physical cheques from the retail product order flow. This was examined primarily in the context of mutual fund products – although segregated funds and GICs are within scope – being transacted in client name.

This paper identifies the specific challenges faced by industry participants and what is needed to address these challenges. The greatest impact is to those dealers operating predominantly in client name, where cheques are collected at point-of-sale and made payable to the fund company.

It should be noted here that the Subcommittee recognizes that the complete elimination of cheques is not a realistic short-term goal. It is not being suggested that investors not be permitted to make cheques payable to the fund company (although fund companies may choose to examine costs versus revenue on manual orders for small amounts).

Further, there are many varying sizes, levels of operational sophistication and business models of client name dealers. The intention is not to be exclusionary to any participant or group of participants, but rather to provide realistic alternatives that may be used and raise awareness of what the challenges and barriers are.

2.2 Issues and Recommendations

2.2.1 FundSERV N$M and Trust Accounts

- **Net $ettlement Messaging** (i.e., N$M, formerly CSS)

  The Subcommittee determined that the existing N$M facility should be used by all dealers wherever possible. For those dealers already operating a trust account, where the business model is such that the investor normally makes a cheque payable to the dealer firm and a “net” or “mass” settlement arrangement exists with the fund company, the business case is absolutely sound. Below is some additional information for dealers in this category.

Why Not N$M?

The Subcommittee sought to better understand current usage of N$M, as only 27 per cent of dealers are using the service.

FundSERV did some initial analysis and more work is in progress. Findings so far are that for 83 per cent of all order contracts received by FundSERV (regardless of whether placed by wire order or manually at the fund company) the money moves via N$M. In Q1 2003, the remaining 17 per cent represented orders valued at approximately $1.2 billion, all paid by cheque.

The Subcommittee also noted that N$M could be (at a minimum) used by all dealers for receipt of commission and trailer payments, with minimal operational impact. These cheques are often for large amounts and therefore are more susceptible to fraudulent activity.

Getting Started

The Subcommittee recognized that there may be a perception that N$M is difficult to get up and running with or too confusing to be worthwhile.

The Subcommittee has recommended to FundSERV that a “business language” quick reference document be created and that more attention to the service be put “front and centre” on the FundSERV corporate Web site. Dealers should also be aware that there is a high level of technical and user support available for companies added to the service. Fund companies are also often willing to be testing partners and offer expertise on getting started.

Costs

The Subcommittee recognized that there might be a perception that N$M is not cost-effective versus existing manual cheque processes.

After consulting with at least two chartered banks, as well as at least two dealers that recently joined the service, the Subcommittee examined and documented general costs (refer to **Appendix MM.1**; it is important to note that fees depend on the relationship a dealer has with its financial institution). Banking set-up and ongoing charges, as well as the employee time required to send payment and conduct follow-up, were considered. It was determined that the costs to send and reconcile one LVTS wire payment are generally less than the costs to administer several outbound cheques or payments on a daily basis. The cost reduction grows with the number of fund companies the dealer transacts with.

General Benefits

The Subcommittee recognized that the general business and operational benefits of N$M were unknown to some dealers.

The Subcommittee has requested that FundSERV, with assistance from fund company and dealer firms, summarize these benefits and make a document available on its corporate Web site. While this would include some mention of cost reductions, the greatest benefits are increased service levels to the advisor (and investor) and reduced risk. Lost or misdirected cheques and the potential for forced settlement dilutions are examples.

FundSERV will be asked to confirm a target timeframe for completion of a N$M benefits document.

- **Trust Accounts**

  In order to use N$M, the dealer is required to operate a trust account where the investor's cheque is deposited prior to being forwarded as a bulk payment. Many dealers do not have a trust account and this section outlines the reasons and issues.

  Costs

  There were no specific additional banking costs that could be identified in opening a trust account. For an account to operate as "trust" is simply a function of how it is registered and coded at the financial institution. There would be an additional but nominal operational cost, as a dealer trust account must be interest-bearing and any interest generated must be tracked, reconciled and forwarded to the appropriate fund company or the investor. Electronic alternatives may help to minimize any additional costs.

  Regulatory Barriers

  The Subcommittee noted that in order to operate a trust account and deposit investor cheques, under MFDA rule number 3.1, a Level 3 dealer must maintain a minimum capital requirement of $75,000. This may pose a financial challenge to some participants. **Appendix MM.2** provides a high-level summary of the various regulatory requirements.

Centralized "Industry" Trust Account

The concept of a centralized "industry" trust account was briefly mentioned in the November 2002 Client Name Issues Paper.[3] The Subcommittee was unable to properly assess this option due to the lack of information available. The idea is obviously in the "concept" stage, but the Subcommittee will continue its efforts to see if this has merit as a proposal. Unless further details regarding an industry trust account are forthcoming, no further action is contemplated.

- **Credit Lines and Cheque Clearing**

Costs

There are financial costs involved with maintaining a line of credit or "daylight" (intra-day debit) facility on a trust account. These costs increase with the amount of line of credit desired. Fees are normally applied for both set-up and on an ongoing basis.

This is a significant issue for small to medium-size dealers. Even the smallest dealer will on occasion have a very large investor cheque to deal with. The amount of the line of credit must exceed the maximum amount that will ever be needed, otherwise the dealer would default on N$M. This could mean paying for a large credit line that may rarely be needed, although once again operation of a line of credit and the accompanying cost is based on an individual firm's relationship with its financial institution.

The Subcommittee has no specific recommendations here, although it encourages each dealer to clearly explain how the trust account and supporting line of credit will be used in discussions with its financial institution.

Credit Barriers

Applying for a line of credit is a significant undertaking.

The relationship and history with the financial institution is an important factor. A dealer exploring the option of a trust account may have neither.

The effort involved in the application is significant: past and projected financials must be provided, with a business plan, a management and controls assessments, etc.

Also, additional capital requirements and/or collateral may be required.

[3] Written by: Gilles Bouillon, Peter Hildyard, Judy Van de Sype and FundSERV, November 2002

Appendix MM.3 provides a summary of some of the information often requested when applying for a line of credit.

Clearing of the Investor Cheque

The investor cheque must clear through the dealer trust account in order to make a counter-payment. This further underscores the line of credit as a necessity.

Most dealers have certified cheque requirements on amounts over $50,000-$200,000; however, in some cases this is not required due to the relationship with the investor. Certified or not, the dealer must forward payment to the fund company before the cheque clears (i.e., certainty of payment is guaranteed), which makes the line of credit a virtual requirement.

The Subcommittee noted that there is no additional risk to the dealer in terms of NSF cheques. As in the current process, if a cheque (or EFT entry for that matter) goes NSF, the dealer must promptly take action to forward monies to the fund company or risk paying dilution on a force-settled trade.

By depositing a cheque into a trust account rather than mailing it to a fund company to be processed, a dealer will become aware of any NSF cheque sooner and, therefore, be able to take earlier action to resolve the situation.

The Subcommittee is also seeking to get regulator definition of 'receipt of investor funds.' Is this when the physical cheque changes hands or when the cheque clears and the dealer actually has access to the underlying funds? If it is the latter, could a dealer delay order placement until the cheque clears? Would it want to?

2.2.2 Electronic Transmission of Banking Information

- **Electronic Funds Transfer (EFT)**

Lack of Information in Current EFT Files

In the current process, the fund company receives a void cheque and stores the investor banking information on its system. When a transaction occurs, this banking information is used to create a file exchanged and cleared between CPA member financial institutions.

Current banking files have very limited information. There is no useful information to authenticate the investor/target account and financial institutions do not verify the investor's name or match it against the account number for accuracy.

The Subcommittee concluded that the required changes to existing EFT file standards are not likely. From a cost/benefit perspective, the work effort is likely too great, given the vast differences across CPA member legacy systems.

Current files also have no way to link a payment with a specific order, particularly given that amounts at the account level are often combined (i.e., multiple transaction amounts are combined to one amount).

Finality of Payment

Under current Canadian Payment Association (CPA) rules, there is no immediate finality of payment. An investor has up to 90 days to request an electronic debit to be reversed (10 days in the case of a business debit) and this request must be honoured by the financial institutions.

This is not a new problem. However, if the use of EFT files were to be greatly increased, this would become a more critical issue.

Costs

The costs associated with operating EFT payments will depend on the individual dealer's relationship with its financial institution, but typically include an ongoing monthly fee as well as per-transaction charge. EFT payments are minimal relative to the costs associated with supporting Large Value Transfer System payments (i.e., wires).

Timelines

The current EFT file process can take up to two days depending on when files are exchanged.

2.2.3 Other Items Considered

Telephone banking. Some dealers use telephone banking services to electronically transfer funds to a fund company and supplement the information by faxing the supporting settlement report. While not an ultimate solution, this is a step in the right direction.

Web banking. Some fund manufacturers have set themselves up as corporate billers using the CPA's Corporate Creditor Identification Number (CCIN) to enable the transfer of funds supporting a transaction. Use of a CCIN requires little systems development and is not expensive to implement or maintain. While it was not originally intended for this purpose, the Subcommittee believes there is value in enhancing the CCIN, such as including the investor's name and tightening the timing for delivering payment information to the corporate creditor.

The Subcommittee also considered the CPA's remote initiated one-time (Web-based) electronic payments initiative, which would be based on the payor's financial institution, or its agent, authenticating the account holder. While the policy framework to support such payments is still in the early development stage, the Subcommittee believes it potentially provides a payment option for investors and warrants continued monitoring.

Interac. Providing advisors with Interac debit terminals at their desks is a possible option; however, individual firms would need to determine if it is a cost-effective solution for their organizations.

2.3 Conclusions and Recommended Implementation

The use of physical cheques in the retail product process flow must be greatly reduced, with the long-term goal of elimination.

The greatest impact is on dealers transacting in client name, where orders are placed electronically, and the investor writes a cheque payable to the fund company for delivery on T+3. This is inherently not STP and will not be an option in T+1. There are currently no STP alternatives for this model. It is imperative that these dealers have realistic alternatives or they may choose to go completely manual for both order placement and settlement.

Those dealers currently 100 per cent manual for both order placement and settlement may choose to stay that way. However, STP/T+1 does create some additional incentive to automate:

1. Currently, the fund company requirement for supporting documentation acts as a disincentive to placing orders electronically. If a fax/mail has to be sent regardless, why not let the fund company key the trade? With STP, it is proposed that supporting documentation would not be required to be forwarded to the fund company (refer to the Client Name Working Group report for further details). This increases the incentive for a dealer to place a transaction itself, as no additional fax/mail would be required. It would also provide a better service to the investor in terms of timely execution of the order request. It then follows that if no documentation is required, there is an increased incentive to eliminate cheques, so nothing at all need be sent to the fund company.

2. Currently, "direct" redemptions faxed to the fund company settle "immediately", with proceeds available on T+1. The same order placed electronically settles T+3. This acts as a disincentive to electronic order

placement, as dealers attempt to get redemption proceeds to their investors as quickly as possible. With T+1, all settlement occurs the next day. This again increases the incentive for electronic order placement, as well as electronic alternatives to cheques sent to the investor through the mail.

Therefore, given the following assumptions:

- Some dealers will be unable to get a trust account with a line of credit
- Some investors will refuse to make cheques payable to the dealer.

MMASC proposes:

- Rather than collecting cheques payable to the fund company from the investor at the time of investment decision, the advisor obtains a "void" cheque
- The banking information is keyed by the dealer into the electronic order with the demographics and financials and
- The dealer verifies the void cheque correspondence.

Option 1: Order passed directly to the fund company

The fund company receives and stores the banking information as though it had received the void cheque and keyed it into its own system. The banking information is then used to produce a banking file and the existing process is followed.

Issues:

1. Financial liability – An indemnity agreement would be required, to the effect that the dealer is responsible for the banking information keyed on to the order. The dealer is also responsible for obtaining client approval and retaining the supporting documentation.
2. Goodwill liability – If the fund company produces a banking file, the debit will hit the investor account as "debited by fund company XYZ." This creates issues considering the dealer keyed the data.
3. The fund company would require a facility to monitor money laundering and fraud. There must be assurance that the investor on the account matches the investor associated with the banking information.
4. Is this information investor-, account- or transaction-specific?

Option 2: Order passed to FundSERV, routed to CPA LVTS participant financial institutions

The order is received at FundSERV with banking information routed out to financial institutions.

The financial institution verifies the account holder.

The financial institution verifies if funds are available and holds the funds.

A response is routed back to FundSERV and the order is forwarded to the fund company. Banking information is not forwarded to the fund company since it is not required and is prohibited under PIPEDA.

Amounts are netted at FundSERV, forwarded to the fund company with existing N$M settlements or bulk deposit is made to the fund company bank account.

A summary of the Money Movement Alternatives Subcommittee's recommendations segmented as General, Legal and Roles and Responsibilities – Potential Best Practices and Standards follows:

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General Recommendations

	Money Movement Alternatives Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**FundSERV**	• Develop a “business language” quick reference document to support the use of N$M by all dealers using a trust account	December 31, 2003
2.	**FundSERV**	• Highlight FundSERV service and support of N$M available to the dealers on its Web site	December 31, 2003
3.	**FundSERV**	• With fund company, dealer and system vendor support, summarize the general business and operational benefits of N$M and post as a document on the FundSERV Web site	To be determined
4.	**Canadian Payments Association**	• Consider enhancing the Corporate Creditor Identification Number product to include the investor’s name and tightening the timing for delivering payment information to the corporate creditor	To be determined
5.	**Canadian Payments Association FundSERV**	• Establish links between CPA and FundSERV systems pending completion of a supporting business analysis	To be determined

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Electronic Commerce, Anti-Money Laundering**	Critical	Provincial, Federal	**For Option 1 – Mutual fund order passes directly to the fund company** In the absence of a trust account, an advisor should obtain a “void” cheque from the investor at the time of investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. Review current regulation to determine the impact on the fund company’s ability to rely on electronically transmitted banking information without receiving client’s direct authorization or without the ability to verify the bank	Fund company should be able to rely on electronically transmitted banking information without client’s direct authorization or the ability to verify the bank account holder.	Imple-ment cross-industry STP	June 2005	RTP WG	**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
				account holder.					
2.	**NI 81-102, Force-settlement rules re: NSF**	Very important		Examine the financial and goodwill liability issues associated with dealer keying errors, e.g., incorrect amount, incorrect account.		Imple-ment cross-industry STP	June 2005	RTP WG	**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.
3.	**NI 81-102, Force-settlement rules re: NSF**	Important	CSA	Examine the issues surrounding the finality of payment associated with EFT-type payments.	Review impact of current rule	Imple-ment cross-industry STP	June 2005	RTP WG	To be determined
4.	**MFDA Rule 3.1 Minimum Capital requirements**	Important	MFDA	Level 2 MFDA members are prohibited from operating a trust account but must have $50,000 minimum capital. Level 3 MFDA members may operate a trust account but must have $75,000 minimum capital.	Review impact of current rule.	Imple-ment cross-industry STP	June 2005	RTP WG	**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.
5.	**NI 81-102**	Important	CSA	Trust accounts are currently not permitted to operate an intraday line of credit.	Review to determine if/what changes are required.	Imple-ment cross-industry STP	June 2005	RTP WG	**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
									to ensure change(s) take effect.

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice				Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
	Activity	From	To	Timing				
1.	**Purchase Settlement**	Dealer	Fund Company	Settle-ment date	Dealers should use FundSERV's Net $ettlement Messaging (N$M) to transmit funds supporting mutual fund trades wherever possible.	Not all dealers use trust accounts, which are required to participate in N$M (see also item 3, legal recommendations).	FundSERV Settlement date	FundSERV
2.	**Commission/ Trailer Fee Payments**	Fund Company	Dealer	Settle-ment date	Dealers should use N$M to accept commission and trailer fee payments.		FundSERV	FundSERV
3.	**Trade Settlements - Option 1**	Dealer	Fund Company	Settle-ment date	Dealers not using N$M should transmit client's banking information as part of the electronic order.	**Option 1: Mutual fund order passes directly to the fund company** In the absence of a trust account, an advisor should obtain a "void" cheque from the investor at the time of the investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. **Note:** This can be done in today's environment.	FundSERV MFDA (audits) CSA	To be determined
	Trade Settlements - Option 2	Dealer	FundSERV Fund Company		Dealers not using N$M should transmit client's banking information as part of the electronic order.	**Option 2: Mutual fund order to FundSERV, routed to CPA LVTS participant** In the absence of a trust account, an advisor should obtain a "void" cheque from the investor at the time of investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. Order would be routed by FundSERV to appropriate financial institution, which would verify the availability of funds and hold them	FundSERV CPA	To be determined

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
						pending trade settlement on purchase orders. The purchase order would be returned to FundSERV for delivery to the fund company without banking information if funds were available or rejected back to the dealer if not. Redemption orders forwarded to the fund company would include the banking information in order that payment could take place. FundSERV should develop an order routing link to CPA LVTS participant financial institutions.		

Appendix MM.1

COST EXAMPLES

(Fees noted reflect standard pricing; actual fees charged will be based on a firm's individual relationship with its financial institution)

FEES

FEES

- Set-up fee — $150.00
  (includes all software, products, materials)
- Maintenance
  Standard pricing — $40.00 / month

PAYMENT FEES

- Standard Pricing Options

	25 or less / month	More than 25 / month
Between settlement accounts	$ 2.00 / payment	$ 2.00 / payment
To another branch, same inst.	$ 5.00 / payment	$ 5.00 / payment
To another bank in Canada	$ 15.00 / payment	$ 12.00 / payment
Receive payment	$ 10.00 / payment	$ 10.00 / payment

OTHER CHARGES

- Authentication device — $ 100.00 / device
- Fixed payment sample registration — $ 5.00 / sample

**For electronic LVTS payments, appropriate inter-day credit limits must be set for bank accounts.

For FundSERV FEES, refer to *www.fundserv.com/mem_distrib_package.htm*

MANUAL CHEQUE PROCESSING COSTS

Canadian dollar accounts

- Deposits credited
  - Teller posted — $0.79 / deposit
  - Automated — $0.79 / deposit

- Items deposited — $0.15 / item
- Cheques debited — $0.79 / cheque
- Stop payments — $7.50 / stop
- Returned items — $5.00 / return
- Statement preparation — $5.00 / statement
- Cheque certification — $4.50 / certification

Administrative resource utilization – This example represents one process.

These numbers are for an average time and do not factor in the month of February.

Time writing daily cheques	30 mins./ day
Time following up on uncashed cheques	30 mins./ day
Time to follow up on missing cheques	60 mins./ week
Double-check of cheques and back-up	20 mins./ day
Signing cheques	10 mins./ day
Preparing courier	30 mins./ day
Average number of cheques per day	40
Average number per month	800

Costs:	Printing cheques	$100 / thousand
	ICS courier	53 cents / envelope, 25 envelopes / day
	UPS courier	$10 - $20 depending upon location, 2 envelopes / month

Human resource costs would be determined using a base salary.
Total of roughly 1 ½ hours per day related to cheque administration and production.

Other excluded costs include paper products (envelopes, paper, printer wear and tear, etc.).

FUND COMPANY DRAWCHEQUES/CENTRALIZED MONEY MANAGEMENT (CMM)

Per-transfer charge

MANUAL LVTS PAYMENTS

Charges are scalable. The banks do not encourage manual LVTS payments and would only recommend "manual" for contingency purposes.

SUMMARY OF REGULATORY REQUIREMENTS

MFDA Regulations

MFDA Rule 3.1 states that certain minimum capital requirements are necessary for a Dealer to operate a trust account. MFDA level designation requirements are:

Minimum levels. Each member shall have and maintain at all times risk-adjusted capital greater than zero, and minimum capital in the amounts referred to below for the level in which the member is designated, as calculated in accordance with Form 1 and with such requirements as the corporation may from time to time prescribe:

Level 1 $25,000 for a member that is an introducing Dealer and that satisfies the requirements of Rule 1.1.6(a) and (b) and is not a Level 2, 3 or 4 member.

Level 2 $50,000 for a Member that does not hold client cash, securities or other property

Level 3 $75,000 for a member that does not hold client securities or other property, except client cash in a trust account. Rule 3.1.1.

- Any MFDA member holding clients' cash must have a trust account (MFDA Rule 3.3.2.a)
- Money for mutual fund transactions must be kept in trust separately from money held for the purchase or sale of other securities or financial products (3.3.2.e)
- Trust accounts are interest-bearing (3.3.2.f)
- The MFDA member must have a system to distribute the interest the trust account earns either to the mutual fund company for reinvestment or to clients directly (3.3.2.h)

Level 4 $20,0000, for any other member, including a member that acts as a carrying Dealer in accordance with Rule 1.1.6

For CSS participation it is necessary for the participant to be able to operate a trust account in order to make and receive bulk settlement payments on behalf of its clients. In order to participate in CSS, a MFDA member must have at least a Level 3 designation from the MFDA. [Note:** CSS is now N$M.]

For applicant’s capital, the standard subordinated loan agreement must be provided in triplicate along with the application and the audited financial statements.

IDA Member

An applicant must have minimum capital of $250,000 (unless applying as a Type 1 Introducing Broker for which the minimum capital is $75,000). These are minimum capital levels only and a sufficient amount of operating capital for the applicant’s business activities must also be provided. The Joint Regulatory Financial Questionnaire

& Report (JRFQ&R) sets out the calculation for minimum capital.

Applicants who are not members of another Canadian self-regulatory organization (SRO) at the time of application must complete a JRFQ&R. The JRFQ&R must be audited and submitted with a date not longer than 90 days prior to the submission of the application for membership.

Capital can take the form of share capital or subordinated debt.

Applicants who are members of a Canadian SRO are not required to file an audited JRFQ&R. Instead, the monthly financial reports (MFRs) that have been filed with the primary audit jurisdiction SRO for the past six months and a copy of the last SRO examination letter are required.

Once an application for membership has been submitted, the applicant is required to submit an MFR following each month-end.

The MFR and subordinated loan agreement are included in the information package as Sections 7 and 8.

By-Law No. 35
Introducing Broker/Carrying Broker Arrangements

35.1 General

"**Carrying Broker"** means the member or member of a self-regulatory organization that is a participating institution in the Canadian Investor Protection Fund that carries client accounts, which at a minimum includes the clearing and settlement of trades, the maintenance of books and records of client transactions and the custody of some or all client funds and securities.

"Introducing Broker" means the member or member of a self-regulatory organization that is a participating institution in the Canadian Investor Protection Fund that introduces client accounts to the carrying broker.

35.2 Introducing Type 1 Arrangement

(a) Minimum capital requirement

An introducing broker that is a party to an Introducing Type 1 Arrangement must maintain at all times minimum capital of $75,000 for the purposes of calculating its risk-adjusted capital.

35.3 Introducing Type 2 Arrangement

(a) Minimum capital requirement

An introducing broker that is party to an Introducing Type 2 Arrangement must maintain at all times minimum capital of $250,000 for the purposes of calculating its risk-adjusted capital.

35.4 Introducing Type 3 Arrangement

(a) Minimum Capital Requirement

An introducing broker that is party to an Introducing Type 3 Arrangement must maintain at all times minimum capital of $250,000 for the purposes of calculating its risk-adjusted capital.

35.5 Introducing Type 4 Arrangement

(a) Minimum Capital Requirement

An introducing broker that is party to an Introducing Type 4 Arrangement must maintain at all times minimum capital of $250,000 for the purposes of calculating its risk-adjusted capital.

Regulated by the Office of the Superintendent of Financial Institutions (OFSI)

Reporting to the Minister of Finance, OSFI has a mission to safeguard policy holders, depositors and pension plan members from undue loss. This is achieved by advancing and administering a regulatory framework that contributes to public confidence in the financial services industry. At the same time, OSFI ensures the regulatory system does not preclude institutions from competing effectively.

OSFI has five objectives that are critical to achieving its mission. These objectives are:

Public confidence — Contribute to public confidence by enhancing the safety and soundness of the Canadian financial system through the evaluation of system-wide risks and promotion of sound business and financial practices.

Safeguard from undue loss — Identify institution-specific risks and trends, and intervene in a timely manner to minimize losses to policy holders, depositors and pension plan members.

Cost-effectiveness — Maintain a full and open dialogue with its stakeholders on the costs and benefits of its work.

Competition — Fulfill its regulatory mandate, having due regard for the need to allow institutions to compete effectively.

Quality — Provide a high-quality service by giving employees the tools and professional development to meet the challenges of a rapidly changing environment.

Subject: OSFI Instruction Guide on Use of Internal Models for Determining Required Capital for Segregated Fund Risks (MCCSR)

Section 9 of *Guideline A - Minimum Continuing Capital and Surplus Requirements* for life insurance companies and fraternal benefit societies indicates that, subject to OSFI's approval, institutions can use their internal models to determine required capital for out-of-Canada segregated fund products. OSFI is now willing to consider applications for approval to use internal models to determine required capital for Canadian segregated fund products. The instruction guide available at http://www.osfi-sif.gc.ca/eng/documents/guidance/docs/mccsrrev02_e.pdf provides the criteria that must be met to obtain OSFI's approval.

LINE OF CREDIT AND CHEQUE CLEARING ISSUES

Please note that this list is not entirely comprehensive. Depending on the situation, additional information to that detailed below may be required.

Audited financial statements — past three years
Projected financial statements — pro-forma two years
Business plan
Management assessment — experience (resumes to be provided)
Minimum capital requirements for the business (amount dependent upon level of credit requested, as well as the strength of the company with respect to the other minimum requirements)
Assessment of internal controls
Collateral may be required from the company and/or principals of the company (legal counsel may be required)
Initial set-up fees — each application reviewed individually
Ongoing review fees — each application reviewed individually

Section 3:
ELECTRONIC STANDARDS ISSUES

3.1 Introduction

The RTPWG mandated the Electronic Standards Subcommittee to review all aspects of the order-entry system as operated by FundSERV Inc. with a view to ensuring that all procedures are valid for STP or identifying what needs to be done to meet STP requirements. It does not make any comment as to how long the enhancements will take to be completed, what the enhancements will cost and whether they can be completed to meet the deadlines as outlined by the STP mandate. The review covered the following seven areas:

1. Overnight Trading Rejects at FundSERV
2. Order Entry in Batch Mode
3. Settlement Review
4. Client Banking Information
5. Manual Trades
6. Reject and Warning Review Process
7. Third-Party (also known as Custodian or COD/COR) Transactions

The findings of the Subcommittee may be applied to improve the processing efforts of all manufacturers and distributors by reducing exceptions and the related cost and risk.

The Subcommittee presented its findings to the RTPWG and the CCMA and is publishing in September 2003 the findings for comment by the industry. A list of the Subcommittee members is found in **Appendix #3** to the full paper.

3.2 Issues and Recommendations

3.2.1 Overnight Trading Rejects at FundSERV

Overnight rejects do not comply with STP requirements.

- ***The Subcommittee recommends that all fund companies examine their reject situations and either resolve them or convert them into order-date interactive rejects. All orders and rejects should take place on order date. FundSERV is asked to make the reject a required field, with the value being one of the acceptable reject reasons. Furthermore, the Subcommittee believes that the distributors should not be liable for any charges as a result of overnight rejects. Fund companies should reinstate rejected transactions at their own cost.***

Error messages will remain available for fund companies in the overnight reject environment, but only in an extreme case where there is a system failure or internal integrity conflict that would result from processing the transaction. The following is a list of the most commonly used reject reasons that should be re-examined and a list of a few reject reasons that need redefining.

041 Miscellaneous Reject. This reject accounts for 48 per cent of all overnight rejects. Fund companies are requested to review the reasons for using this reject, reassign it correctly to another reject and return it interactively on order date. If a reject reason cannot be determined, then a request for a new code should be made to a FundSERV Electronic Standards Group (ESG) member (listed on the FundSERV Web site). A miscellaneous reject is not helpful in an STP environment where the distributor cannot deduce the reject reason.

035 Insufficient Shares in the Account. This represents seven per cent of all rejects. No fund company should be put in a position of sending an interactive reject where the distributor could have a reason to challenge its validity the next day. The recommendations were made based on two assumptions:

1. All sequencing guidelines laid out in ESG guidelines had been fulfilled
2. All deferred sales charges (DSC) or other fees, taxes, claw-backs, account charges, certificates and assignments, etc., had been taken into account.

- ***The Subcommittee recommends that:***
  a) If the order is greater than five per cent below the asset value based on the preceding day's price, the fund would send an acceptance.
  b) If the order is equal to or less than five per cent below the asset value based on the preceding day's price, the fund would send a warning message indicating that the asset may be redeemed for all units and the proceeds may be different from what is expected.
  c) Notwithstanding the above, in a volatile market, the fund reserves the right to change orders greater than five per cent below the asset value based on the preceding day's price, to all unit redemptions, switches or transfers.
  d) If the order is greater than the asset value based on the preceding day's price, the fund would send a reject and the distributor would be advised to re-enter the order to redeem all units or take an appropriate action.
  e) FundSERV's ESG Working Group is requested to provide examples of how this would work in the help file release

A further 40 per cent of all rejects are represented by:

- **171** Invalid beneficial owner birth date
- **079** Rep code mismatch
- **033** Invalid rep code
- **048** Invalid gross/net purchase settlement indicator

- **081** Invalid account status
- **019** Address error
- **006** Invalid account identifier
- **127** No account found and
- **057** Invalid language code.

All these are self-explanatory and should be validated against the fund company database on trade date. These types of rejects should all be converted into interactive rejects.

The following reject messages, while not widely used, need clarification as to their purpose:

037 Pending all-share redemption on account. The description of this interactive reject should be changed to "Pending all-share transaction on account." The transaction can be any pending sell, switch, transfer out, etc. Please see below for sequencing recommendations. While reject message 37 is not used very much, the Subcommittee suspects it is being interpreted as error code 41 or 35. Notwithstanding the above, the reject should be employed correctly and interactively.

032 Invalid Amount/Unit. The Subcommittee reviewed this reject and believes it is being used incorrectly; it should refer only to an invalid amount and not to insufficient shares, etc. Again, the reject should be interactive.

A new warning message (to be used interactively) is needed to encompass multiple orders where an aggregate minimum is required: "Fund has special minimum threshold requirements." This should be an interactive response where the fund maintains what orders have been placed and whether the minimum has been reached. In the event that the distributor does not meet the minimum by 4:00 p.m., there is a possibility of an exception to the rule and permission for an overnight reject. Fund companies offering this product are asked to examine ways of avoiding such rejects. The Subcommittee recognizes there may be some unique situations as identified here and that the list of exceptions to STP may grow. Fund companies must regard this as an evolving process and commit to continually converting overnight rejects to interactive.

- ***The Subcommittee recommends enhancing the current sequencing best practice to include all transaction types.***

This would eliminate the majority of sequencing rejects, leaving very few that would not comply with STP. The sequence suggested is as follows:

1. Wire order reversals
2. Wire order "as of"
3. Wire order partial redemptions
4. Wire order partial switches

5. Wire order partial internal/external transfers
6. Wire order full redemptions
7. Wire order full switches
8. Wire order full internal/external transfers
9. Wire order purchases
10. Non-wire order manual trades
11. Systematic plans

The remaining rejects constitute five per cent of the total and are set out in the table below. They should all be examined to see if they are caused by the fund company's system and should be modified to be interactive on order date. The following list of error codes shows number and frequency of the times they were used based on a time span of approximately three months:

Error Code	Number of Rejects	Percentage of Rejects	Reject Name
041	7,531	47.73%	Miscellaneous
171	1,744	11.05%	Invalid beneficial owner birth date
079	1,571	9.96%	Rep. code on trans. does not match code on account
033	1,129	7.16%	Invalid or missing sales rep. code
035	1,103	6.99%	Insufficient shares in account
048	779	4.94%	Invalid gross/net purchase settlement indicator
081	731	4.63%	Invalid account status
019	173	1.10%	Address error
006	172	1.09%	Invalid account identifier
127	153	0.97%	No account found
057	130	0.82%	Invalid language code
111	78	0.49%	Account has stop-switch indicator set
055	71	0.45%	Invalid locked-in code
007	68	0.43%	Invalid contribution period
110	56	0.35%	Account has stop-redemption indicator set
076	54	0.34%	Invalid trade date
028	44	0.28%	Invalid tax code
124	36	0.23%	Account setup error
091	31	0.20%	Invalid shares/units
027	21	0.13%	Invalid Social Insurance Number (SIN)
045	20	0.13%	Invalid account type
077	19	0.12%	Invalid dealer code
031	10	0.06%	Invalid spousal information
030	8	0.05%	Invalid intermediary code
078	7	0.04%	Dealer code on transaction does not match dealer code on account
061	6	0.04%	Invalid address code
109	6	0.04%	Account has stop-purchase indicator set
034	4	0.03%	Invalid currency indicator
093	4	0.03%	No order found
083	3	0.02%	Invalid settlement date
005	2	0.01%	Invalid fund identifier
014	2	0.01%	Invalid from account

Error Code	Number of Rejects	Percentage of Rejects	Reject Name
071	2	0.01%	Invalid order time
087	2	0.01%	Account terminated
095	2	0.01%	Missing account identifier
128	2	0.01%	Invalid gross/net redemption proceeds indicator
016	1	0.01%	Invalid management company code
021	1	0.01%	Invalid order source
024	1	0.01%	Invalid birth date
084	1	0.01%	Invalid order identifier
089	1	0.01%	Invalid net amount
		100.00%	

3.2.2 Order Entry in Batch Mode

- ***The Subcommittee recommends that interactive order entry be recommended as a "best practice," but with the following considerations.***

Many distributors use batch as an intrinsic part of their automated set-up. For these companies to change would be prohibitively expensive. Such distributors should work with their service providers and continue to analyze such rejects to bring them down to an insignificant number. Perhaps FundSERV should consider a grace period or waiver or allow so many rejects per month in such cases. The batch distributor has an obligation to commit to 100-per-cent STP even if the distributor chooses batch as its mode of operation.

3.2.3 Settlement Review

- ***The Subcommittee recommends the creation of a second, independent, net settlement movement (known also as second cycle) at approximately 10:00 a.m.***

- ***The Subcommittee also recommends that fund companies that receive an N$M reject in a "Q" file on the morning of T+1 be allowed to resubmit the transactions in a second "F" file to settle in the second cycle.***

Consideration should be given to the following:

1. Fund companies would invoke the second cycle on days when they need it to satisfy CSA National Instrument 81-102, Mutual Funds, requirements to keep the trust account from going into overdraft.
2. A distributor complaining to a fund company that its clients will suffer may initiate it, but it still is up to the fund company, NOT the distributor, to invoke the second cycle through FundSERV.
3. The second cycle would only happen on days that the second cycle is required. Therefore, based on recent history, it may only be used once or twice a month per fund company.

4. The second cycle would NOT impact the first cycle. A distributor could be a net purchaser in the first, and a net redeemer in the second, cycle. The two cycles would not net.
5. There would have to be a cost-benefit analysis, e.g., the programming and ongoing costs versus the number of times used and the cost savings to the fund company that would be forced to fund the trust account overdraft.
6. Fund companies would be allowed to miss the 6:00 a.m. cut-off (first cycle) once per month without charge; however, use of the second cycle would incur a service fee. FundSERV's Mandatory Standards Working Group should ensure that there is an incentive on the part of the fund companies to comply.

3.2.4 Client Banking Information

- ***The Subcommittee recommends that banking information be added to the order entry XML layout to facilitate redemptions, mainly in client name.***

The Subcommittee understands that the industry has legal arguments against electronic client bank information, but this will need to be addressed in other legal or client name working groups. The FundSERV ESG requirement is simply to provide the mechanism.

3.2.5 Manual Trades

- ***The Subcommittee recommends that there should not be any manual trades in the nominee world. Any units or shares that are certificated, assigned, etc., should be restricted to client name.***

- ***The Subcommittee further recommends that FundSERV's ESG Working Group review restrictions on error correction transactions (for example, after a subsequent transaction) to more effectively integrate the process into N$M.***

Nominee manual transactions that need to be automated include, but are not limited to:

1. Inter-load switches
2. Cross-currency switches
3. Subsequent purchases on a capped fund
4. Restricted trading on merged funds at time of merger
5. U.S. address trades.

The Subcommittee further acknowledges that there remain restrictions in the client name world that may continue to be an issue in the STP environment and are beyond the scope of this report at this point.

Client name manual transactions that need to be addressed are as follows:

- Systematic financials (changes to PACs)
- Systematic financials (set up and changes to SWPs)
- Registered transfers (marriage breakdown, retiring)
- Non-financials (demographic changes, name corrections, FA, beneficiary and dealer changes)
- New registered accounts without an associated purchase transaction to facilitate receipt of transfer proceeds
- Banking information at time of account set up
- Changes to banking information
- Error corrections
- Group account processing (set up and order placement)
- Allowance/severance pay (T2030 RIF to RSP, T2033 RSP to RSP)*
- Excess withdrawals (T3012) and
- Transfers that are not currently automated.

3.2.6 Reject and Warning Review Process

On order date, fund companies will interactively send rejects on orders that the fund cannot process or do not meet the fund requirements even though they may pass ESG edits. These rejects are available for review at any time by the distributor.

- ***The Subcommittee recommends the following best practice: all distributors review these rejects on order date so that any fix can be made and the transaction resubmitted to FundSERV, preferably on the same day.***

The practice of waiting until the morning of T+1 to review the reject is not in the best interest of the underlying client, nor does it satisfy STP requirements.

3.2.7 Third Party (also known as Custodian or COD/COR) Transactions

The Subcommittee reviewed this requirement and observed that this was an issue between FundSERV and the custodians. It was noted that FundSERV currently has a process to deal with third party, i.e., intermediary business. FundSERV and the custodians in question were invited to a meeting and the scenarios were reviewed. It was recommended that further discussions should take place to close the gap between FundSERV's intermediaries and what a custodian requires.

- ***The Subcommittee made no recommendations on this initiative other than that FundSERV put the two parties in touch with one another. The issue needs to be resolved through other groups and channels. FundSERV has made it clear that a CDS solution prior to placing the order at FundSERV is the preferred route.***

3.3 Conclusions and Recommended Implementation

The conclusions and recommendations from this section are reproduced below, divided into General, Legal and Roles and Responsibilities – Potential Best Practices and Standards.

General Recommendations

<table>
<tr><th colspan="4">Electronic Standards Subcommittee</th></tr>
<tr><th></th><th>Who (What Organization)</th><th>Should Do What (Recommended Action)</th><th>By When (Date deliverable is Due)</th></tr>
<tr><td>1.</td><td>FundSERV</td><td>Overnight Trading Rejects
• Make the reject a required field with a value being one of the acceptable reject reasons
• Charge fund companies rather than distributors for overnight rejects
• Provide an example of how the below- and above-five-per-cent asset-value scenario would work in the FundSERV help file release
• Clarify the description on code 37 (pending all share redemption on account) to refer to “pending all-share transaction on account” for greater clarity to encompass any pending sell, switch, transfer out, etc. (see below) for sequencing recommendations
• Create a new warning message: “Fund has special minimum threshold requirements”
• Enhance the current sequencing practices to include all transaction types, as follows:
1. Wire order reversals
2. Wire order “as of”
3. Wire order partial redemptions
4. Wire order partial switches
5. Wire order partial internal/external transfers
6. Wire order full redemptions
7. Wire order full switches
8. Wire order full internal/external transfers
9. Wire order purchases
10. Non-wire order manual trades
11. Systematic plans.
• Allow fund companies that receive an N$M reject in a “Q” file on the morning of T+1 to resubmit the transactions in a second “F” file to settle in the second cycle; charge fund companies that miss the 6:00 a.m. cut-off more than once a month a fee; charge fund companies to use the second cycle (see below).
• Review restrictions on error correction transactions to more effectively integrate the process into N$M.
• Monitor the use of reject code 041 to ensure reduction in use over time.</td><td>To be determined</td></tr>
<tr><td>2.</td><td>FundSERV</td><td>Settlement Review
• Create a second, independent, as-required-only net settlement movement (known also as a second cycle) at approximately 10:00 a.m. that could be used when a fund company, for example, needs it to satisfy National Instrument 81-101 requirements to keep the trust account from going into overdraft; while both fund company and distributor may need to use the second cycle, only the fund company could invoke it; the first and second cycle would not be netted.
• Allow fund companies that receive an N$M reject in a “Q” file on the morning of T+1 to resubmit the transactions in a second “F” file to settle in the second cycle.
• Charge for more than one use of the second cycle per month as a disincentive to its use.</td><td>To be determined</td></tr>
</table>

	Electronic Standards Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
3.	**FundSERV**	**Client Banking Information** • Add banking information to the order entry XML layout to facilitate redemptions, mainly for client name transactions.	To be determined

4.	**FundSERV**	**Manual Trades**
		• Review restrictions on error correction transactions (for example, after a subsequent transaction) to more effectively integrate the process into N$M; nominee manual transactions that need to be automated include, but are not limited to:
		  • Inter-load switches
		  • Cross-currency switches
		  • Subsequent purchases on a capped fund
		  • Restricted trading on merged funds at time of merger
		  • U.S. address trades.
		• Review requirements to automate client name manual transactions:
		  • Systematic financials (changes to PACs, set-up and changes to SWPs)
		  • Registered transfers (marriage breakdown, retiring)
		  • Non-financials (demographic changes, name corrections, FA, beneficiary and dealer changes)
		  • New registered accounts without an associated purchase transaction to facilitate receipt of transfer proceeds
		  • Banking information at time of account set-up
		  • Changes to banking information
		  • Error corrections
		  • Group account processing (set-up and order placement)
		  • Allowance/severance pay (T2030 RIF to RSP, T2033 RSP to RSP)
		  • Excess withdrawals (T3012)
		  • Transfers that are not currently automated.
			To be determined

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Manual Trades**	Critical	Federal government, Provincial governments	Anti-Money Laundering Trust and Loan Companies Act	Examine legal arguments regarding electronic client bank information in terms of anti-money laundering and	Implement Cross-Industry Straight-Through Processing	June 2005	To be deter-mined	To be determined

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
					general fiduciary responsibilities.				
2.	**NI 81-102, Part 9.2 Acceptance of Purchase Orders, 10.4 Backward Pricing**	Important	CSA	National Instrument 81-102, Mutual Funds	Fund companies should reinstate transactions, which were rejected in error, at their expense.	Implement Cross-Industry Straight-Through Processing	To be deter-mined	To be deter-mined	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice: Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
1.	**Minimize over-night trading rejects**	Fund Company	Distributor	Same-day	All fund companies should use the correct reject code and validate transactions against the their database and reject on order (trade) date. Where the same reject reason repeatedly arises, all fund companies should examine the reason for this and resolve the problem or convert them into trade-date interactive rejects.	• Review the reason for code 041 (miscellaneous reject) and change to a more appropriate existing code; request a new code where a reject reason truly is not covered already by one of the existing codes. • Examine the reasons for errors, especially those with codes: 171 (invalid beneficial owner birth date), 079 (rep code mismatch), 033 (invalid rep code), 048 (invalid gross/net purchase settlement indicator), 081 (invalid reject account status), 019 (address error), 006 (invalid account identifier), 127 (no account found), 057 (invalid language code). • Confirm that 032 (invalid amount/unit) is only being used for invalid amounts and not for insufficient shares. • Confirm that 037 (pending all-share redemption on account) is not being interpreted incorrectly as error code 041 or 035.	FundSERV	FundSERV to make data available

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
						• To minimize use of code 035 (insufficient shares in the account), accept orders greater than five per cent below the asset value based on the preceding day's price; if the order is equal to or greater than five per cent, send a warning message; in either case, reserve the right, in a volatile environment, to change orders greater than five per cent below asset value based on the preceding day's price, to all unit redemptions, switches or transfers; if the order exceeds the asset value based on the preceding day's price, reject the order and request the distributor to re-enter the order. • Fund companies with products that have special minimum thresholds should examine ways to reject transactions due to failure to meet minimum threshold requirements on a given trading date.		
2.	**Order Entry in Batch Mode**	Distributor Manufac-turer	Fund Company	Same-day	Distributors must make order entry interactive and continue to analyze such rejects to bring them down to an insignificant number. Where interactive order entry is cost-prohibitive, distributors should work with service providers on ways to reduce rejects.	FundSERV could consider a grace period or waiver or allow so many rejects per month in such cases. The batch distributor has an obligation to commit to 100-per-cent STP even if the distributor chooses batch as its mode of operation.	FundSERV	FundSERV to make data available
3.	**Manual Trades**	Nominee Model Distributors	Fund Company	N/A	Avoid manual trades in the nominee world.	Restrict units/shares that are certificated to client name.	Investment Dealers Association of Canada	To be determined
4.	**Reject and Warning Review Process**	Distributor	Fund Company	Same-day	Distributors must review rejects on trade date so that any fix can be made and the transaction resubmitted to	The practice of waiting until the morning of T+1 to review the reject is not in the best interest of the beneficial client, nor does it satisfy STP requirements.	Mutual Fund Dealers Association of Canada	To be determined

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
					FundSERV the same day.			

Section 4:
FUND ACCOUNTING ISSUES

4.1 Introduction

The RTPWG established the Fund Accounting Subcommittee for the purpose of discussing with industry leaders the possible impact straight-through processing (STP) will have on fund accounting operations (See **Appendix #3** to the full paper for the Subcommittee members' list). By definition, STP refers to both institutional trades and retail/mutual fund trades settling in a T+1 environment. The Subcommittee reviewed the impact of both changes to the fund accounting operations.

Scope:

The Fund Accounting Subcommittee expressed the view that shareholder record-keeping systems and the ability to provide timely and accurate reports of trading activity were outside the scope of the Subcommittee. Members were unaware of systems that currently run queries to show what the flows are at a point in time. The ability of shareholder systems providing timely information to investment managers is outside the scope of this discussion.

The Fund Accounting Subcommittee stated that the scope is to establish policy and procedures to effectively manage fund accounting in a T+1 environment with reference to the issues that were raised by the CCMA.

4.2 Issues and Recommendations

1) Key Challenges and Issues:

Category	Issue	Proposal
1. Cash-flow projections	➢ Subcommittee participants were concerned about the implications of basing cash-flow projections at a 3:00 p.m. cut-off when heavy retail trading can occur thereafter. Inaccurate forecasting may have a detrimental impact on cash and fund performance.	✓ Fund accounting could respond to late trades; however, cash-flow analysis would continue to be primarily a front-office function. Front office will require retail trade numbers at various checkpoints to ensure proper forecasting. ✓ No impact on fund accounting on T+1 retail trades. Capital stock activity is reconciled daily. Investment managers would continue to receive activity early enough on T+1 to trade accordingly. ✓ A query showing complete cash flow for the day would be beneficial and should be distributed to the relevant parties.
2. Security reconciliation/ daily fund accounting reconciliation	➢ The liquidity issues prompted discussion about the implications of T+1 for the security reconciliation process. Although cash/bank	✓ The Subcommittee stated that it would be required in a T+1 environment to perform daily reconciliation of securities positions vis-à-vis the custodian and the investment manager to ensure trades, corporate actions and backdated trades

Category	Issue	Proposal
	accounts and capital stock activity are reconciled daily, security reconciliation is not done daily. Investment managers will be exercising institutional trades on T+1 and reconciliation will have to become more timely as well.	are properly accounted for. ✓ Daily reconciliations and fund accounting procedures currently include: i. *Currency forward contracts* against custodian/broker statement – 10:00 a.m. ii. *Cash balances* (including margin cash) against custodian statement – 10:00 a.m. iii. *Futures margin cash and holdings* against broker statement – 10:00 a.m. iv. *Capital stock* from shareholder system to accounting system – 10:30 a.m. v. *Unsettled trades, dividends, income and maturities* against custodian – 11:00 a.m. vi. *Corporate actions notices* provided from custodian and centralized pricing team – 11:00 a.m. / 3:00 p.m. vii. *Review* cash position and notify investment manager of any overdrafts or large cash positions – 12:00 p.m. viii. *Review and validate* any late trades – submit NAV Impact Summary with analysis of late trade impact. ix. *Account* for changes to fund and sign-off.
3. Security profiles	➢ New security profiles may need to be set up. This may cause a problem for trades that are entered later in the day.	✓ When a trade is placed for a security not already held, there may not be sufficient time to create a new profile and submit details to the pricing vendor(s) for the same day. In those cases, asset pricing for that security for that day will have to be entered manually.
4. Timelines / deadlines for trade instructions	➢ Instructions need to be established with respect to the cut-off for entering institutional trades. Instructions should be consistent among custodian and fund accounting. Some fund accounting shops currently record trades up to 4:30 p.m.; other shops are entering trades manually via fax; these methods will require change. What would be the latest time to receive trades in a T+1 environment and properly run funds? Front-office institutional trades can continue after the cut-	✓ Service level agreements (SLAs) will need to be revisited to ensure proper timelines are established and straight-through delivery processes are implemented to ensure accuracy and timeliness of trade flows from the investment manager. ✓ Trade Deadlines: i. *External managers* – deadline is 12:00 p.m. ii. *Internal managers* – deadline is 4:30 p.m. iii. *Money market trades* – normal business deadline is 2:00 p.m. Trade instructions received after the deadline will be entered on a best-effort basis to be entered after the deadline and before 4:30 p.m. same day, with no guarantee that the trade will be reflected after the deadline.

Category	Issue	Proposal
	offs, provided trades are accounted for in forecasting reports. Different cut-off times may need to be set for foreign trades due to time-zone issues.	
5. Valuation process	➢ When would pre-valuations be run in a T+1 environment? Analytical reports would be run in time to account for trades coming in at a later time.	✓ Back offices already perform this function. Should not be impacted by T+1.
6. Cyclical periods	➢ Fund accounting processes are compacted during peak periods such as month-end or quarter-end distributions. Different cut-off times may be required for these periods in order for fund accounting to meet its obligations to all the various information vendors such as Cannex, Fundata, Globe & Mail.	✓ SLA agreements will need to be refined to ensure trade cut-off for quarterly, semi-annual or annual distribution periods are not impacted negatively.
7. NAV Error	➢ A NAV error for missed trades may be triggered if trades are not included in the fund accounting records after T+1; i.e., entered after the settlement date. The NAV error may occur if the analysis of the omitted trades meets current IFIC guidelines.	✓ Analysis of current IFIC guidelines would need to be performed to review if trades entered after T+1 would warrant a NAV error. ✓ NAV errors caused by late trades from investment managers would require the fund to be made whole by the investment management company.

4.3 Conclusions and Recommended Implementation

In retail T+1 and an institutional T+1 environment, clear and precise policy and procedures will have to be implemented by fund accounting operations in order to properly account for activity with a shorter settlement date. This will require a revamping of service level agreements.

Reconciliation tools will require automation. Fund accounting operations will be looking into “bulk” reconciliations of cash statements, capital stock activity and cage activity. Reconciliation activity will also become more frequent, providing daily and intra-day analysis.

Following is a list of the Fund Accounting Subcommittee’s conclusions and recommendations. Most of the “general” recommendation items constitute best practices; however, as they apply to a T+1 environment, they have been placed in this category to be revisited should moving to a shorter settlement timeframe become a priority for Canada once again.

General Recommendations

	Fund Accounting Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due**
1.	**Industry participants**	If Canadian capital markets decide to move to a T+1 settlement timeframe, the following issues and automation requirements should be considered to support industry best practices of: • Ensuring the front office receives retail trade numbers during various checkpoints throughout the day • Providing and distributing a query showing complete cash flow for the day to the relevant parties • Performing daily reconciliation of securities positions vis-à-vis the custodian and investment manager.	To be revisited when T+1 is on the table.
2.	**Industry participants**	In a T+1 environment, if there is insufficient time to create a new security profile and submit details, industry best practice will be to manually enter that day's asset pricing.	To be revisited when T+1 is on the table.
3.	**Industry participants**	Moving to a T+1 environment will require fund accounting departments to: • Revisit service level agreements to ensure timelines will support T+1 settlement • Refine service level agreements to support trade cut-off for quarterly, semi-annual or annual distributions.	To be revisited when T+1 is on the table.
4.	**Industry participants**	Review procedures to address potential situations of trades entered after T+1 and the resulting impact on the NAV calculation.	To be revisited when T+1 is on the table.

Section 5:
NON-FUND PRODUCTS ISSUES

5.1 Introduction

The April 2002 retail trade processing white paper examined a number of retail investment products aside from standard investment funds (e.g., mutual and segregated funds) from the perspective of assessing what impact a shortened settlement timeframe (T+1) would have on them. With the change in focus, both in Canada and the United States, away from a T+1 settlement timeframe and towards facilitating cross-industry STP, the RTPWG established a Non-Fund Products Subcommittee to consider where changes were required to support cross-industry STP of non-fund retail products. (A list of Subcommittee members is found in **Appendix #3** to the full paper.)

Non-fund retail products can generally be categorized as deposit-like or akin to debt or equity. The Subcommittee reviewed the white paper recommendations pertaining to non-fund products as well as comments received and issues arising from the CCMA Legal/Regulatory Working Group's Detailed Required Amendments List (or DRAL). While the Subcommittee examined a broad range of non-fund products, it focused primarily on two key product lines: guaranteed investment certificates (GICs) and savings bonds.

5.2 Issues and Recommendations

For many non-fund retail products, settlement is considered to take place on trade date. Processing the transaction, however, quite often can involve a fairly significant amount of manual intervention both within an organization and between counterparties. The Subcommittee limited its review to the processing of transactions between counterparties but encourages individual organizations to consider what needs to be done internally to improve the efficiency of processing non-fund retail product transactions.

While debt and equity are the primary investment products in the retail brokerage market, they are also institutional investments. Retail debt and equity securities currently have a high STP rate due, for example, to locked-in trade processing at an exchange. Once industry comments on the institutional and entitlements best practices and standards are received and analyzed by the CCMA, a Subcommittee will review their applicability from a retail perspective and determine the changes required to support STP of exchange and non-exchange traded securities. On the one hand, there may be value in having as much consistency as possible between the post-trade processing of equity and debt trades, whether retail or institutional; on the other, there are a number of key differences between institutional and retail trade processing, e.g., not all of the 26 data elements required to initiate an institutional notice of execution are required at the retail level, allocations are not required and retail investors rarely use a custodian.

With respect to other forms of non-fund products, as a principle, all new retail products introduced in the Canadian marketplace, regardless of the supporting business model, should be compatible with STP, supporting online functionality, same-day corrections, etc.

In reviewing the non-fund retail products listed in the April 2002 white paper, and comments received, the Subcommittee determined it would focus on the two broadest groups of products: guaranteed investment certificates and savings bonds.

Guaranteed Investment Certificates (GICs):

As noted in the April 2002 white paper, payment for the purchase of an original GIC is considered settled on trade date. Interest and redemption payments are issued either by physical cheque or electronically deposited into a bank account. The primary apparent obstacle to STP processing of GICs between counterparties is the transfer of GICs between institutions.

The Subcommittee reviewed possible considerations regarding guaranteed investment certificates. As Canadian banks are leaders in the issuance and support of GICs and well positioned to identify areas where, if improvements were made, it would enhance processing for the industry overall, the Subcommittee recommends the Canadian Bankers Association (CBA) ask its members to consider the following in making this assessment:

1. Are there any initiatives under way within the banking community to improve the processing of nominee account GICs (i.e., a financial institution's GIC sold by a third party)?
2. Interest and principal payments by cheque and handling of estates are major impediments to STP processing of GICs. Are there other issues that should be examined?
3. What are the key STP impediments to GICs that can be addressed on an industry basis and would benefit the financial industry overall?
4. Can CBA members provide any statistics on an ongoing basis, possibly monthly, that could be collected on an aggregate basis to benchmark the current STP state of GICs and monitor any progress? Possible metrics might include number of interest/principal payments issued via cheque vs. electronic.

Savings Bonds:

The federal government through Canada Investment and Savings (CI&S) and some provinces offer savings bonds or predominately retail debt instruments. Payment for CI&S products as well as provincial bonds is expected at the time an order is placed; however, the payment is held and processing takes place on the set closing date of the campaign. Purchase confirmation either in the form of a certificate or an ownership statement is sent to purchasers in the weeks following the close of the applicable campaign.

CI&S with the Bank of Canada is working on a number of initiatives that will greatly improve processing efficiency of CI&S products. These include projects to allow dealers to transfer CI&S holdings into CDSX and development of a Web-based distribution portal that financial institutions would use to process CI&S purchases. As well, CI&S plans to introduce a non-certificated option for its October 2005 campaign, an option that currently exists only for Canada Premium Bond and payroll purchases of CI&S products.

The Subcommittee was unable to determine if any changes are required to support STP processing of non-fund insurance products. It recommends that members of the Canadian Life and Health Insurance Association review and identify impediments to and requirements for facilitating STP processing of non-fund insurance products as well as identify possible metrics to measure progress.

5.3 Conclusions and Recommended Implementation

The Non-Fund Products Subcommittee encourages securities participants to consider further areas where improvements would benefit cross-industry straight-through processing of non-fund retail products.

A summary of the Subcommittee's conclusions and recommended course of action, segmented as General and Roles and Responsibilities – Potential Best Practices and Standards, follows:

General Recommendations

	Non-Fund Products Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**Retail Trade Processing Working Group**	Establish a Subcommittee to review the applicability of finalized institutional and entitlement best practices and standards in a retail context and to determine the changes required to support STP of exchange and non-exchange-traded securities (debt and equities) for retail investors.	To be determined
2.	**Canadian Bankers Association**	Review and identify impediments to and requirements for facilitating straight-through processing of GICs on an industry basis as well as identify possible metrics to measure progress as applicable, including the following considerations: • Are there any initiatives under way within the banking community to improve the processing of nominee account GICs (i.e., a financial institution's GIC sold by a third party)? • Interest and principal payments by cheque and handling of estates are major impediments to STP processing of GICs. Are there other issues that should be examined? • What are the key STP impediments to GICs that can be addressed on an industry basis and would benefit the financial industry overall? • Can CBA members provide any statistics on an ongoing basis, possibly monthly, that could be collected on an aggregate basis to benchmark the current STP-state of GICs and monitor any progress? Possible metrics might include number of interest/principal payments issued via cheque vs. electronic.	To be determined
3.	**Canadian Life and Health Insurance Association**	Review and identify impediments to and requirements for facilitating straight-through processing of insurance products (other than issues pertaining to client name) as well as identify possible metrics to measure progress as applicable.	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice				Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
	Activity	**From**	**To**	**Timing**				
1.	**Introduc-tion of new products**	Issuers	Marketplace	N/A	As a principle, all new retail products introduced in the Canadian marketplace, regardless of supporting business model, should be compatible with STP (online, same-day corrections, etc.).	XML new file layouts are expected to minimize processing problems relating to the introduction of new retail products.	To be determined	To be determined
2.	**GIC payments**	Investor GIC Issuer	Distributor Investor	N/A	Initial GIC purchase and issuance of GIC interest and other payments should be done electronically.	Re-examine if investigation regarding further automation of GICs would be warranted after XML is implemented.	To be determined	To be determined

Section 6
LEGAL ISSUES

6.1 Introduction

The 2002 RTPWG white paper noted that current legislation governing investment funds and other retail products supposes a T+3 business environment. A thorough review of the applicable legislation was undertaken to determine what amendments were needed to support the industry move to T+1. The suggested changes were reflected in the CCMA's Legal/Regulatory Working Group's (LRWG's) Detailed Required Amendments List (DRAL).

Following the change in focus from T+1 to STP, these items were again reviewed. The changes suggested in most cases still appear warranted and other changes and clarifications supporting STP have been made as part of other regulatory changes and updates (e.g., prospectus delivery).

The RTPWG designated two members as a Legal Subcommittee (a list of Subcommittee members is found in **Appendix #3** to the full paper) to serve as liaison to the IFIC Legal and Compliance Issues Working Group (LCIWG) and with the CCMA's LRWG. The Subcommittee met with the LCIWG and also developed input from a business perspective as had been identified as being required. In addition, the Legal Subcommittee reviewed the sections of the RTPWG addendum being prepared by the other Subcommittees and partners.

6.2 Issues and Recommendations

On the CCMA Web site, www.ccma-acmc.ca, Media Publications, White Papers section, the CCMA is posting a table summarizing the status of all items arising from the 2002 retail trade processing white paper.

Below is an updated version of the retail-related items of the current version of the DRAL. Possible additional items to the DRAL, derived from the RTPTWG Subcommittees' and partners' recommendations, are contained in the different sections of the RTPWG addendum as well as in **Appendix #1** to the full paper.

Changes to the December 2002 version of the DRAL are in boldface print.

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
21	42	NI 81-102 9.1 (1) (Trans-mission and Receipt of Purchase Orders)	Critical	CSA	Principal office of dealer to be sent other offices' purchase orders by same- or next-day courier, priority post, telephone or electronic means.	**Principal office of the dealer to be sent other offices' orders by electronic means the same day as they are received. Where electronic means are not available, orders should be sent using other delivery methods to ensure the orders are received by the dealer head office in as short a time period as possible.** ***[Note: The suggested changes allow for flexibility in the event of a move to T+1 or even same-day settlement.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
22	43	NI 81-102 9.1(2) (Trans-mission and Receipt of Purchase Orders)	Critical	CSA	Order receipt office of a fund to be sent purchase orders received elsewhere by same- or next-day courier, priority post, telephone or electronic means.	**Order receipt office of a fund to be sent purchase orders elsewhere by electronic means the same day as they are received. Where electronic means are not available, orders should be sent using other delivery methods to ensure the orders are received by the order receipt office of the fund in as short a time period as possible.**	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
						[Note: The same rationale as in 21.]					
23	46	NI 81-102 9.2 (Acceptance of Purchase Orders)	Critical	CSA	A fund may reject purchase orders no later than one business day after receipt.	***[Note: No rule proposed – FundSERV to be requested to review framework for initial trade rejection; functionality to be dealt with through FundSERV and retail best practices as recommended by the Electronic Standards Subcommittee.]***	Implement Cross-Industry Straight-Through Processing	N/A	N/A	N/A	**Refer Section 3, Electronic Standards in RTPWG Addendum**
24	47	NI 81-102 9.4 (1) (Delivery of Funds and Settlement)	Critical	CSA	Order receipt office of a fund to receive cash receipts from principal distributor or participa-ting dealers as soon as practicable and no later than three days after when net asset value (NAV) is	**Order receipt office of the fund to receive cash receipts from the principal distributor or participating dealers as soon as practical and no later than the appropriate settlement date as specificed in the fund prospectus, assigned after the date when the NAV is calculated.** ***[Note: This will provide flexibility in case of a move to T+1 or same-day settlement without requiring additional legislative changes. Fund company***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					calculated (pricing date).	***prospectuses will reflect the then current industry settlement period.]***					
25	48	NI 81-102 9.4(2) (Delivery of Funds and Settlement)	Critical	CSA	Requires payment of issue price to the mutual fund on or before the third business day after NAV calculation (pricing) date.	**Requires payment of the issue price to the mutual fund on or before the appropriate settlement date as specified in the fund prospectus, assigned after the date when the NAV is calculated.** ***[Note: The same rationale as 24 change.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
26	49	NI 81-102 9.4 (4) (Delivery of Funds and Settlement)	Critical	CSA	Sets procedure where, if payment is not received within three days, the purchase order is "force-settled.	**The order to redeem the securities purchased and force-settle the purchase order is deemed to be the business day following the "settlement date" as described in the fund's prospectus.** ***[Note: The same rationale as in 24.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
27	50	NI 81-102 10.2(1) (Trans-mission and Receipt of Redemption Orders)	Critical	CSA	Principal office of dealer to be sent other offices' redemption orders on the day received by same- or next-day courier, priority post, telephone or electronic means.	**Principal office of the dealer to be sent other offices' redemption orders on the same day that the orders are received by electronic means. Where electronic means are not available, orders should be sent using other delivery methods to ensure that the orders are received by the principal office of the dealer in as short a time period as possible.** ***[Note: The same rationale as in 21.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
28	51	NI 81-102 10.2(2) (Trans-mission and Receipt of Redemption Orders)	Critical	CSA	Order receipt office of a fund to be sent redemption orders received elsewhere on the day received by same- or next-day courier, priority post, telephone	**Order receipt office of a fund to be sent redemption orders received elsewhere on the same day as the orders are received, by electronic means. Where electronic means are not available, redemption orders should be sent using other delivery methods to ensure the orders are received by the order receipt office of the**	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					or electronic means.	**fund in as short a time period as possible.** ***[Note: The same rationale as in 21.]***					
29	56	NI 81-102 10.4(1)(a) and (b) (Payment of Redemption Price)	Critical	CSA	Fund to pay redemption proceeds within three business days after date when NAV is calculated (or three days after any unmet require-ment is fulfilled or waived).	**Fund to pay redemption proceeds "by the close of business on the appropriate settlement day (as specified in the fund's prospectus), except where there are specific requirements that must be met to satisfy the fund company's prospectus rules, and then the funds are to be released no later than the following business day."** ***[Note: The same rationale as in 24. Also makes a distinction between the processing of the settlement of the trade and the settlement of monies – currently, these two cannot be accomplished on the same day on most***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
						fund company systems outside the FundSERV N$M.]					
30	57	NI 81-102 10.5 (Failure to Complete Redemption Order)	Critical	CSA	Sets procedure where securities redeemed but redemption proceeds are withheld pending fulfillment of require-ments. Repur-chase of securities com-mences the tenth business day after initial redemp-tion.	**The order to purchase the securities redeemed and force-settle the redemption order is deemed to be received on the business day following the "settlement date" as described in the fund's prospectus.** ***[Note: The same rationale as in 24. Additionally, since fund companies are required to publish their redemption requirements and dealers are required to obtain all relevant documentation in good order prior to sending a redemption order, there is no need for a 10-day waiting period].***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA(Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	
31	59	Proposed NI 81-104 7.2 (Calculation of NAV)	TBD	CSA	Provides option for commodity pool policy redeeming	***[Note: Non-Fund Products Subcommittee of RTPWG concluded that no rule change***	Implement Cross-Industry Straight-Through	**N/A**	**N/A**	**N/A**	

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					at NAV determined on the first or second business day after order receipt.	***was required absent further concerns raised.]***	Processing				
34	[New]	TBD	TBD	CSA	None. The Joint Forum Regulatory Subgroup (JFRS) is examining the electronic distribution of prospec-tuses in its preparation of a consulta-tion paper on improving and harmoniz-ing mutual fund and segregated fund disclosure.	***[Note: This is no longer considered an issue as there are ongoing efforts to allow electronic options (e.g., Joint Forum of Financial Market Regulators consultation paper Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds).]***	Eliminate/ Reduce Reliance on Paper	**N/A**	**N/A**	**N/A**	CCMA letter to CSA sent December 10, 2002.
35	64	Rule 2.12 (2) (Transfers of Account)	Critical	MFDA	Client account to be transferred diligently/ promptly,	**No rule changes are required.** ***[Note: Use of electronic signatures, including allowing***	Eliminate/Re duce Reliance on Paper	**N/A**	**N/A**	**N/A**	

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					but only upon written authoriza-tion.	***firms to certify possession of valid customer signatures, is no longer considered an issue due to advances supporting electronic commerce, e.g., the recently released MFDA Member Regulation Notice MR-0016 – Electronic Signatures (January 23, 2003).]***					
43	New	TBD	TBD	CLHIA	N/A	***[Note: No other insurance requirements and/or standards that need to be amended in the context of an STP environment have been identified to date.]***	Implement Straight-Through Processing, Elimination of Paper	N/A	N/A	N/A	See Section 1, Client Name, Documen-tation Agreements, RTPWG White Paper Addendum

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen- tation Leadership	Current Action Plan	Current Status
56	92	[Various provincial and federal – e.g. federal Personal Information Protection and Electronic Documents Act, S.C. 2000, c. C-5, and Ontario Electronic Commerce Act, 2000, S.O. 2000, c. 17] (Electronic Documentation)	Very Important	Various	Generally broad allowance for substituting appropriate electronic media for paper documentation and communications.	***[Note: No additional regulations or policies have been identified as necessary from the retail perspective for electronic functionalities required by STP or use of electronic signatures (see 34 and 35 above); RTPWG recommends it be eliminated from the DRAL, noting that it remains a principle in the General Issues List – Legal or GILL.]***	Eliminate/ Reduce Reliance on Paper	N/A	N/A	N/A	
57	93	The law governing the transfer, holding and pledging of securities and interests in securities is found in a patchwork of provincial and federal statutes in Canada, including provincial Business Corporation	Very Impor- tant	CSA and various others	Unclear property rights and choice-of-law rules relating to indirectly-held securities and uncertifica- ted securities.	Clarify property rights and choice-of-law rules relating to indirectly-held securities and uncertificated securities through uniform provincial legislation (proposed Uniform Securities Transfer Act or "USTA"), harmonized with Revised Article 8 of the Uniform Commercial Code of the United States.	Clarify Property Rights Associated with the Holding of Securities	Propose implemen- tation of USTA in 2005	CSA	**1. LRWG to prepare a response (Dec. 15, 2003)** **2. Refer LRWG work plan for promotional effort to catalyze others to respond.**	**Submitted letters from CCMA and a number of Core Group members and its constitu- ents**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
		Acts, the Personal Property Security Acts of the common law provinces, the Quebec Securities Act and the Quebec Civil code.									

6.3 Conclusions and Recommended Implementation

Refer to the table above and individual Subcommittee legal recommendations contained in **Appendix #1** to the full addendum or within individual Subcommittee sections of the paper.

Section 7:
ROLES AND RESPONSIBILITIES – POTENTIAL RETAIL TRADE PROCESSING BEST PRACTICES AND STANDARDS

7.1 Highlights

Note: These roles and responsibilities for potential best practices and standards also appear in preceding sections by subject.

Goal: The ultimate goal of cross-industry retail trade processing best practices and standards is to facilitate the electronic processing of an investment transaction among all parties involved from the time a transaction is initiated with a dealer through to settlement, complying with industry rules/regulations and standards. The recommendations presented in the retail trade processing white paper addendum lay out potential areas to develop best practices and standards for retail trade processing.

Problems: Best practices and standards will help address problems identified in the retail securities industry. These include, primarily, manual processes and duplication of/unnecessary effort, reliance on paper (documentation, cheques, certificates), client name account-processing complexities, lack of timely payment certainty and legal/regulatory impediments. These issues are interrelated as there may be legal reasons (e.g., for a signature) that require paper, which in turn implies a manual process.

Current practices/standards, rules and metrics: While there are currently FundSERV requirements for the processing of trades (e.g., compliance matrices and mandatory standards for distributors and manufacturers), there is currently little in the way of best practices or standards governing other operational aspects of retail trades. There are few easily accessible measures of STP performance.

Required best practices/standards, rules, governance and metrics: New best practices and standards are required that focus on the timelines and responsibilities of all parties to the processing of a retail security trade, including as regards client name transactions, receipt of documentation, processing of edits, movement of funds and more. Regulatory changes that will be needed to support the STP milestones may include addressing the need for documentation and client signatures for some investment transactions. Measurements for assessing progress towards STP and compliance with the new best practices and standards will have to be developed.

7.2 Current Problems

The Retail Trade Processing Working Group identified the following challenges in the retail marketplace in its April 2002 white paper:

a. Manual processes and duplication of/unnecessary effort, even within many firms that are highly automated. Manual processing is time-consuming and error-prone and therefore costly.

b. Reliance on paper (documentation, cheques, certificates). The use of forms is prevalent within the investment fund industry and can delay completion of a trade. Obtaining client signatures as well as delivering investment fund prospectuses and segregated fund information folders to meet regulatory obligations can also be time-consuming. Implementation of the proposals contained within the Joint Forum of Financial Markets Regulators' consultation paper, *Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds,* is expected to help in these regards.

c. Client name account-processing complexities. Client name accounts are those held on behalf of the investor on the fund company records. To carry out its underlying fiduciary responsibilities, the fund company requires documentation signed by the client prior to processing most financial transactions. A majority of segregated funds are held in client name. Client name transactions can be placed as direct trades (e.g., manually) either by a dealer's choice or sometimes because the necessary automation within the industry is not available. Settlement of direct trades typically occurs outside FundSERV's Net $ettlement Messaging (N$M – previously known as Clearing & Settlement System) and is done by cheque.

d. Money movement issues (payments, liquidity and discussion of multiple cycles). Payment by cheque, pre-authorized chequing (PACs) and automatic withdrawal plans (AWDs) do not provide immediate certainty of value. While the Canadian Payments Association's Large Value Transfer System does provide finality of payment, it is not expected to be a cost-effective option to support retail trades for most firms. Dealers operating outside N$M often use cheques to remit payment, with the resulting final payment uncertainties. Timely flow of trade information and lack of standardized trade record cut-off timeframes will need to be addressed so that firms can manage positions cost-effectively.

e. Legal/regulatory impediments. Elements of securities regulations, e.g., National Instrument 81-102, Mutual Funds, where a trade cycle does not need to match a fund's settlement cycle as well as insurance requirements (e.g., segregated funds) for documentation and client signatures, could impede effective implementation of STP.

The paper also recommended best practices, standards and standardized procedures, consideration of additional incentives/enforcement mechanisms and effective communications.

References: *Refer www.ccma-acmc.ca, Media/publications page, White Papers – April 23, 2002: CCMA Retail Trade Processing White Paper.*

7.3 Current Best Practices/Standards, Rules and Metrics

While FundSERV, the Investment Funds Institute of Canada, the Canadian Life and Health Insurance Association and other organizations are promoting best practices and standards, there remains a lack of standardization in several areas of Canadian retail securities processing. One way to enhance efficiency is to require the full use of the functionality available in existing technology. Other areas cited as potential candidates for best practices and standards include: standard cut-off time for receipt of payment at the fund company, rationalization of the reject codes (currently over 500 codes) and definitions and expansion of upfront order-entry rejects.

7.4 Retail Trade Processing Target STP Milestones

- **December 2003:**
  - Establish industry standards and best practices on who should do what by when in terms of data quality, message protocols and timing
  - Achieve industry-wide affirmation (acknowledgement) on T+1 for 80 per cent of domestic transactions
- **December 2004:** Enact any legislative, regulatory or rule changes needed for effect by June 2005
- **June 2005:** Achieve:
  - 100 per cent of industry participant compliance with industry best practices and standards
  - 99-per-cent STP (electronic transaction processing).

Note: The above milestones issued in November 2002 are being reviewed and may be adjusted. At present, it is expected that the June 2005 deadline, at least, will remain unchanged.

7.5 Potential Best Practices and Standards

To identify potential best practices and standards and any associated regulatory changes, the CCMA's Retail Trade Processing Working Group examined its white paper and comments received, and then established three subcommittees and three partnerships with existing industry committees to focus on these problems and solutions in greater detail. The results are the roles and responsibilities areas of potential retail best practices and standards summarized below and in detail in **Appendix #1** to the full paper:

Client Name:

Client name processing must become electronic. Documentation exchanged between broker/distributor and fund company must be minimized and where possible eliminated through the development and implementation of Documentation Agreements and electronic alternatives. Documentation Agreements would allow the distributor to maintain the documentation on behalf of the fund company for transactions involving minimum liability and risk to the fund company, the fund and/or the client. The ability to successfully implement Documentation Agreements is dependent on regulatory changes, set out in the paper. FundSERV involvement is also required.

As a principle, all investment fund transactions, to buy or sell, in client name or nominee, should settle according to the standard industry settlement cycle. The method by which a transaction is initiated should have no impact on the timeframe in which it settles. In this regard, the placement and settlement of direct orders for client name accounts must progress towards full automation.

Money Movement Alternatives:

The use of physical cheques in the retail product process flow must be greatly reduced, with the long-term goal of elimination. This principle most greatly impacts dealers transacting in client name who place orders electronically but process settlement manually. Dealers and their clients will benefit from not having to respectively collect and issue multiple cheques to support multiple transactions.

FundSERV's Net $ettlement Messaging (N$M), formerly known as the Clearing and Settlement System (CSS), is the most effective means currently to transmit funds supporting mutual fund transactions and should be used wherever possible. The Subcommittee recommends further consideration of two options to address those dealers unable to meet the minimum N$M participation requirements. Both designs are based on the dealer's acceptance, verification and keying of an investor's banking information at the time of investment decision:

1. Send the transaction order directly to the fund company for complete processing
2. Send the transaction order to FundSERV, where banking information is routed to the financial institution for confirmation; the order (without banking information) is sent to the fund company for processing and funds are netted at FundSERV and forwarded to the fund company.

Further exploration of these concepts is key to providing dealers with realistic alternatives or risk having them choose to go completely manual for both order placement and settlement. As well, regulatory changes may be required and FundSERV involvement is important.

FundSERV:

All transaction orders and rejects, for both client name and nominee accounts, should take place electronically on order date to facilitate STP requirements. Fund companies must use the correct error code to reject a transaction to support timely correction and processing of the trade. Fund companies must examine situations where the same reject code occurs and take steps to address the problem.

Additional development of FundSERV systems is necessary to support seamless processing of investment transactions, including the areas of rejects, settlement and automation of manual transactions. FundSERV is therefore expected to play a leading role in the review, analysis and implementation of recommendations.

Fund Accounting:

No changes are required to current fund accounting procedures for either business model to facilitate STP; however, further review of fund accounting issues, processes and systems will be required should Canada move to a shorter settlement timeframe.

Non-Fund Retail Products:

While debt and equity are the primary investment products in the retail brokerage market, they are also institutional investments. Retail debt and equity securities currently have a high STP rate due, for example, to locked-in trade processing at an exchange. Once industry comments on the institutional and entitlements best practices and standards are received and analysed by the CCMA, a Subcommittee will review their applicability from a retail perspective and determine the changes required to support STP of exchange and non-exchange traded securities. On the one hand, there may be value in having as much consistency as possible between the post-trade processing of equity and debt trades, whether retail or institutional; on the other, there are a number of key differences between institutional and retail trade processing, e.g., not all of the 26 data elements required to initiate an institutional notice of execution are required at a retail level, allocations are not required and retail investors rarely use a custodian.

With respect to other forms of non-fund products, as a principle, all new retail products introduced in the Canadian marketplace, regardless of supporting business model, should be compatible with STP, supporting online functionality, same-day corrections, etc.

Further investigation is required to determine if the processing of guaranteed investment certificates (GICs) as well as non-fund insurance products requires improvements to be made on an industry basis to facilitate STP. At a minimum, the initial purchase and issuance of GIC interest and other payments should be done electronically.

Legal Issues

A number of legal and regulatory amendments are necessary to implement many aspects of the courses of action proposed by the RTPWG Subcommittees and partners, including FundSERV and IFIC. For example, elements of securities regulation, such as National Instrument 81-102, Mutual Funds, need to be changed so that a trade cycle matches a fund's settlement cycle; as well, insurance requirements (e.g., segregated funds) need to be changed for documentation and client signature. The successful enactment of a supporting regulatory environment is critical to achieving the straight-through processing of retail securities products.

7.6 Other Considerations

A list of specific issues and questions will be prepared as the concepts surrounding potential retail trade processing best practices and standards are further defined and developed.

7.7 Potential Rule/Regulatory/Implementation Governing Body

When finalized, some of the best practices and standards will be embodied in the FundSERV compliance matrices, Investment Funds Institute of Canada (IFIC) codes and guidelines, Mutual Fund Dealers Association (MFDA) rules, Canadian Life and Health Insurance Association (CLHIA) guidelines as well as Investment Dealers Association of Canada (IDA) rules. Please see column eight in the table in **Appendix #1** to the full paper for proposed governing bodies.

7.8 Potential Compliance/Conformance Mechanisms

MFDA and IDA Members would be subject to the compliance requirements and penalties set by these bodies. As FundSERV is a private company, participants agree to abide by the rules and procedures that support the efficient operation of FundSERV systems. Please see column eight in the table in **Appendix #1** to the full paper for additional detail regarding potential compliance/conformance mechanisms.

7.9 Potential Metrics/Progress Tracking

FundSERV is expected to assist in measuring industry progress towards achieving the RTPWG milestones. As well, the RTPWG and its Subcommittees are working to identify alternative metric options available to assist in understanding the industry's overall progress towards greater efficiency and STP.

7.10 Implementation

An implementation plan will be developed upon industry support to proceed in developing the potential retail trade processing best practices and standards presented in the white paper addendum.

APPENDICES

Appendix #1	**Recommendations**
Appendix #2	**2002 Recommendations**
Appendix #3	**RTPWG Members**
Appendix #4	**Response Sheet**

Appendix #1

RECOMMENDATIONS

1. CLIENT NAME ISSUES:

General Recommendations

Client Name Working Group			
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**CNWG and LCIWG**	• Finalize the mutual and seg fund transactions that currently cannot be transmitted electronically • Provide a list of transactions that can be placed as wire orders to the FundSERV's ESG Working Group with a view to automating them either by providing required information through XML messaging or expanding the order entry process to include the necessary information	Within 90 days of industry agreement
2.	**CNWG/FundSERV**	• Conduct a review to determine the amount of unnecessary "direct trades" being placed after the new business model has been in place a reasonable period of time and determine if further legislative or enforcement mechanisms are required to ensure adherence with the electronic order best practice	To be determined
3.	**CNWG and LCIWG**	**Documentation Agreements:** • Confirm transactions to be covered • Identify regulations that need to change • Draft terms for agreements • Determine administrative and audit process • Work with CCRA and trustees to obtain approval from CCRA for distributor to maintain relevant documentation • Determine how Documentation Agreements will be managed by the industry	Within 90 days of industry agreement
4.	**CNWG Subgroup**	**Documentation Agreements:** • Review transactional analysis and finalize what transactions require automation • Outline types of information XML needs to support • Forward to ESG for consideration when finalized	Within 30 days of industry agreement
5.	**CNWG Subgroup**	Conduct an in-depth analysis of the issues specific to small distributors to determine the business options available to them in order to assist them in adopting/adapting to the proposed STP business model	Within 90 days of industry agreement
6.	**TBD**	Conduct an analysis of the current business model for the administration of "group accounts" to determine the changes required to administer these accounts in an STP environment	Within 90 days of industry agreement

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Specify any current requirements for Documen-tation Agreements**	Critical	MFDA, BSF, CLHIA, IDA, CCRA	Set current requirements if any, and incorporate necessary oversight.	Ensure rules and by-laws addressing legal obligations of all parties are clearly defined	Elimina-tion of paper	Dec. 2004	CNWG and LCIWG	Within 90 days of industry agreement to pursue implementing Documentation Agreements: • Determine transactions to be covered • Determine if there is a need to exclude high risk redemptions and define the characteristics of such • Identify regulations that need to change • Draft terms for agreements • Determine administrative and audit process • Work with CCRA and trustees to obtain approval from CCRA for distributor to obtain approval
2.	**Specify any current requirements for electronic processing of direct trades outside the special circumstance category.**	Very important	To be determined	To be determined	Ensure rules and bylaws support electronic processing of direct trades	Elimina-tion of paper	Dec. 2004	CNWG and LCIWG	To be determined

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
3.	**Ontario Securities Act**	Important	Ontario Securities Commission	Current rules seem to indicate that an advisor acts as an agent for an investor on a front-load purchase, but acts as an agent for the fund company on deferred-load purchases.	Need a clearer definition of “who owns the client.” The advisor should always be seen as acting as an agent for an investor. What impact might there be on any contemplated Documentation Agreements?	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
4.	**N/A**	Important	MFDA, CSA	None	Previous attempts by the industry to introduce forms of the recommended Documentation Agreement were unsuccessful due to fund company reluctance to rely on the dealer indemnification. Explore the minimum amount of insurance to be carried by a dealer that would give fund companies a comfort level to enter into such agreements.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
5.	**Bankruptcy and Insolvency Act**	Important	Federal	Determination of dealer assets by the trustee in bankruptcy.	Consider whether securities purchased and held in client name under the recommended Documentation Agreement would be considered as in the control of the dealer, and therefore be deemed to be assets of the dealer. This is similar to the current scenario of accounts operating under a limited trading authorization agreement.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
6.	**To be determined**	Very Important	CCRA, CLHIA	Requirements to obtain an application with client signature in order to establish a registered plan or an account.	To be determined. Address requirements in order to implement Documentation Agreements.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined
7.	**PIPEDA**	Important	Federal government	Disclosure of client information.	Clarify if dealers using third-party service providers need to obtain client consent to transfer or disclose personal information.	Elimina-tion of paper	To be deter-mined	To be deter-mined	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
1.	**Order Entry**	Dealer	Fund Company		All mutual and seg fund orders, except for those falling into the special circumstances category, must be entered electronically.	Special circumstance transactions, trades that cannot be placed electronically due to industry/product restrictions or the nature of the request, include estate transactions, assignment of accounts, lost certificates, garnishment/court orders, bankruptcy, locked-in redemptions and transfers, T2030 locked-in transfers, RESP redemptions and transfers and legal name change.	To be determined	To be determined
2.	**Settlement**	Dealer	Fund Company		Establish wire orders to settle any direct trades received that do not fall into the special circumstance category.	As a principle, all investment fund trades, to buy or sell, in client name or nominee, should settle according to the industry standard settlement cycle.	To be determined	To be determined
3.	**Client Documentation**	Dealer	Fund Company		Implement the use of Documentation Agreements for investment fund and segregated fund account openings and selected transactions.	Agreements between the fund company and distributor would require the distributor to obtain and maintain all relevant client documentation required for fund account openings and transaction settlements. Distributors would be required to provide the documentation to the fund company, if and when requested.	To be determined	To be determined

2. MONEY MOVEMENT ISSUES

General Recommendations

	Money Movement Alternatives Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**FundSERV**	• Develop a "business language" quick reference document to support the use of N$M by all dealers using a trust account	December 31, 2003
2.	**FundSERV**	• Highlight FundSERV service and support of N$M available to the dealers on its Web site	December 31, 2003
3.	**FundSERV**	• With fund company, dealer and system vendor support, summarize the general business and operational benefits of N$M and post as a document on the FundSERV Web site	To be determined
4.	**Canadian Payments Association**	• Consider enhancing the Corporate Creditor Identification Number product to include the investor's name and tightening the timing for delivering payment information to the corporate	To be determined

	Money Movement Alternatives Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
		creditor	
5.	**Canadian Payments Association FundSERV**	• Establish links between CPA and FundSERV systems pending completion of a supporting business analysis	To be determined

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Electronic Commerce, Anti-Money Laundering**	Critical	Provincial, Federal	**For Option 1 – Mutual fund order passes directly to the fund company** In the absence of a trust account, an advisor should obtain a "void" cheque from the investor at the time of investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. Review current regulation to determine the impact on the fund company's ability to rely on electronically transmitted banking information without receiving client's direct authorization or without the ability to verify the bank account holder.	Fund company should be able to rely on electronically transmitted banking information without the client's direct authorization or the ability to verify the bank account holder.	Imple-ment cross-industry STP	June 2005	RTP WG	**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.
2.	**NI 81-102, Force-settlement rules re: NSF**	Very important		Examine the financial and goodwill liability issues associated with dealer keying errors, e.g., incorrect amount, incorrect account.		Imple-ment cross-industry STP			**December 2003: Identify** if there is an issue and submit to legislator/ regulator if so. **December 2004:**

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
									Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.
3.	**NI 81-102, Force-settlement rules re: NSF**	Important	CSA	Examine the issues surrounding the finality of payment associated with EFT-type payments.	Review impact of current rule	Imple-ment cross-industry STP			To be determined
4.	**MFDA Rule 3.1 Minimum Capital requirements**	Important	MFDA	Level 2 MFDA members are prohibited from operating a trust account but must have $50,000 minimum capital. Level 3 MFDA members may operate a trust account but must have $75,000 minimum capital.	Review impact of current rule.	Imple-ment cross-industry STP			**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.
5.	**NI 81-102**	Important	CSA	Trust accounts are currently not permitted to operate an intraday line of credit.	Review to determine if/what changes are required.	Imple-ment cross-industry STP			**December 2003:** Identify if there is an issue and submit to legislator/regulator if so. **December 2004:** Pursue publication of any necessary rule. **June 2005:** Monitor to ensure change(s) take effect.

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
1.	**Purchase Settlement**	Dealer	Fund Company	Settle-ment date	Dealers should use FundSERV's Net $ettlement Messaging (N$M) to transmit funds supporting mutual fund trades wherever possible.	Not all dealers use trust accounts, which are required to participate in N$M (see also item 4, legal recommendations).	FundSERV Settlement date	FundSERV
2.	**Commission/ Trailer Fee Payments**	Fund Company	Dealer	Settle-ment date	Dealers should use N$M to accept commission and trailer fee payments.		FundSERV	FundSERV
3.	**Trade Settlements - Option 1**	Dealer	Fund Company	Settle-ment date	Dealers not using N$M should transmit client's banking information as part of the electronic order.	**Option 1: Mutual fund order passes directly to the fund company** In the absence of a trust account, an advisor should obtain a "void" cheque from the investor at the time of the investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. **Note:** This can be done in today's environment.	FundSERV MFDA (audits) CSA	To be determined
	Trade Settlements - Option 2	Dealer	FundSERV Fund Company		Dealers not using N$M should transmit client's banking information as part of the electronic order.	**Option 2: Mutual fund order to FundSERV, routed to CPA LVTS participant** In the absence of a trust account, an advisor should obtain a "void" cheque from the investor at the time of investment decision; the dealer would then key the banking information into the electronic order with the demographics and financials and verify the void cheque correspondence. Order would be routed by FundSERV to appropriate financial institution, which would verify the availability of funds and hold them pending trade settlement on purchase orders. The purchase order would be returned to FundSERV for delivery to the fund company without banking information if funds were available or rejected back to the dealer if not. Redemption orders forwarded to the fund	FundSERV CPA	To be determined

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
						company would include the banking information in order that payment could take place. FundSERV should develop an order routing link to CPA LVTS participant financial institutions.		

3. ELECTRONIC STANDARDS ISSUES

General Recommendations

Electronic Standards Subcommittee			
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**FundSERV**	**Overnight Trading Rejects** • Make the reject a required field with a value being one of the acceptable reject reasons • Charge fund companies rather than distributors for overnight rejects • Provide an example of how the below- and above-five-per-cent asset-value scenario would work in the FundSERV help file release • Clarify the description on code 37 (pending all share redemption on account) to refer to “pending all-share transaction on account” for greater clarity to encompass any pending sell, switch, transfer out, etc. (see below) for sequencing recommendations • Create a new warning message: “Fund has special minimum threshold requirements” • Enhance the current sequencing practices to include all transaction types, as follows: 1. Wire order reversals 2. Wire order “as of” 3. Wire order partial redemptions 4. Wire order partial switches 5. Wire order partial internal/external transfers 6. Wire order full redemptions 7. Wire order full switches 8. Wire order full internal/external transfers 9. Wire order purchases 10. Non-wire order manual trades 11. Systematic plans. • Allow fund companies that receive an N$M reject in a “Q” file on the morning of T+1 to resubmit the transactions in a second “F” file to settle in the second cycle; charge fund companies that miss the 6:00 a.m. cut-off more than once a month a fee; charge fund	To be determined

Electronic Standards Subcommittee			
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
		companies to use the second cycle (see below). • Review restrictions on error correction transactions to more effectively integrate the process into N$M. • Monitor the use of reject code 041 to ensure reduction in use over time.	
2.	**FundSERV**	**Settlement Review** • Create a second, independent, as-required-only net settlement movement (known also as a second cycle) at approximately 10:00 a.m. that could be used when a fund company, for example, needs it to satisfy National Instrument 81-101 requirements to keep the trust account from going into overdraft; while both fund company and distributor may need to use the second cycle, only the fund company could invoke it; the first and second cycle would not be netted. • Allow fund companies that receive an N$M reject in a “Q” file on the morning of T+1 to resubmit the transactions in a second “F” file to settle in the second cycle. • Charge for more than one use of the second cycle per month as a disincentive to its use.	To be determined
3.	**FundSERV**	**Client Banking Information** • Add banking information to the order entry XML layout to facilitate redemptions, mainly for client name transactions.	To be determined

4.	**FundSERV**	**Manual Trades**
		• Review restrictions on error correction transactions (for example, after a subsequent transaction) to more effectively integrate the process into N$M; nominee manual transactions that need to be automated include, but are not limited to:
		  • Inter-load switches
		  • Cross-currency switches
		  • Subsequent purchases on a capped fund
		  • Restricted trading on merged funds at time of merger
		  • U.S. address trades.
		• Review requirements to automate client name manual transactions:
		  • Systematic financials (changes to PACs, set-up and changes to SWPs)
		  • Registered transfers (marriage breakdown, retiring)
		  • Non-financials (demographic changes, name corrections, FA, beneficiary and dealer changes)
		  • New registered accounts without an associated purchase transaction to facilitate receipt of transfer proceeds
		  • Banking information at time of account set-up
		  • Changes to banking information
		  • Error corrections
		  • Group account processing (set-up and order placement)
		  • Allowance/severance pay (T2030 RIF to RSP, T2033 RSP to RSP)
		  • Excess withdrawals (T3012)
		  • Transfers that are not currently automated.
			To be determined

Legal Recommendations

	Rule/Section (if known)	STP Priority (Critical, Very Important, Important)	Responsible Regulatory Authority(ies)	Current Rule (if any)	Proposed Rule	Issue from DRAL	Dead-line	Leader	Action Plan (what is to be done by when)
1.	**Manual Trades**	Critical	Federal government, Provincial governments	Anti-Money Laundering Trust and Loan Companies Act	Examine legal arguments regarding electronic client bank information in terms of anti-money laundering and general fiduciary responsibilities.	Implement Cross-Industry Straight-Through Processing	June 2005	To be deter-mined	To be determined
2.	**NI 81-102, Part 9.2 Acceptance of Purchase Orders, 10.4 Backward Pricing**	Important	CSA	National Instrument 81-102, Mutual Funds	Fund companies should reinstate transactions which were rejected in error at their expense.	Implement Cross-Industry Straight-Through Processing	To be deter-mined	To be deter-mined	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice: Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
1.	**Minimize over-night trading rejects**	Fund Company	Distributor	Same-day	All fund companies should use the correct reject code and validate transactions against the their database and reject on order (trade) date. Where the same reject reason repeatedly arises, all fund companies should examine the reason for this and resolve the problem or convert them into trade-date interactive rejects.	• Review the reason for code 041 (miscellaneous reject) and change to a more appropriate existing code; request a new code where a reject reason truly is not covered already by one of the existing codes. • Examine the reasons for errors, especially those with codes: 171 (invalid beneficial owner birth date), 079 (rep code mismatch), 033 (invalid rep code), 048 (invalid gross/net purchase settlement indicator), 081 (invalid reject account status), 019 (address error), 006 (invalid account identifier), 127 (no account found), 057 (invalid language	FundSERV	FundSERV to make data available

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
						code). • Confirm that 032 (invalid amount/unit) is only being used for invalid amounts and not for insufficient shares. • Confirm that 037 (pending all-share redemption on account) is not being interpreted incorrectly as error code 041 or 035. • To minimize use of code 035 (insufficient shares in the account), accept orders greater than five per cent below the asset value based on the preceding day's price; if the order is equal to or greater than five per cent, send a warning message; in either case, reserve the right, in a volatile environment, to change orders greater than five per cent below asset value based on the preceding day's price, to all unit redemptions, switches or transfers; if the order exceeds the asset value based on the preceding day's price, reject the order and request the distributor to re-enter the order. • Fund companies with products that have special minimum thresholds should examine ways to reject transactions due to failure to meet minimum threshold requirements on a given trading date.		
2.	**Order Entry in Batch Mode**	Distributor Manufact-urer	Fund Company	Same-day	Distributors must make order entry interactive and continue to analyze such rejects to bring them down to an insignificant number. Where interactive order entry is cost-prohibitive, distributors should work with service providers on ways to reduce rejects.	FundSERV could consider a grace period or waiver or allow so many rejects per month in such cases. The batch distributor has an obligation to commit to 100-per-cent STP even if the distributor chooses batch as its mode of operation.	FundSERV	FundSERV to make data available

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
3.	**Manual Trades**	Nominee Model Distributors	Fund Company	N/A	Avoid manual trades in the nominee world.	Restrict units/shares that are certificated to client name.	Investment Dealers Association of Canada	To be determined
4.	**Reject and Warning Review Process**	Distributor	Fund Company	Same-day	Distributors must review rejects on trade date so that any fix can be made and the transaction resubmitted to FundSERV the same day.	The practice of waiting until the morning of T+1 to review the reject is not in the best interest of the beneficial client, nor does it satisfy STP requirements.	Mutual Fund Dealers Association of Canada	To be determined

4. FUND ACCOUNTING ISSUES

General Recommendations

Fund Accounting Subcommittee			
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due**
1.	**Industry participants**	If Canadian capital markets decide to move to a T+1 settlement timeframe, the following issues and automation requirements should be considered to support industry best practices of: • Ensuring the front office receives retail trade numbers during various checkpoints throughout the day • Providing and distributing a query showing complete cash flow for the day to the relevant parties • Performing daily reconciliation of securities positions vis-à-vis the custodian and investment manager.	To be revisited when T+1 is on the table.
2.	**Industry participants**	In a T+1 environment, if there is insufficient time to create a new security profile and submit details, industry best practice will be to manually enter that day's asset pricing.	To be revisited when T+1 is on the table.
3.	**Industry participants**	Moving to a T+1 environment will require fund accounting departments to: • Revisit service level agreements to ensure timelines will support T+1 settlement • Refine service level agreements to support trade cut-off for quarterly, semi-annual or annual distributions.	To be revisited when T+1 is on the table.
4.	**Industry participants**	Review procedures to address potential situations of trades entered after T+1 and the resulting impact on the NAV calculation.	To be revisited when T+1 is on the table.

5. NON-FUND PRODUCTS ISSUES

General Recommendations

	Non-Fund Products Subcommittee		
	Who (What Organization)	**Should Do What (Recommended Action)**	**By When (Date deliverable is Due)**
1.	**Retail Trade Processing Working Group**	Establish a Subcommittee to review the applicability of finalized institutional trade processing and entitlement best practices and standards in a retail context and to determine the changes required to support STP of exchange and non-exchange-traded securities (debt and equities) for retail investors.	To be determined
2.	**Canadian Bankers Association**	Review and identify impediments to and requirements for facilitating straight-through processing of GICs on an industry basis as well as identify possible metrics to measure progress as applicable, including the following considerations: • Are there any initiatives under way within the banking community to improve the processing of nominee account GICs (i.e., a financial institution's GIC sold by a third party)? • Interest and principal payments by cheque and handling of estates are major impediments to STP processing of GICs. Are there other issues that should be examined? • What are the key STP impediments to GICs that can be addressed on an industry basis and would benefit the financial industry overall? • Can CBA members provide any statistics on an ongoing basis, possibly monthly, that could be collected on an aggregate basis to benchmark the current STP-state of GICs and monitor any progress? Possible metrics might include number of interest/principal payments issued via cheque vs. electronic.	To be determined
3.	**Canadian Life and Health Insurance Association**	Review and identify impediments to and requirements for facilitating straight-through processing of insurance products (other than issues pertaining to client name) as well as identify possible metrics to measure progress as applicable.	To be determined

Roles and Responsibilities – Potential Best Practices and Standards Recommendations

#	Business Practice				Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
	Activity	From	To	Timing				
1.	**Introduc-tion of new products**	Issuers	Marketplace	N/A	As a principle, all new retail products introduced in the Canadian marketplace, regardless of the supporting business model, should be compatible with STP (online, same-day corrections, etc.).	XML new file layouts are expected to minimize processing problems relating to the introduction of new retail products.	To be determined	To be determined

#	Business Practice Activity	From	To	Timing	Market Practice/ Standard	Notes	Governing Body/ Compliance Measures/Timeline	Benchmarking/ Metrics
2.	**GIC payments**	Investor GIC Issuer	Distributor Investor	N/A	Initial GIC purchase and issuance of GIC interest and other payments should be done electronically.	Re-examine if investigation regarding further automation of GICs would be warranted after XML is implemented.	To be determined	To be determined

6. LEGAL ISSUES

Subcommittee legal recommendations are listed within the individual Subcommittee section. Recommendations pertaining to the Legal/Regulatory Working Group's Detailed Required Amendments List (DRAL) are listed below, with changes from the last version of the DRAL shown in boldface print.

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
21	42	NI 81-102 9.1 (1) (Trans-mission and Receipt of Purchase Orders)	Critical	CSA	Principal office of dealer to be sent other offices' purchase orders by same- or next-day courier, priority post, telephone or electronic means.	**Principal office of the dealer to be sent other offices' orders by electronic means the same day as they are received. Where electronic means are not available, orders should be sent using other delivery methods to ensure the orders are received by the dealer head office in as short a time period as possible.** ***[Note: The suggested changes allow for flexibility in the event of a move to T+1 or even same-day settlement.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
22	43	NI 81-102 9.1(2) (Trans-mission and Receipt of Purchase Orders)	Critical	CSA	Order receipt office of a fund to be sent purchase orders received elsewhere by same- or next-day courier, priority post, telephone or electronic means.	**Order receipt office of a fund to be sent purchase orders elsewhere by electronic means the same day as they are received. Where electronic means are not available, orders should be sent using other delivery methods to ensure the orders are received by the order receipt office of the fund in as short a time period as possible.** ***[Note: The same rationale as in 21.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
23	46	NI 81-102 9.2 (Acceptance of Purchase Orders)	Critical	CSA	A fund may reject purchase orders no later than one business day after receipt.	***[Note: No rule proposed – FundSERV to be requested to review framework for initial trade rejection; functionality to be dealt with through FundSERV and retail best practices as recommended by the Electronic Standards Subcommittee.]***	Implement Cross-Industry Straight-Through Processing	N/A	N/A	N/A	**Refer Section 3, Electronic Standards in RTPWG Adden-dum**
24	47	NI 81-102 9.4 (1) (Delivery of Funds and Settlement)	Critical	CSA	Order receipt office of a fund to receive	**Order receipt office of the fund to receive cash receipts from the principal distributor or**	Implement Cross-Industry Straight-Through	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					cash receipts from principal distributor or participa-ting dealers as soon as practicable and no later than three days after when net asset value (NAV) is calculated (pricing date).	**participating dealers as soon as practical and no later than the appropriate settlement date as specificed in the fund prospectus, assigned after the date when the NAV is calculated.** ***[Note: This will provide flexibility in case of a move to T+1 or same-day settlement without requiring additional legislative changes. Fund company prospectuses will reflect the then current industry settlement period.]***	Processing			**2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	
25	48	NI 81-102 9.4(2) (Delivery of Funds and Settlement)	Critical	CSA	Requires payment of issue price to the mutual fund on or before the third business day after NAV calculation (pricing) date.	**Requires payment of the issue price to the mutual fund on or before the appropriate settlement date as specified in the fund prospectus, assigned after the date when the NAV is calculated.** ***[Note: The same rationale as 24 change.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implementation Leadership	Current Action Plan	Current Status
26	49	NI 81-102 9.4 (4) (Delivery of Funds and Settlement)	Critical	CSA	Sets procedure where, if payment is not received within three days, the purchase order is "force-settled.	**The order to redeem the securities purchased and force-settle the purchase order is deemed to be the business day following the "settlement date" as described in the fund's prospectus.** ***[Note: The same rationale as in 24.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
27	50	NI 81-102 10.2(1) (Trans-mission and Receipt of Redemption Orders)	Critical	CSA	Principal office of dealer to be sent other offices' redemption orders on the day received by same- or next-day courier, priority post, telephone or electronic means.	**Principal office of the dealer to be sent other offices' redemption orders on the same day that the orders are received by electronic means. Where electronic means are not available, orders should be sent using other delivery methods to ensure that the orders are received by the principal office of the dealer in as short a time period as possible.** ***[Note: The same rationale as in 21.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implementation Leadership	Current Action Plan	Current Status
28	51	NI 81-102 10.2(2) (Transmission and Receipt of Redemption Orders)	Critical	CSA	Order receipt office of a fund to be sent redemption orders received elsewhere on the day received by same- or next-day courier, priority post, telephone or electronic means.	**Order receipt office of a fund to be sent redemption orders received elsewhere on the same day as the orders are received, by electronic means. Where electronic means are not available, redemption orders should be sent using other delivery methods to ensure the orders are received by the order receipt office of the fund in as short a time period as possible.** ***[Note: The same rationale as in 21.]***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**
29	56	NI 81-102 10.4(1)(a) and (b) (Payment of Redemption Price)	Critical	CSA	Fund to pay redemption proceeds within three business days after date when NAV is calculated (or three days after any unmet require-ment is	**Fund to pay redemption proceeds "by the close of business on the appropriate settlement day (as specified in the fund's prospectus), except where there are specific requirements that must be met to satisfy the fund company's prospectus rules, and then the funds are to**	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA (Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	**Analyzed issue and developed response**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					fulfilled or waived).	**be released no later than the following business day"** ***[Note: The same rationale as in 24. Also makes a distinction between the processing of the settlement of the trade and the settlement of monies – currently, these two cannot be accomplished on the same day on most fund company systems outside the FundSERV N$M.]***					
30	57	NI 81-102 10.5 (Failure to Complete Redemption Order)	Critical	CSA	Sets procedure where securities redeemed but redemption proceeds are withheld pending fulfillment of require-ments. Repur-chase of securities com-mences the tenth	**The order to purchase the securities redeemed and force-settle the redemption order is deemed to be received on the business day following the "settlement date" as described in the fund's prospectus.** ***[Note: The same rationale as in 24. Additionally, since fund companies are required to publish their redemption requirements and***	Implement Cross-Industry Straight-Through Processing	**Dec. 2004**	**RTPWG**	**1. Prepare a draft to CSA and share informally; arrange November meeting below (Sept. 2003)** **2. Review comments on DRAL item in RTPWG addendum and finalize and send formal letter to CSA(Nov. 2003)** **3. Meet with CSA to address concerns (Nov. 2003)** **4. Obtain CSA buy-in (December 2003)**	

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					business day after initial redemp-tion.	***dealers are required to obtain all relevant documentation in good order prior to sending a redemption order, there is no need for a 10-day waiting period].***					
31	59	Proposed NI 81-104 7.2 (Calculation of NAV)	TBD	CSA	Provides option for commodity pool policy redeeming at NAV determined on the first or second business day after order receipt.	***[Note: Non-Fund Products Subcommittee of RTPWG concluded that no rule change was required absent further concerns raised.]***	Implement Cross-Industry Straight-Through Processing	**N/A**	**N/A**	**N/A**	
34	[New]	TBD	TBD	CSA	None. The Joint Forum Regulatory Subgroup (JFRS) is examining the electronic distribution of prospec-tuses in its preparation of a consulta-tion paper on improving	***[Note: This is no longer considered an issue as there are ongoing efforts to allow electronic options (e.g., Joint Forum of Financial Market Regulators consultation paper Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds).]***	Eliminate/ Reduce Reliance on Paper	**N/A**	**N/A**	**N/A**	CCMA letter to CSA sent December 10, 2002.

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
					and harmoniz-ing mutual fund and segregated fund disclosure.						
35	64	Rule 2.12 (2) (Transfers of Account)	Critical	MFDA	Client account to be transferred diligently/ promptly, but only upon written authoriza-tion.	**No rule changes are required.** ***[Note: Use of electronic signatures, including allowing firms to certify possession of valid customer signatures, is no longer considered an issue due to advances supporting electronic commerce, e.g., the recently released MFDA Member Regulation Notice MR-0016 – Electronic Signatures (January 23, 2003).]***	Eliminate/Reduce Reliance on Paper	**N/A**	**N/A**	**N/A**	
43	New	TBD	TBD	CLHIA	N/A	***[Note: No other insurance requirements and/or standards that need to be amended in the context of an STP environment have been identified to date.]***	Implement Straight-Through Processing, Elimination of Paper	N/A	N/A	N/A	See Section 1, Client Name, Documen-tation Agreements, RTPWG White Paper Addendum

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
56	92	[Various provincial and federal – e.g. federal Personal Information Protection and Electronic Documents Act, S.C. 2000, c. C-5, and Ontario Electronic Commerce Act, 2000, S.O. 2000, c. 17] (Electronic Documentation)	Very Impor-tant	Various	Generally broad allowance for substituting appropriate electronic media for paper documentation and communications.	***[Note: No additional regulations or policies have been identified as necessary from the retail perspective for electronic functionalities required by STP or use of electronic signatures (see 34 and 35 above); RTPWG recommends it be eliminated from the DRAL, noting that it remains a principle in the General Issues List – Legal or GILL.]***	Eliminate/ Reduce Reliance on Paper	N/A	N/A	N/A	
57	93	The law governing the transfer, holding and pledging of securities and interests in securities is found in a patchwork of provincial and federal statutes in Canada, including provincial Business Corporation	Very Impor-tant	CSA and various others	Unclear property rights and choice-of-law rules relating to indirectly-held securities and uncertificated securities.	Clarify property rights and choice-of-law rules relating to indirectly-held securities and uncertificated securities through uniform provincial legislation (proposed Uniform Securities Transfer Act or "USTA"), harmonized with Revised Article 8 of the Uniform Commercial Code of the United States.	Clarify Property Rights Associated with the Holding of Securities	Propose implemen-tation of USTA in 2005	CSA	**1. LRWG to prepare a response (Dec. 15, 2003)** **2. Refer LRWG work plan for promotional effort to catalyze others to respond.**	**Submitted letters from CCMA and a number of Core Group members and its constitu-ents**

No.	Old No.*	Rule/ Section Reference (Name)	STP Priority	Responsible Regulatory Authority	Current Rule	Rule Proposed by CCMA	Issue from General Legal Issues List	Deadline	Current Implemen-tation Leadership	Current Action Plan	Current Status
		Acts, the Personal Property Security Acts of the common law provinces, the Quebec Securities Act and the Quebec Civil code.									

SUMMARY OF 2002 PRINCIPLES AND RECOMMENDATIONS

Principles

Principles are meant to guide the retail securities community to achieve T+1 and will provide a framework against which to assess future decisions.

Principle 1: Securities market participants in Canada should move to settle retail securities products on T+1 simultaneously with the institutional equity and currently T+3-settled debt markets in Canada and the U.S. to avoid any shift of business away from these retail securities products and potentially from Canada.

Principle 2: Securities market participants in Canada should rationalize manual and duplicative processing to reduce time and resources in a T+1 environment, streamlining processes and taking full advantage of technological capabilities to improve efficiency, reduce risk and lower transaction costs.

Principle 3: Securities market participants in Canada should work together to clarify standards under their control and introduce standardized procedures for consistency to reduce the risk of error, improve efficiency and lower costs in a T+1 environment.

Principle 4: Securities market participants in Canada should work to eliminate or rationalize the use of paper – documentation, cheques, certificates and prospectuses – through conversion to or implementation of electronic alternatives.

Principle 5: Securities market participants in Canada should examine alternatives to provide investors and industry participants with additional payment options and to ensure sufficient liquidity is available in portfolios to fund redemptions on T+1.

Principle 6: The industry should work to address the operational challenges that are unique to client name business.

Principle 7: Unless further analysis suggests otherwise, the close of business for investment funds should remain at 4:00 p.m. EST and intraday pricing should not be a requirement to perform in a T+1 business model.

Principle 8: Industry members and regulators should work together to develop, promote and implement legal, regulatory, rule and other changes required or desirable to implement T+1.

Principle 9: The securities market participants in the retail market should investigate incentives and enforcement mechanisms to promote and ensure industry readiness for T+1 concurrently with the U.S.

Principle 10: Industry members, their associations, the CCMA and regulators should work together on education and communications to ensure that all industry participants and investors are able to achieve the benefits of T+1 with a minimum of disruption.

Recommendations

Investment Fund Products - Business Model Review
Recommendation 4.b
Commission an independent study(ies) of (a) the client name model to assess whether it can/should be transitioned to avoid the current processing problems inherent in the client name

model or whether client name processing can be streamlined to meet the T+1 settlement cycle, (b) seg funds and (c) lessons to be learned from the U.S. model.

Investment Fund Products - Order Rejections

Recommendation 4.c.1

Determine and implement the relevant changes required to facilitate the exchange of data between all parties in a seamless and timely manner, with relevant edits required at all levels to ensure that rejects occur at time of order placement.

Recommendation 4.c.2

Implement a business practice whereby all Distributors and Intermediaries review rejected trades on the date received.

Recommendation 4.c.3

Review and enhance the Electronic Standards Group fields, rejection codes and the ESG Order Response file to facilitate the seamless delivery of data.

Recommendation 4.c.4

Standardize upfront order rejects for all parties to remove edits from the overnight cycle and reject trades upfront.

Recommendation 4.c.5

Standardize processes relating to correction and replacement of rejected trades as well as Network Accepted trades.

Recommendation 4.c.6

Improve and enforce the existing transaction-sequencing standards.

Recommendation 4.c.7

Analyze the impact of sending orders in batch mode and determine changes required to support T+1.

Recommendation 4.c.8

Create a new working group to focus on the issues and recommendations related to order rejections and electronic file delivery.

Investment Fund Products - Electronic File Delivery

Recommendation 4.d.1

Explore the following changes in the electronic file delivery process:

- Implement multiple cycles for delivery of settlement instructions.
- Determine the acceptable delivery timeframes for electronic files based on a review of the end-to-end process for all business parties as well the needs of the investor.
- Eliminate the production of trade instruction files and include all transactions in the settlement instruction file.

Recommendation 4.d.2

Amend the compliance rule for the missed delivery of "AF" settlement instruction and "AT" trade confirmation files to one time per month.

Recommendation 4.d.3

Create a new working group to focus on the issues and recommendations related to order rejections and electronic file delivery.

Investment Fund Products - Settlement Practices

Recommendation 4.e.1

Explore and determine the fund accounting/operational issues that may affect a smooth transition.

Investment Fund Products - Money Movement Alternatives

Recommendation 4.f.1

Determine and implement the relevant process changes required to ensure that payment among all parties is received no later than the day following the trade date.

Recommendation 4.f.2

Automate banking standards to allow for direct (electronic) money movement between a Distributor and a Fund Company's bank account to mirror today's Net Settlement process in that the sum of all purchases is determined and paid to the Fund Company.

Recommendation 4.f.3

Explore and implement alternative payment methods for money movement between a client and a Distributor's bank account, e.g., Interac, Certa-Pay, credit card, etc.

Recommendation 4.f.4

Expand the order fields or messaging capabilities to standardize and include banking information to facilitate payment of cash transactions (redemption, distribution) directly to the client's bank account by electronic funds transfer (EFT).

Investment Fund Products - Paper-Dependent Trades

Recommendation 4.g.1

Implement a business model for client name accounts whereby the Distributor collects, vets and maintains the documentation prior to initiating the trade, requiring such industry changes as follows:

a) Automate transaction processing by eliminating the use of direct orders for the majority of transactions.
b) Settle wire order transactions automatically without waiting for documentation where possible, e.g., client name redemptions; this will require banking information to be captured and forwarded with the order details.
c) Remove the need to receive the majority of documentation and have it maintained at the point of entry and available to the Fund Company upon request.
d) Eliminate the use of certificates on accounts where possible (this may not be possible for corporate funds without changes to regulations under the *Corporations Act*).
e) Provide wire order functionality for transactions that currently have to be placed as direct orders due to regulatory issues, e.g., estates, homebuyer redemptions.
f) Automate payment of purchases and redemptions for all account types, thereby eliminating the need to receive cheques and settlement documentation from Distributors.
g) Provide wire order functionality for transactions that are currently placed as direct orders due to industry or system restrictions, e.g., transfers.
h) Accept fax or other electronic forms of document images for those transactions where documentation is mandatory.
i) Develop and implement standard documentation requirements and administrative procedures for all Fund Companies to create a consistent business approach throughout the industry.

Investment Fund Products - Legislative Requirements

Recommendation 4.h.1

Proceed expeditiously to develop an action plan for implementation of the legislative, regulatory and other changes proposed in the Legal/Regulatory Working Group Detailed Required Amendments List relative to investment funds (as well as other retail products) and for further consideration as suggested in the General Issues List - Legal as well as in the Detailed Required Amendments List of other areas and issues of importance to the implementation of T+1. Finalize and enact a Uniform Securities Transfer Act as quickly as possible to provide the strongest possible legal support to indirectly held property interests.

Recommendation 4.h.2

Review relevant insurance legislation and identify and press for required changes to accommodate T+1 business needs.

Investment Fund Products - Business Model Alternatives

Recommendation 4.i.1

Investigate the feasibility of implementing changes to the investment fund business model currently in place, e.g., look at alternate business models as evidenced in other markets, such as:

1. Nominee cross-over trading options, where the nominee has the ability to buy and sell fund units from an omnibus position while sending one net trade per fund to the Fund Company daily.
2. A business model that more closely mirrors the U.S. business model where any trading on the CSS network must be settled in an automated fashion.

Other Retail Products - Guaranteed Investment Certificates
Recommendation 5.a.1

Encourage issuers to work together and with purchaser representatives if need be to identify ways to expedite guaranteed investment certificate transfers in kind and/or in cash with electronic payment and to find ways to ensure faster turnaround times for payment of entitlements and redemptions.

Other Retail Products - Savings Bonds
Recommendation 5.a.2

1. Encourage Canada Investment & Savings and provincial counterparts to review the terms and conditions of their products and work with their registrar to ensure bondholders have access to their redemption funds for T+1.
2. Encourage redemption agents to work with government issuers to ensure that internal procedures can meet pay-out of redemptions on T+1.

Other Retail Products - Linked Notes
Recommendation 5.a.3

Amend the settlement process for linked notes to issue payments on T+1 by reviewing the option of automating settlement of linked note redemptions through CSS by overcoming the technical limitation of the current CSS contract match criteria.

MEMBERS – RETAIL TRADE PROCESSING WORKING GROUP

Jerry Beniuk (Chair)	TD Bank Financial Group
Peter Broster (Vice-Chair)	RBC Dominion Securities
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Claire Johnson	CIBC Mellon GSS
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Cathy Thompson	Manulife Financial
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Alex Fairweather	STP Solutions Inc.
Dennis Horgan	Independent Consultant
Kerry Lutes	Sanchez Wealth Management Division
Dennis MacPherson	Unisen Inc.
Steve Pesner	eClientscope
Anne Ramsay	Ontario Securities Commission
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MEMBERS – CLIENT NAME WORKING GROUP (JOINT INVESTMENT FUNDS INSTITUTE OF CANADA/FUNDSERV)

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Marie Shannon	AIM Trimark Investments
Rose Reentovich	Assante Financial Management Ltd.
Michael Holder	Borden Ladner Gervais
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Caroline Mingfok	Franklin Templeton Investments Corporation
Diane Theriault	FundSERV Inc.
Jessica Ray	Investment Funds Institute of Canada
Minda Machado	Mackenzie Financial Corporation
Jackie Bizjak	Manulife Financial
John Kennedy	National Bank of Canada
Stephan Fernandes	Northwest Mutual Funds Inc.
Marsha Glionna	TD Bank Investment Services Inc.
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Ed Stollberg	Unisen Inc.

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Francine Brisebois	Standard Life Mutual Funds
Bobbisue Edmondson	FundEX Investment Inc.
Miles Hart	Canadian Payments Association
Jack Mastromattei	Mackenzie Financial Corporation
Doug McCann	Fidelity Investments
Kevin Oldham	AIM Funds
Josie Pampena	Standard Life Mutual Funds
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Marie Genier	Canadian Capital Markets Association

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Al Snyder	MRS
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Tony Tsampiras (Co-Chair)	TD Bank Financial Group
Jennifer Jones	Franklin Templeton Investments
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Sandy MacDonald	CIBC Mellon
Kim Marshall	Mackenzie Financial Corporation
David J. McCann	Royal Bank
George S. Molnar	Royal Bank
Stuart Reynolds	Unisen
Andrew Thompson	Fidelity Investments

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RETAIL TRADE PROCESSING WORKING GROUP

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Barbara Amsden	The Canadian Depository for Securities Limited
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RETAIL TRADE PROCESSING WORKING GROUP

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Dennis Horgan (Co-Chair)	Independent Consultant
Jess Hungate	Canadian Capital Markets Association
Barbara Amsden	Canadian Capital Markets Association

Appendix #4

RESPONSE SHEET

Please respond to the following points, returning your response **by October 31, 2003,** to:

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

Firm Name	
Contact Name	
Title	
Phone Number	
E-mail	

Note: Comments received from interested stakeholders will be shared with the RTPWG and Subcommittees 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.

CLIENT NAME ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model (roles and responsibilities – potential best practices/standards) achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?

MONEY MOVEMENT ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model (roles and responsibilities – potential best practices/standards) achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?

ELECTRONIC STANDARDS ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model (roles and responsibilities – potential best practices/standards) achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?

FUND ACCOUNTING ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?

NON-FUND PRODUCTS ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model (roles and responsibilities – potential best practices/standards) achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?

LEGAL ISSUES

1. Have the issues been captured accurately?
2. Do the recommendations address the issues? Are they cost-efficient and effective?
3. Do you agree with the recommendations or are there other alternatives?
4. Is the proposed business model (roles and responsibilities – potential best practices/standards) achievable and practical? Are the dependencies and issues accurately reflected?
5. Is there anything missing or that should be changed in the proposed implementation work plan (‘general’ recommendations)?