

The CCMA continues in a reduced fashion



Bruce Macdonald

The difficult decision to decommission the active management of the CCMA was taken by our board in April after careful consideration of the successful implementation and evolution of National Instrument (NI) 24-101 and the future needs of our industry. We have made significant progress on straight-through processing (STP) by focussing industry and regulatory efforts on institutional trade matching (ITM).

Our decommissioning is on plan. Anna Brill, Glenn McPherson and Alan Hutton have completed their work with the various committees to ensure the momentum is maintained. I would like to express my thanks and that of our board for their commitment to ITM and their positive attitude during this transition period. They have helped our industry successfully implement NI 24-101 and were instrumental in working with the Canadian securities regulators to get two year's relief from the scheduled advance of ITM from noon on T+1 to midnight on T+0.

We are also very appreciative of the contribution of the many committee members, my predecessors on the board and the staff members who preceded the current team. We should all be very proud of the improvements to the efficiency and interoperability of our capital markets that we have accomplished. 🍁

Message from the vice-chairman and executive director



Allan Hutton

The time has come to power down our office. Thank you all for the countless hours and the sharing of your considerable talents to help us achieve our mission – *“To enhance the competitiveness of Canada’s capital markets through a forum of industry experts who provide leadership and direction to the investment community.”*

Levels of straight-through processing continue to improve and the progress of institutional trade matching is significant. These improvements are making Canada’s capital markets more globally competitive and more efficient, with a lower risk profile. Our industry is better positioned to respond to future demands because of our collective efforts.

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Going forward,
please check our website
www.ccma-acmc.ca
for the most recent industry
statistics, updates and
meeting activities!

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Message from the vice-chairman and executive director (cont'd)

Together we have established a high level of co-operation, collaboration and momentum on issues of interoperability across the industry. The buy-side, sell-side, custodians, regulators and infrastructure suppliers have individually and collectively contributed a great deal to our mutually beneficial goals. It has been a successful and satisfying experience.

As mentioned in our May newsletter, with much of the work behind us and a readiness of industry members and other associations to maintain the momentum, the active management of the CCMA has been decommissioned. We turned our lights off, as planned, on July 31.

Going forward, the board of directors will meet in September to complete their oversight responsibilities and accept the resignations of all but the few who are needed to maintain the legal entity. When and if there is a need to deal with future cross industry operational issues, the board will reactivate the CCMA.

Ongoing committee and working group meetings will be held in September and October. The proposed schedule is below. The CCMA website www.ccma-acmc.ca will remain active and evolve to a repository of industry statistics, updates and meeting activities.

Upcoming fall meetings

Custodian Subcommittee	-	September 16, 2008
Sell-side Subcommittee	-	September 17, 2008
Buy-side Subcommittee	-	September 18, 2008
Board of directors	-	September 22, 2008
Chairs and vice-chairs	-	September 24, 2008
CSA Industry Working Group	-	Meeting targeted for second week of October, 2008

Please continue your efforts to maintain our healthy and prosperous capital markets by further improving levels of STP and ITM. Your support of the ongoing buy-side, sell-side, custodian and regulatory working groups is critical. We have made a difference and the gains are yours to preserve and advance. 🍁

Sell-side's perspective on block (bulk) settlements

The sell-side supports the blocking (bulking) for settlement of institutional security transactions. We acknowledge that block trading and block settlement are not directly related activities. There is no interdependency, nor is there any specific correlation between block trades and block settlements. Let me explain, so everyone is hopefully sharing a similar perspective.

A **block trade** involves the aggregation of smaller orders, (possibly for multiple accounts), in a specific security which may be administered by one or more custodian. A block trade is submitted by an investment manager to a single broker-dealer for execution. (The underlying client accounts need not be disclosed to the broker-dealer. This anonymity is preferred by some institutions).

The investment manager's confirmation and settlement of the trade does require the provision of allocations to individual client accounts at each of the custodians. The allocations may be issued on an account by account basis for each of the custodians, or the instructions may be to block (or bulk) multiple trades at a given custodian.

Each custodian needs to know the allocation details to properly record the transactions by settlement date, particularly if any daily pricing calculations are necessary (e.g., net asset value (NAV)). This information is provided by the buy-side.

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Sell-side's perspective on block (bulk) settlements (cont'd)

A **block (bulk) settlement** is a single settlement instruction to a specific broker-dealer for a specific custodian that combines a number of trades and their values with the same security identifier transacted on the same trading day for the same settlement date. (These aggregated trades are normally processed through a generic or control account at the custodian). The security traded is for multiple custodial accounts, requiring the allocation as specified by the investment manager to the individual accounts.

All custodians have the ability to process block settlement instructions. Custodians have varying levels of automation to process the allocations related to the trade to the appropriate custodial accounts. The custodian's account for processing the block settlement instruction is investment manager specific. This control account must be zero-balanced for each settlement block to ensure the instructions for all the allocations related to the block are processed accurately.

We know that investment firms block settle and allocate details in a variety of ways. There is no consensus on a best method. We advocate a mutual agreement of format/facility that best accommodates efficient upstream trade entry and confirmation by the respective broker and custodian, either with or without a matching service utility's involvement.

Sell-side firms believe there is a greater potential for buy-side firms to block settle. Custodians and investment managers do not all agree that block settlement accelerates institutional trade matching, or

reduces their specific work efforts and related operating costs. Buy-side firms often see the benefits of block settlement when there are 3 or more allocations for any trade. Some of these firms are fund managers, while the greater proportion is the firms performing investment counseling for individuals through mandated portfolio management.

Accordingly, the Sell-side Committee is actively working to demonstrate benefits to as many buy-side firms as possible to increase the use of block settlement instructions.

We see the benefits as:

- ◆ Fewer trade and cash transactions in the front offices of buy-side and sell-side firms
- ◆ Simpler cash management and custodial reconciliation for our respective back offices
- ◆ Faster, more accurate entry of aggregated trades at CDS by broker-dealer, allowing the custodian or the MSU to confirm within trade matching targets, thus positively affecting the buy-side firm's institutional trade matching reported results
- ◆ Lower vendor costs for buy-side firms using MSU's.

We, the sell-side, realize the perception is that only the broker-dealers benefit from block settlements. We understand that this may affect established routines that are working, at times involving multiple custodians with varying capabilities. We want to work with our client firms and their custodians to avoid disruptions and enhance matching.

As well, we understand that some buy-side firms are concerned that the size of some blocks may be too large for certain broker-dealers, or that the broker-dealer and/or custodian may not have sufficient position at CDS for custodian to settle the block amount. These situations can be minimized or avoided by strong and timely management of the process, having all parties communicating as partners in the process.

Collectively, we do not want to create any increase in complexity, but instead want to make trade settlement faster and more efficient, benefiting all the parties in the trade matching process. Together we want to improve our client firms' scorecards for trade matching and eliminate any need for reporting in relation to National Instrument 24-101. 🍁

On October 1 - 3, 2008, **The Canadian Depository for Securities Limited (CDS)** will host the **Americas' Central Securities Depository Association (ACSDA) 8th Seminar** in Toronto, Canada at The Sutton Place Hotel. For the seminar agenda or to register please go to: <https://secure.hostdmc.com/acsd/home.cfm>.



Institutional Trade Matching (ITM)

National Instrument 24-101 requires entry and matching rates to be reported to the regulators every month by CDS. In conjunction with this reporting, the CCMA publishes three report cards on its website to help reporting firms gauge their performance in relation to industry totals.

The CDS scorecard is a summary of the entry and matching rates for both the number of trades and value of trades, segmented by day from T to T+3, and then combining everything beyond T+3. Since May, CDS has expanded on these statistics for T+1 and T+2, showing numbers and percentages for trades entered and matched before noon and before midnight.

The CCMA produces two scorecards. One is specific for the month and lists the three key segments for the majority of the trades: T, T+1 before noon, and T+1 before midnight. On the upper portion of this scorecard, the numbers are summarized for equity, debt and combined equity and debt. These reported rates are a summation of the results for all CDS members.

On the lower portion of the report, the entry and matching results are a rolling three month average for the specific member with the largest volume of trades. These analysis normally involve four different firms, two broker-dealers with the largest volume of trades entered, and two custodians with the largest volume of trades matched.

The other scorecard illustrates progress and is titled *Change*. It shows the progress over 6 months, and will begin to show the progress over 12 months as well. It also reports on the three key segments for the majority of the trades: T, T+1 before noon, and T+1 before midnight.

The current scorecards can be viewed on the CCMA website at What's New, with all available scorecards at Performance Measurement. We know that many firms are using this information for a variety of comparative reporting purposes. As a result, the CCMA will continue to publish these indicators monthly on its website.

Any enquiries should be directed to info@ccma-acmc.ca or 416.815.2046. 🍁

Institutional trade matching improvements between July 2007 and July 2008

(Rates based on volume - one year comparison)

	Industry averages			
	Trades Entered on T by 11:59 p.m	Trades Matched on T by 11:59 p.m	Trades Entered on T+1 by 11:59 p.m	Trades Matched on T+1 by 11:59 p.m
Combined equity & debt - July 2007	39.77%	17.00%	80.76%	66.49%
Combined equity & debt - July 2008	65.90%	32.61%	91.53%	86.47%
Improvement	73.87%	84.39%	89.23%	80.02%
Equity only - July 2007	38.89%	15.95%	82.14%	68.85%
Equity only - July 2008	64.55%	30.25%	91.33%	86.56%
Improvement	74.34%	85.70%	90.81%	82.29%
Debt only - July 2007	44.51%	22.70%	73.39%	53.74%
Debt only - July 2008	75.73%	49.28%	92.95%	85.87%
Improvement	68.78%	73.42%	80.44%	67.87%

Please note: Breakdown for T+1 @ Noon not available for July 2007.

From the program director

By Glenn MacPherson

I arrived within a few days of National Instrument 24-101 being enacted last spring. The work of my predecessors was well documented, and it was relatively easy for me to pick up on the issues and interact in situations where I could add value. The ongoing support of the committee members has been most appreciated.

This has been a great assignment where many improvements have been realized as the three trade matching parties worked together in a very progressive fashion.

Thanks to all for your patience, support and candor. 🍁

From the office manager

By Anna Brilli

As they say, all good things must come to an end. I have truly enjoyed my time with the CCMA and especially getting to know the members of the various committees, working groups and board of directors. I would like to take this time to wish all of you the very best in your future endeavours. I started my new job at TD Asset Management on July 7.

Thank you for a truly memorable four years. 🍁

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