

10th Annual Compliance Readiness Strategies

For Investment Counsel Portfolio Managers

June 5, 2008

Agenda

Introduction of Panel

National Instrument 24-101 Rule Update

Industry Matching Trends

General Best Practice Considerations

Buy-Side Perspective

Custodian Perspective

Sell-Side & CCMA Perspective

Questions & Answer Period



What's Working?

Best Practices?

What still needs to be done?

Associated Penalties?

The Panel

- Tony Kalvik, Vice-President, PricewaterhouseCoopers LLP
- Milos Vukovic, Vice-President, RBC Asset Management
- Louis Lesnika, Assistant Vice-President, Trade Settlements, CIBC Mellon
- Glenn MacPherson, Program Director, Canadian Capital Markets Association

Rule Update, Trends & Best Practice Considerations

Tony Kalvik, Vice-President
PricewaterhouseCoopers LLP



Revised Schedule with Deferring of T+0 Matching

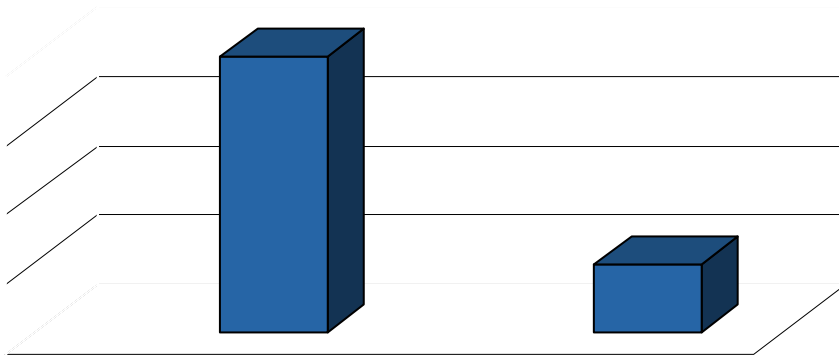
| | | |
|---|--------------|------------------|
| Up to Q2 – 2010 | Noon T+1 | if less than 90% |
| <u>July 1st, 2010</u> Q3 & Q4 – 2010 | Midnight T+0 | if less than 70% |
| Q1 & Q2 – 2011 | Midnight T+0 | if less than 80% |
| Q3 & Q4 – 2011 | Midnight T+0 | if less than 90% |
| <u>January 1st, 2012</u> Q1 2012 & thereafter | Midnight T+0 | if less than 95% |

Improvements – Dec. '07 to Apr. '08

| INDUSTRY AVERAGES | Volume | | Value | |
|--|--|--|--|--|
| | Percent of Trades Entered on T+1 by 11:59 AM | Percent of Trades Matched on T+1 by 11:59 AM | Percent of Trades Entered on T+1 by 11:59 AM | Percent of Trades Matched on T+1 by 11:59 AM |
| COMBINED EQUITY & DEBT (For Indication Purposes only) | | | | |
| December '07 | 82.90% | 72.27% | 75.34% | 67.17% |
| April '08 | 87.79% | 80.60% | 88.96% | 78.02% |
| Better / Worse | 4.89% | 8.33% | 13.62% | 10.85% |
| EQUITY Only | | | | |
| December '07 | 82.95% | 72.96% | 75.34% | 63.59% |
| April '08 | 87.52% | 80.70% | 80.66% | 73.82% |
| Better / Worse | 4.57% | 7.74% | 5.32% | 10.23% |
| DEBT Only | | | | |
| December '07 | 82.65% | 68.78% | 75.34% | 67.89% |
| April '08 | 89.24% | 80.06% | 90.73% | 78.86% |
| Better / Worse | 6.59% | 11.28% | 15.39% | 10.97% |

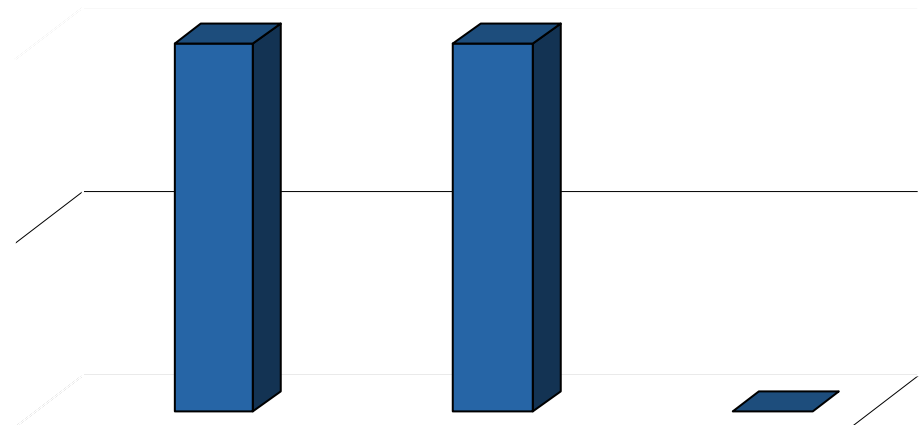
PwC Asset Manager Readiness Survey Results

Have you had or do you plan to make technological investments to meet the minimum requirements of instrument 24-101?



66% of asset managers have had to make a technology investment; of these, 50% were in the \$100-\$500K range

If yes, at what cost?

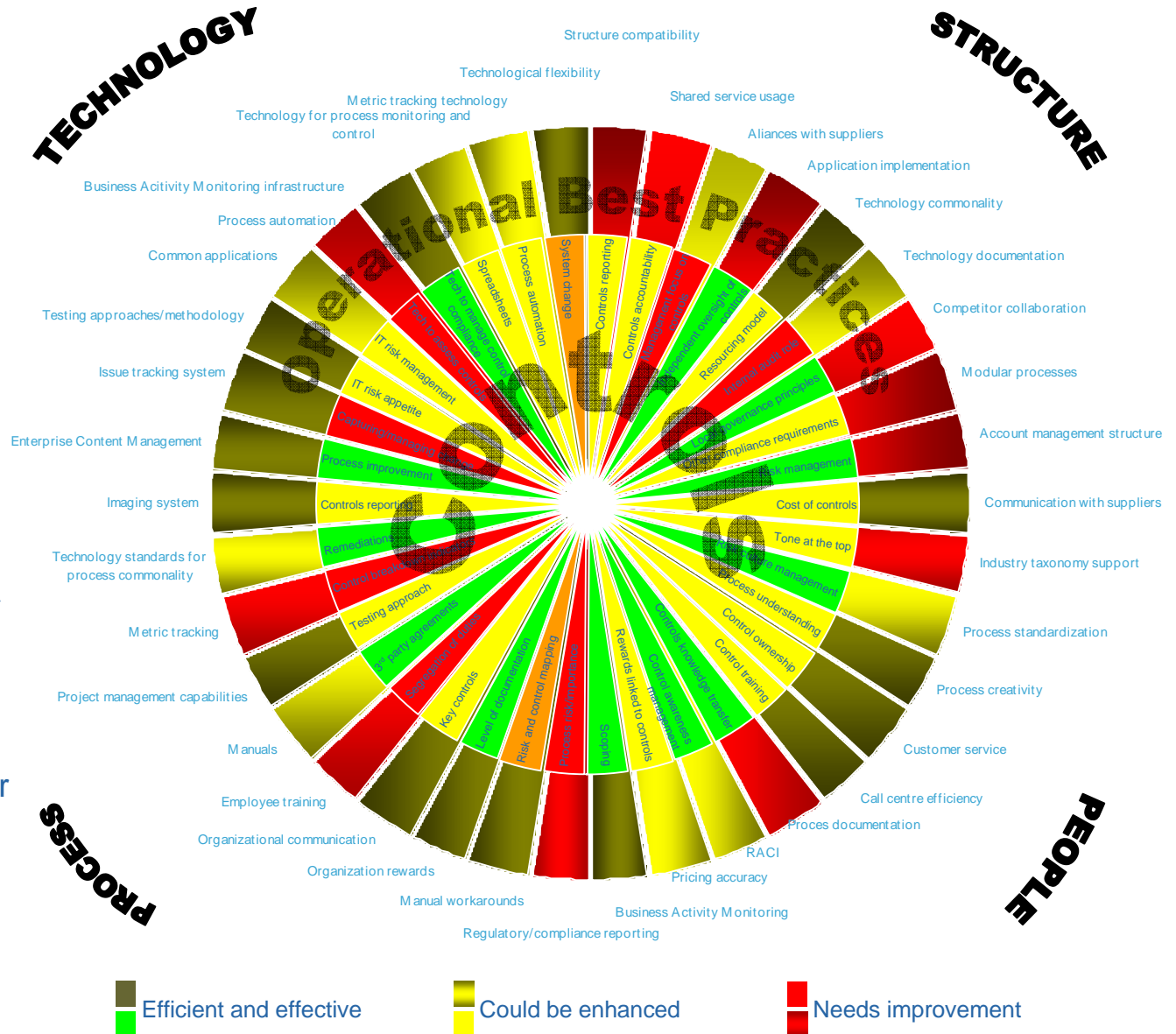


Process and Control Best Practices

PricewaterhouseCoopers' Operational Efficiency and Effectiveness methodology uses a unique survey-based "dartboard" tool to assess areas for improvement within your organization around:

- Structure
- Process
- People
- Technology

This self-assessment tool has been developed to help you take a holistic view of where you sit on the path to operational efficiency and effectiveness. Through an easy to understand graphical output, we can pinpoint where your focus needs to be directed



Best Practices Continuum Helps You Understand Where You Are and Where You Want To Be?



Buy-Side Firm Perspective

Milos Vukovic, Vice-President, Investment Policy
RBC Asset Management Inc.



RBC Asset Management®



Buy Side – Preparations for the Instrument

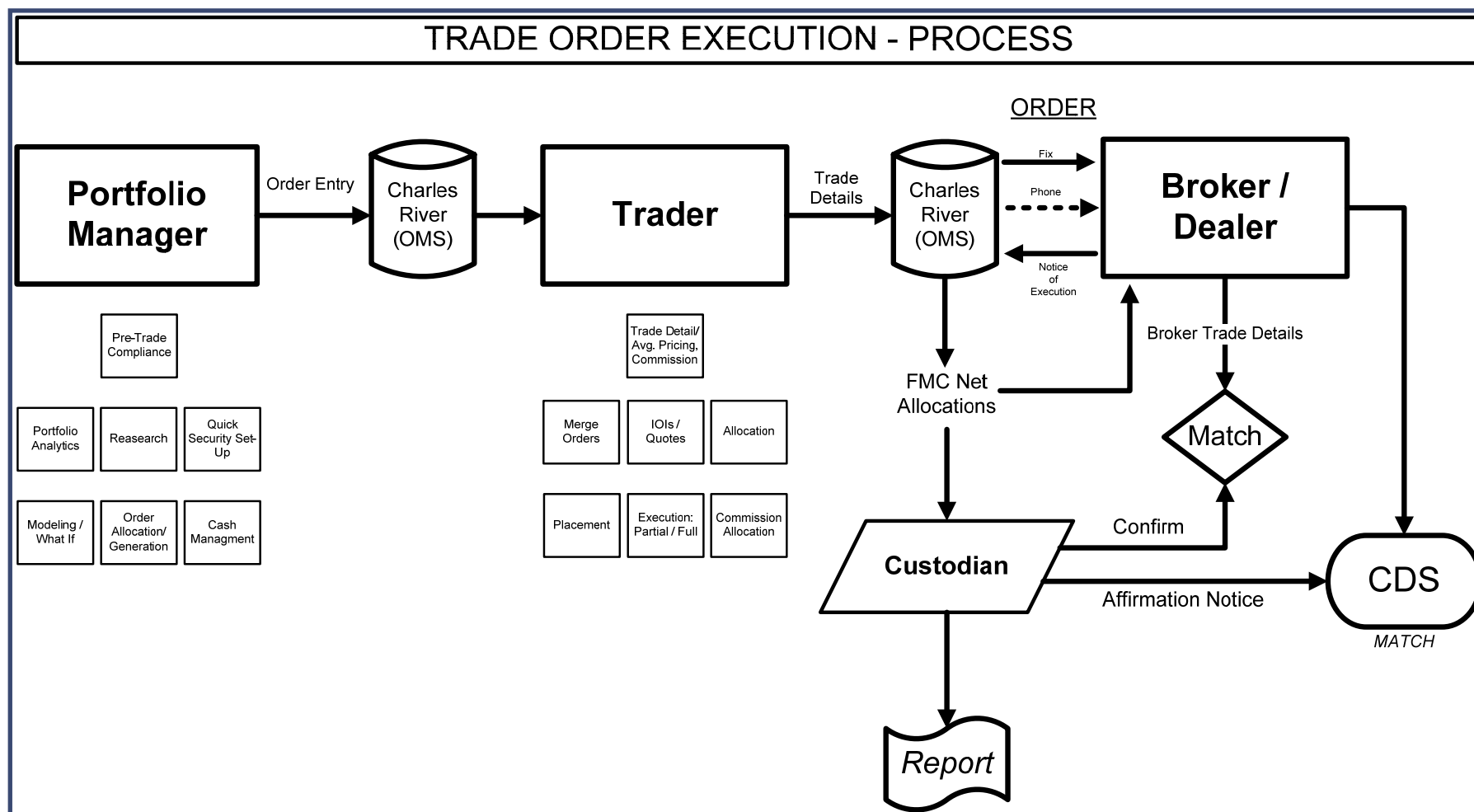
- Become familiar with the Instrument
- Assess internal operations for ability to meet trade deadlines and trade matching requirements
- Internal planning to meet Instrument requirements and to ensure compliance
- Industry participation (CCMA, discussion with counterparties, vendors)
- Internal policies and procedures development



Preparations at RBC AM

- Joined CCMA, reviewed and commented on NI 24-101 issued in April 2004
- Discussions with other trade matching parties (custodians, brokers) and industry peers
- Reviewed internal resources, practices, industry best practices
- Reviewed processing statistics, timelines, sequence of events, determined that organization is ready to meet transitional performance targets
- Emphasis on electronic transmission of data, utilization of standard data elements
- Final goal: ensure more efficient and timely processing and settlement of institutional trades

Operations Consideration





Achievements

- Accelerated transmission of orders and trade allocations to counterparties electronically: OMS, FIX and other electronic connections.
- Encouraged most brokers to adopt electronic connectivity
- Increased STP rates
- More frequent data transfer throughout the day
- Standard data elements utilization: order initiation, order allocation.
- Regularly review trading statistics within RBC AM's Trade Order Management Committee
- Included trade matching statistics into overall broker evaluation criteria
- Timely resolution of discrepancies allows for early matching



Challenges

- Lack of detailed exception reporting from counterparties that would indicate reasons for not matching
- Detailed time stamps from CDS are required from either brokers or custodians that would indicate the time of trade submission
- Account numbers (cross reference between Custodian-Dealer-IM)
- More frequent data transfer throughout the day
- Evaluating options to automate trade matching process: matching service utility vs. FIX
- Continue to reduce counterparty risk



Summary

- Eliminate data re-keying
- Automate internal processes (front to back office)
- Automate transmissions to custodians/brokers
- More frequent transmissions where possible
- Data clean up initiatives
- Monitor industry trends (OMS, MSU, FIX)
- Communication with counterparties
- Improved scorecard from custodians

Custodian Perspective

Louis Lesnika, Assistant Vice President, Trade Settlements
CIBC Mellon



Custodian perspective: What's working?



- Timely receipt of trade instructions
- Earlier trade matching
- More trade issues resolved before settlement date
- Greater focus on STP processing
- Buy side more sensitive to offside reporting
- Firms evaluating technology improvements

Custodian perspective: What still needs to be done?



- Continue sending NI 24-101 message to smaller firms
- Brokers need to improve some data reporting
- Ax the fax
- Improve reporting with scorecards
- Improve technology

Custodian perspective: Recommended Best Practices



- Timing of trades received
- Data elements
- Technology solutions
- Standardized reporting by custodians and brokers

Custodian perspective: Benefits of the matching rule



- Fewer “exceptions” on settlement date
- Fewer fails
- Improved client service
- Readiness for T+1 settlement

Sell-Side & CCMA Perspective

Glenn MacPherson, Program Director
Canadian Capital Markets Association



A Sell-Side Perspective

Current Compliance with 24-101

- Definite improvement has been made over the past year
- Not compliant with current target of 90% matched by T+1 Noon - shortfall is 3% for entry and 12% for matching
- Major gap between matching by T+1 AM and T+0 EOD - 43%
- With extension of transitional phase-in period for 24 months, industry can work on permanent solutions to close this gap
- Any move to T+0 should be an industry-triggered event, due to a compression of settlement, not a regulatory schedule

Costs Incurred

One-time

- Development
 1. Service providers - real-time vs batch
 2. Order Management Systems (other broader benefits)
 3. Client / CSA reporting

Ongoing

- Infrastructure / HR
 1. Exception monitoring / processing
 2. Client / CSA reporting
- Increased post-trade electronic communication (SS&C, OMGEO)

Benefits Attained

- Increased STP rates / reduced manual processing = increased efficiency
 - But difficult to quantify as corresponding expense savings not yet seen
- More timely matching = increased comfort transactions will settle
 - But no guarantee as trades not locked in
- Probably fewer fails
 - But not material as fails not a problem
- Positioned for move to T+1 Settlement Cycle
 - But no longer a priority to US
- Improved service to buy-side clients
 - But not yet determined

Further Benefits of Move to Matching on T

- Fully positioned for T+1 Settlement Cycle
 - But still not seen as a priority to US market.
- Lower risk
 - But difficult to quantify any benefit without trades being locked in or a move to a shortened settlement cycle
- Challenge and increased cost of being compliant raises the priority of moving to Custodian Block Settlement Processing to reduce costs
 - This may drive additional benefits

At What Further Costs

- Further one-time development costs
 1. Order Management Systems
 2. Work already completed may have positioned us for T+0 matching
- Further increase in ongoing costs
 1. Infrastructure / HR - Increased administration to address exception processing and reporting and non-compliant clients
 2. Post-trade communication - Use of electronic post-trade communications processes would continue to expand
- Client Frustration

Conclusions

- Applaud the recent CSA decision to extend the target of matching 90% by Noon T+1 until the end of June 2010
- Provides additional time to assess industry wide benefits and costs associated with a move to Matching on Trade Date
- In the mean time, Sell-side will focus on
 1. Attaining 90% matched by T+1 Noon
 2. Move to custodian settlement block processing
 3. Standardized, consistent reporting from broker/dealers, comparable with scorecards and reporting from custodian(s)

CCMA Perspective

CCMA Members & Observers



Chronology

- Jan 07 Final version of NI 24-101 published
- Apr 07 National Instrument 24-101 – enacted
- July 07 CDS reports by target times
- Oct 07 Counterparty attestations required
Performance target begins – 80% T+1 noon
- Nov 07 CCMA requests interim target relief
- Dec 07 First reporting period ends – filing within 45 days
- Jan 08 Matching targets increase to 90% T+1 noon

Current Status

- Extension of transitional phase-in period for 24 months in CSA Bulletin 24-307 issued Apr. 4 '08 (Also good to refer to OSC local rule 24-502)
- Target is 90% matched by noon on T+1 until June 30th, 2010
- On July 1st, 2010 matching targets move to 70% before midnight on T
- Target increases at 6 month intervals until target is 95% matched before midnight on T beginning Jan. 1 '08

Update & Conclusion

- With extension of the target for matching 90% by Noon T+1 until the end of June 2010, CCMA mandate fulfilled
- Survey of key committee members indicated satisfaction with CCMA efforts and achievements in relation to NI 24-101
- Board decided to decommission personnel, but keep CCMA entity and its web-site for ongoing distribution of information from regulators and key work groups, plus CDS scorecards
- Keeping CCMA entity allows expedient recommissioning if issue(s) arise
- Key industry committees will continue to meet and support CSA Industry Working Group
- Appreciate all the support from all the trade matching parties, and all the volunteer time invested.

Thank you.