

6.1.3 CSA Request for Comment Proposed National Instrument 24-101 Post-trade Matching and Settlement

**CANADIAN SECURITIES ADMINISTRATORS' REQUEST FOR COMMENT  
PROPOSED NATIONAL INSTRUMENT 24-101  
POST-TRADE MATCHING AND SETTLEMENT**

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**PROPOSED  
NATIONAL INSTRUMENT 24-101  
POST-TRADE MATCHING AND SETTLEMENT**

**PART 1 DEFINITIONS AND INTERPRETATION**

**1.1 Definitions** - In this Instrument,

“counterparty”, in relation to a trade in a security by a buyer or a seller, means the opposite party to such trade;

“custodian” means a person or company<sup>1</sup> that holds securities for the benefit of another under a custodial agreement or other custodial arrangement, but does not include a dealer;<sup>2</sup>

“DVP” means delivery-versus-payment;

“delivery-versus-payment”, in relation to a purchase or sale of a security, means a service available to the buyer which allows him, her or it to pay for the security when the security is delivered at settlement;

“depository eligible security” means a publicly traded security in respect of which settlement of a trade in the security may be performed through the facilities or services of a recognized clearing agency;

“institutional client” means a person or company, including a portfolio adviser, that appoints a custodian to hold securities on his, her or its behalf;

“matching service utility” means a person or company that provides centralized facilities for the process of comparing trade data and has filed Form 24-101F1, but does not include a recognized clearing agency, a recognized exchange, or a recognized quotation and trade reporting system;

“portfolio adviser” means an adviser registered under securities legislation<sup>3</sup> for the purpose of managing the investment assets of one or more clients of the adviser through discretionary authority granted to the adviser by the clients;

“RVP” means receive-versus-payment;

“receive-versus-payment”, in relation to a purchase or sale of a security, means a service available to the seller which allows him, her or it to deliver the security when payment is received at settlement;

“recognized clearing agency” means,

- (a) in Ontario, a clearing agency<sup>4</sup> recognized by the securities regulatory authority<sup>5</sup> to carry on business as a clearing agency;
- (b) in Quebec, a clearing agency recognized by the securities regulatory authority as a self-regulatory organization, and
- (c) in every other jurisdiction,<sup>6</sup> a clearing agency in Canada that is otherwise subject to regulation under securities legislation by the securities regulatory authority or by a securities regulatory authority of another jurisdiction in Canada;<sup>7</sup>

“recognized exchange” has the meaning ascribed to that term in National Instrument 21-101 – Marketplace Operation;

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<sup>1</sup> The term “person or company” is defined for clarification in certain jurisdictions in National Instrument 14-101 — Definitions.

<sup>2</sup> This definition of custodian is derived in part from the definition found in OSC Rule 14-501 - Definitions.

<sup>3</sup> The term “securities legislation” is defined in National Instrument 14-101 — Definitions.

<sup>4</sup> The term “clearing agency” is defined in the securities legislation of certain jurisdictions (see, for example, s. 1(1) of the *Securities Act* (Ontario)).

<sup>5</sup> The term “securities regulatory authority” is defined in National Instrument 14-101 — Definitions.

<sup>6</sup> The term “jurisdiction” is defined in National Instrument 14-101 — Definitions.

<sup>7</sup> There are only two clearing agencies in Canada that are regulated under provincial securities legislation, The Canadian Depository for Securities Limited (CDS) and Canadian Derivatives Clearing Corporation (CDCC). CDS is recognized as a clearing agency in Ontario and as a self-regulatory organization in Quebec. CDCC is recognized as a self-regulatory organization in Quebec. No other CSA jurisdiction regulates CDS or CDCC.

“recognized quotation and trade reporting system” has the meaning ascribed to that term in National Instrument 21-101 – Marketplace Operation;

“relevant party” means a person or company involved in the process of comparing trade data that must agree to the details of a trade in securities;

“settlement”, in relation to a trade in a security, means the completion of the trade, whereby the seller transfers the security to the buyer and the buyer transfers the payment to the seller, and includes, in the context of completion of a trade through the facilities or services of a clearing agency acting as central counterparty, the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and the participants of the clearing agency;

“T” means the day on which a trade is executed;

“T+1” means the next clearing or settlement day following the day on which a trade is executed;

“T+3” means the third clearing or settlement day following the day on which a trade is executed;

“trade-matching compliance agreement” means the agreement described in section 1.4.

## 1.2 Interpretation — Comparing Trade Data

- (1) In this Instrument, comparing trade data is a process by which details and settlement instructions of a trade in securities executed on behalf of an institutional client are being transmitted or compared among,
  - (a) the institutional client,
  - (b) the dealer acting for the institutional client in the trade,
  - (c) the counterparty to the trade if the dealer was not acting as principal in the trade,
  - (d) the custodian or custodians of the institutional client, and
  - (e) any service provider performing services for one or more of the parties referred to in paragraphs (a) to (d) to facilitate the settlement of the trade.
- (2) Without limiting the generality of subsection (1), the process of comparing trade data includes any one or more of the following steps:
  - (a) The dealer notifies the institutional client of the execution of the trade.
  - (b) The institutional client advises the dealer and each custodian how the securities are to be allocated among,
    - (i) the underlying client accounts managed by the institutional client, or
    - (ii) each custodian.
  - (c) The dealer confirms to the institutional client certain details of the trade pursuant to securities legislation or the rules of a self-regulatory organization and submits trade details to the clearing agency.
  - (d) Each custodian verifies the trade details and settlement instructions against available securities or funds held for the institutional client.

## 1.3 Interpretation — Institutional Trade Matching — In this Instrument, a trade executed on behalf of an institutional client is matched when,

- (a) the process of comparing trade data is completed,
- (b) the relevant parties have agreed to the details of the trade, and
- (c) either the custodian of the institutional client or a matching service utility is in a position to notify a recognized clearing agency of the trade.

#### 1.4 Interpretation — Trade-Matching Compliance Agreement

- (1) In this Instrument, a trade-matching compliance agreement is a written agreement between a dealer and an institutional client pursuant to which they agree, as a condition of accepting an order from the institutional client to trade in a depository eligible security on a DVP or RVP basis, to take all necessary steps to complete the process of comparing trade data and matching the trade as soon as practicable after the trade has been executed and in any event no later than the close of business on T.
- (2) Subject to subsection (3), a trade-matching compliance agreement may expressly permit a party to the agreement to complete the process of comparing trade data and matching the trade after T if, during the process of comparing trade data, the details of the trade are found to be incorrect or incomplete and the party, acting reasonably, is unable to agree to the details of the trade with another relevant party by the close of business on T.
- (3) A trade-matching compliance agreement shall expressly require the party referred to in subsection (2) to take all necessary steps to correct the details of the trade and match the trade as soon as practicable and in any event no later than the close of business on T+1.

#### PART 2 APPLICATION

##### 2.1 Application — This Instrument does not apply to,

- (a) a trade in respect of which the terms of settlement have been expressly agreed upon by the counterparties at the time of the trade;
- (b) a trade that is a distribution of a security;
- (c) a trade in a security of a mutual fund to which National Instrument 81-102 Mutual Funds applies;
- (d) a trade in a security to be settled outside Canada.

#### PART 3 TRADE MATCHING

**3.1 Trade Matching Compliance by Dealer** — A dealer who executes a trade in a depository eligible security shall take all necessary steps to match the trade as soon as practicable after the trade has been executed and in any event no later than the close of business on T.

**3.2 Trade-Matching Compliance Agreement** — A dealer shall not accept instructions to open an account or an order to trade in a depository eligible security from an institutional client pursuant to an arrangement under which,

- (a) the payment for the security purchased is to be made on a DVP or RVP basis by a custodian or
- (b) the delivery of the security sold is to be made on a DVP or RVP basis by a custodian,

unless the dealer has entered into a trade-matching compliance agreement with the institutional client.

**3.3 Trade Matching Compliance by Adviser** — A portfolio adviser who gives an order to a dealer to trade in a depository eligible security on behalf of one or more clients of the portfolio adviser shall take all necessary steps to match the trade as soon as practicable after the trade has been executed and in any event no later than the close of business on T.

**3.4 Trade-Matching Compliance Agreement** — A portfolio adviser shall not open an account with or give an order to a dealer to trade in a depository eligible security on behalf of one or more clients of the portfolio adviser pursuant to an arrangement under which,

- (a) the payment for the security purchased is to be made on a DVP or RVP basis by a custodian, or
- (b) the delivery of the security sold is to be made on a DVP or RVP basis by a custodian,

unless the portfolio adviser has entered into a trade-matching compliance agreement with the dealer.

### 3.5 Correcting Trade Details

- (1) A dealer subject to section 3.1 or a portfolio adviser subject to section 3.3 is exempt from the requirements of that section if, during the process of comparing trade data, the details of the trade are found to be incorrect or incomplete and the dealer or adviser, acting reasonably, is unable to agree to the details of the trade with another relevant party by the close of business on T.
- (2) Despite subsection (1), a dealer or portfolio adviser exempted under that subsection shall take all necessary steps to correct the details of the trade and match the trade as soon as practicable and in any event no later than the close of business on T+1.

**3.6 Matching Service Utility** — A person or company subject to section 3.1, 3.3 or 3.5 or bound by a trade-matching compliance agreement may use the facilities or services of a recognized clearing agency, a recognized exchange, a recognized quotation and trade reporting system, or a matching service utility to comply with the section or the trade-matching compliance agreement if the facilities or services are reasonably designed to accomplish the matching of trades by the end of T.

## PART 4 REQUIREMENTS FOR A MATCHING SERVICE UTILITY

### 4.1 Initial Filing Requirements

- (1) A person or company that intends to carry on business as a matching service utility shall file Form 24-101F1 at least 90 days before the person or company begins to carry on business as a matching service utility.
- (2) During the 90 day period referred to in subsection (1), a person or company that files Form 24-101F1 shall inform in writing the securities regulatory authority immediately of any change to the information provided in Form 24-101F1 and the person or company shall file an amendment to the information provided in Form 24-101F1 in the manner set out in Form 24-101F1 no later than seven days after a change takes place.

**4.2 Change in Material Information** — At least 45 days before implementing a material change involving a matter set out in Form 24-101F1, a matching service utility shall file an amendment to the information provided in Form 24-101F1 in the manner set out in Form 24-101F1.

### 4.3 Ceasing to Carry on Business as a Matching Service Utility

- (1) If a matching service utility intends to cease carrying on business as a matching service utility, the matching service utility shall file a report on Form 24-101F2 at least 30 days before ceasing to carry on that business.
- (2) If a matching service utility involuntarily ceases to carry on business as a matching service utility, the matching service utility shall file a report on Form 24-101F2 as soon as practicable after it ceases to carry on that business.

### 4.4 Ongoing Filing and Other Requirements

- (1) A matching service utility shall file quarterly the information provided in Form 24-101F3 in the manner set out in Form 24-101F3 no later than 45 days after the end of each quarter of the calendar year.
- (2) A matching service utility shall keep such books, records and other documents as are reasonably necessary for the proper recording of its business.

### 4.5 System Requirements – A matching service utility shall

- (a) on a reasonably frequent basis, and in any event, at least annually,
  - (i) make reasonable current and future capacity estimates for each of its systems,
  - (ii) conduct capacity stress tests of critical systems to determine the ability of those systems to process information in an accurate, timely and efficient manner,
  - (iii) develop and implement reasonable procedures to review and keep current the development and testing methodology of those systems,
  - (iv) review the vulnerability of those systems and data centre computer operations to internal and external threats, including physical hazards and natural disasters, and

- (v) establish reasonable contingency and business continuity plans;
- (b) annually, cause to be performed an independent systems review and prepare a report, in accordance with established audit procedures and standards, of its controls for ensuring that it is in compliance with paragraph (a), and conduct a review by senior management of the report containing the recommendations and conclusions of the independent review; and
- (c) promptly notify the securities regulatory authority of any material systems failures.

#### **PART 5 TRADE SETTLEMENT**

**5.1 Trade Settlement by Dealer** — A dealer who executes a trade in a depository eligible security shall take all necessary steps to settle the trade no later than the end of T+3.

**5.2 Good Delivery Rule** — A dealer shall not accept an order to trade in a depository eligible security pursuant to an arrangement under which,

- (a) the payment for the security purchased is to be made on a DVP or RVP basis, or
- (b) the delivery of the security sold is to be made on a DVP or RVP basis,

unless settlement of the trade is effected through the facilities of a recognized clearing agency.

#### **PART 6 EXEMPTION**

##### **6.1 Exemption**

- (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.

#### **PART 7 EFFECTIVE DATE**

**7.1 Effective Date** – This Instrument comes into force on July 1, 2005.

NATIONAL INSTRUMENT 24-101

PROPOSED  
FORM 24-101F1

INITIAL FORM FOR A MATCHING SERVICE UTILITY

DATE: \_\_\_\_\_ (DD/MMM/YYYY)

TYPE OF FILING:  INITIAL FORM  AMENDMENT

GENERAL INFORMATION

- 1. Full name of matching service utility:
- 2. Main street address (do not use a P.O. box):
- 3. Mailing address (if different):
- 4. Address of head office (if different from address in item 2):
- 5. Business telephone and facsimile number:  

(Telephone)  (Facsimile)
- 6. Website address:
- 7. Contact employee:  

(Firm Name)  (Contact Name)

(Telephone Number)  (Facsimile)

(E-mail address)
- 8. Counsel:  

(Firm Name)  (Contact Name)

(Telephone Number)  (Facsimile)

(E-mail address)
- 9. Date of financial year-end: \_\_\_\_\_ (DD/MMM/YYYY)
- 10. Legal status:  CORPORATION  SOLE PROPRIETORSHIP  
 PARTNERSHIP  OTHER (SPECIFY):

Except where the matching service utility is a sole proprietorship, indicate the date and place where the matching service utility obtained its legal status (e.g., place of incorporation, place where partnership agreement was filed or where matching service utility was formed):

(a) Date: \_\_\_\_\_ (DD/MMM/YYYY)

(b) Place of formation:

- 11. From the following list, specify the types of securities for which information will be collected and processed by the matching service utility for transmission of matched trades to a Central Securities Depository (CSD).

Exchange-traded securities:

- |                 |                       |                   |                       |                 |
|-----------------|-----------------------|-------------------|-----------------------|-----------------|
| Domestic traded | <input type="radio"/> | EQUITY SECURITIES | <input type="radio"/> | DEBT SECURITIES |
|                 | <input type="radio"/> | OPTIONS           |                       |                 |
| Foreign traded  | <input type="radio"/> | EQUITY SECURITIES | <input type="radio"/> | DEBT SECURITIES |
|                 | <input type="radio"/> | OPTIONS           |                       |                 |

OTC securities:             GOVERNMENT DEBT     CORPORATE DEBT  
                                  EQUITY

Specify other types of securities:

**EXHIBITS**

File all Exhibits with the Initial Form. For each Exhibit, include the name of the matching service utility, the date of filing of the Exhibit and the date as of which the information is accurate (if different from the date of the filing). If any Exhibit required is inapplicable, a full statement describing why that Exhibit is inapplicable shall be furnished as the respective Exhibit.

If the matching service utility files an amendment to the information provided in its Initial Form, and the information relates to an Exhibit filed with the Initial Form or a subsequent amendment, the matching service utility must, in order to comply with Part 4.2 of National Instrument 24-101, provide a description of the change and file a complete and updated Exhibit.

**1. CORPORATE GOVERNANCE**

**Exhibit A - Constatng documents**

A copy of the constating documents, including corporate by-laws and other similar documents, and all subsequent amendments.

**Exhibit B – Ownership**

List any person or company who owns 10 percent or more of the matching service utility's voting shares or who, either directly or indirectly, through agreement or otherwise, in any other manner, may control or direct the management or policies of the matching service utility. Provide the full name and address of each such person or company and attach a copy of the agreement or, if there is none written, briefly describe the agreement or basis through which such person or company exercises or may exercise such control or direction.

**Exhibit C – Officials**

A list of the partners, officers, directors or persons performing similar functions who presently hold or have held their offices or positions during the previous year, indicating the following for each:

1. Name.
2. Title.
3. Dates of commencement and expiry of present term of office or position and length of time the office or position held.
4. Type of business in which each is primarily engaged and current employer.
5. Type of business in which each was primarily engaged in the preceding five years, if different from that set out in item 4.
6. Whether the person is considered to be an independent director.

**Exhibit D - Organizational structure**

A narrative or graphic description of the organizational structure of the matching service utility.

**Exhibit E - Affiliated entities**

For each affiliated entity (person or company) of the matching service utility, provide the following information:

1. Name and address of affiliated entity.
2. Form of organization (e.g., association, corporation, partnership, etc.)
3. Name of location and statute citation under which organized.



4. Date of incorporation in present form.
5. Brief description of nature and extent of affiliation or contractual or other agreement with the matching service utility.
6. Brief description of business services or functions.
7. If a person or company has ceased to be an affiliated entity of the matching service utility during the previous year or ceased to have a contractual or other agreement relating to the operation of the matching service utility during the previous year, provide a brief statement of the reasons for termination of the relationship.

## **2. FINANCIAL VIABILITY**

### **Exhibit F - Audited financial statements**

Audited financial statements for the latest financial year of the matching service utility and a report prepared by an independent auditor.

## **3. FEES**

### **Exhibit G – Fee list, fee structure**

A complete list of all fees and other charges imposed, or to be imposed, by or on behalf of the matching service utility for use of its information service processing, including the cost of establishing a connection with the matching service utility.

## **4. ACCESS**

### **Exhibit H – Users**

List of all users (person or company) and identify the type(s) of business of each user (e.g., custodian, dealer, advisor, clearing agency or other party) for which the matching service utility is acting or for which it proposes to act as a matching service utility. For users operating in multiple capacities, list each user's respective capacity. For each instance during the past year in which any person, company, or user has been prohibited or limited in respect of access to services offered by the matching service utility, indicate the name of each such person or company and the reason for the prohibition or limitation.

### **Exhibit I - User contract**

A copy of the form of contract(s) governing the terms by which users may subscribe to the services of a matching service utility.

## **5. SYSTEMS AND OPERATIONS**

### **Exhibit J - System description**

Describe the manner of operation of the system (the System) of the matching service utility that collects and processes trade information for transmission of matched trades to a central securities depository (CSD) in accordance with National Instrument 24-101. This description should include the following:

1. The hours of operation of the System, including CSD communication.
2. Locations of operation (e.g., countries, cities where computers are operated, primary and backup).
3. A brief description in narrative form of each service or function performed by the matching service utility.

## **6. SYSTEMS COMPLIANCE**

### **Exhibit K - Security**

A brief description of the measures or procedures implemented by the matching service utility to provide for the security of any system employed to perform the functions of a matching service utility.

**Exhibit L - Capacity planning and measurement**

1. A brief description of capacity planning/performance measurement techniques and system and stress testing methodologies.
2. Brief description of testing methodologies with users. For example, when are user tests employed? How extensive are these tests?

**Exhibit M - Incidents and business continuity**

1. A brief description of business continuity plans in the event of a catastrophe.
2. A brief description of procedures for reporting of serious incidents which last for more than thirty minutes during the normal period of business operation.<sup>8</sup>

**Exhibit N - Independent systems audit**

1. Briefly describe plans to provide an annual independent systems audit of system operations.
  2. Please provide a copy of the last external systems operations audit report.
- 7. INTER-OPERABILITY**

**Exhibit O – Inter-operability agreements**

List all other matching service utilities for which the matching service utility has an inter-operability agreement. Provide a copy of all contracts with the matching service utility.

**8. OUTSOURCING**

**Exhibit P - Outsourcing firms**

For each person or company (firm) with whom the matching service utility has a contractual or other (outsourcing) agreement relating to the clearing and other customer business type operations of the matching service utility, provide the following information:

1. Name and address of person or company.
2. Brief description of business services or functions of the outsourcing firm.

**9. CONFIDENTIALITY**

Please label all confidential material as "**Confidential.**" In submissions, please do not include detailed, sensitive operational security information such as IP addresses of nodes.

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<sup>8</sup> Procedures to immediately report each interruption of the matching process, which has lasts for more than thirty minutes. Include the date of the interruption, cause, duration and the general impact on users. This should be provided within one hour from the time the incident was identified as being serious.

**CERTIFICATE OF MATCHING SERVICE UTILITY**

The undersigned certifies that the information given in this report is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_

\_\_\_\_\_  
(Name of Matching Service Utility)

\_\_\_\_\_  
(Name of director, officer or partner - please type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - please type or print)

NATIONAL INSTRUMENT 24-101

PROPOSED FORM 24-101F2

CESSATION OF OPERATIONS REPORT FOR A MATCHING SERVICE UTILITY

DATE: \_\_\_\_\_ (DD/MMM/YYYY)

IDENTIFICATION:

- 1. Full name of matching service utility:
2. Name(s) under which business is conducted, if different from item 1A:

TYPE OF FILING:

Table with 2 columns: VOLUNTARY CESSATION and INVOLUNTARY CESSATION. Includes fields for date and business description.

EXHIBITS

File all Exhibits with the Cessation of Operations Report. For each Exhibit, include the name of the matching service utility, the date of filing of the Exhibit and the date as of which the information is accurate (if different from the date of the filing).

Exhibit A The reasons for the matching service utility ceasing to carry on business.

Exhibit B

- 1. List of all users and identify the type(s) of business of the user (e.g., custodian, dealer, advisor, clearing agency or other party - such as trustee) for which the matching service utility provided matching service functionality.
2. List all other matching service utilities and service bureaus for which an interoperability agreement was/is in force prior to cessation.

CERTIFICATE OF MATCHING SERVICE UTILITY

The undersigned certifies that the information given in this report is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_

(Name of Matching Service Utility)

(Name of director, officer or partner - please type or print)

(Signature of director, officer or partner)

(Official capacity - please type or print)

NATIONAL INSTRUMENT 24-101

PROPOSED  
FORM 24-101F3

QUARTERLY OPERATIONS REPORT OF  
MATCHING SERVICE ACTIVITIES

DATE: \_\_\_\_\_ (DD/MMM/YYYY)

**MATCHING SERVICE UTILITY**

Name: \_\_\_\_\_

Period covered by this report: \_\_\_\_\_ to \_\_\_\_\_

**IDENTIFICATION**

- A. Full name of matching service utility (if sole proprietor, last, first and middle name):
- B. Name(s) under which business is conducted, if different from item A:
- C. Matching service utility's main street address:

**SCHEDULES**

File all Schedules on a quarterly basis, covering the previous quarter of the calendar year. If any Schedule required is inapplicable, a full statement describing why that Schedule is inapplicable shall be furnished as the respective Schedule.

**1. SUMMARY OF MATERIAL AND OTHER CHANGES OVER PERIOD**

**Schedule 1 – Summary of Material Changes**

Briefly summarize all material changes to the information provided in Form 24-101 F1 that was required to be filed pursuant to subsection 4.2 of National Instrument 24-101.

**Schedule 2 – Description of Other Changes**

Describe all changes to information set out in Form 24-101F1 during the quarterly period, other than a change referred to in Schedule 1.

**2. SYSTEMS REPORTING**

**Schedule 3 – External systems audit**

If an external systems audit was issued this quarter, provide a copy of the report.

**Schedule 4 – Incident reporting**

Provide a list with a summary of all incidents where normal operation could not be maintained with users and CSDs during the period.

**3. DATA REPORTING**

**Schedule 5 – Matching Service Utility Operating Data**

For securities listed in Exhibit "A" of 24-101F1 that are settled in Canada, provide the monthly summary set out below for each type of security processed by the matching service utility during the period. Each row should contain the monthly summary of the daily average values for the respective category within the security type. The data should be provided in an electronic file, for each of the security types in the following format.

Period: \_\_\_\_\_ through \_\_\_\_\_ (DD/MMM/YYYY)

**Request for Comments**

Period monthly summary of the daily average values for security type: \_\_\_\_\_

Daily average number of transactions (#)   Daily average sum of transactions' value (\$)															
Date	Trades reported		Match on T		Match on T+1		Match on T+2		Match on T+3 or greater		Unmatched		Cancelled		
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$	
Month 1															
Month 2															
Month 3															

For each month (row), include the average of the daily total values of the respective category as of the end of processing for each date. For example, "Match on T" would include the average number of trades matched during the respective month and the average of the sum of trade values for those respective trades as reported to the Canadian Depository for Securities Limited (CDS) for that security type. For the number of trades and the dollar amounts in the columns "Reported", "Unmatched" and "Cancelled", use values as reported by brokers, for consistency and to avoid double counting.

**Schedule 6 - Exceptions**

Electronically provide the names of users which failed to match for 2% or more of the total number of trades transacted by the user, by the end of T using the following format.

<u>User</u>	<u>% of trades unmatched at the end of T for the period (where <math>\geq 2\%</math>)</u>	<u># of trades</u>

**4. CONFIDENTIALITY**

Please label all confidential material as "**Confidential.**" In submissions, please do not include detailed, sensitive operational security information such as IP addresses of nodes.

**CERTIFICATE OF MATCHING SERVICE UTILITY**

The undersigned certifies that the information given in this report relating to the matching service utility is true and correct.

DATED at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_ 20\_\_

\_\_\_\_\_  
(Name of Matching Service Utility)

\_\_\_\_\_  
(Name of director, officer or partner - please type or print)

\_\_\_\_\_  
(Signature of director, officer or partner)

\_\_\_\_\_  
(Official capacity - please type or print)

**COMPANION POLICY 24-101CP TO PROPOSED NATIONAL INSTRUMENT 24-101  
POST-TRADE MATCHING AND SETTLEMENT**

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**PROPOSED  
COMPANION POLICY 24-101CP TO NATIONAL INSTRUMENT 24-101  
POST-TRADE MATCHING AND SETTLEMENT**

**PART 1 INTRODUCTION AND DEFINITIONS**

**1.1 Introduction**

- (1) National Instrument 24-101 — *Post-Trade Matching and Settlement* (the Instrument) has been adopted to provide a framework in provincial securities legislation for ensuring more efficient post-trade processing for settlement of trades in publicly traded securities. In the past decade, volumes and dollar values of securities traded in Canada and globally have grown substantially. The increasing volumes mean existing back-office systems and procedures of market participants are challenged to meet post-trade processing demands, and new requirements are needed to address the increasing risks.
- (2) The Instrument is being adopted as part of the broader initiatives to implement straight-through processing (STP) in the Canadian securities markets. STP is the passing of information seamlessly and electronically among all participants involved in a securities transaction process. Implementing STP will enable the direct capture of trade details from order taking at the front-end of trading systems and complete automated processing of confirmations and settlement instructions without the need for the re-keying or re-formatting of data. STP implies electronic rather than manual interfaces between market participants, market infrastructure entities and service providers. It also implies achieving *inter-operability* in the marketplace, which refers to the ability of entities along the clearing and settlement chain to communicate and work with other entities without special effort on the part of users.

**1.2 Purpose of Companion Policy** — The purpose of this Companion Policy is to state the views of the Canadian securities regulatory authorities on various matters related to the Instrument, including:

- (a) a discussion of the general approach taken by the Canadian securities regulatory authorities in, and the general regulatory purpose for, the Instrument; and
- (b) the interpretation of various terms and provisions in the Instrument.

**1.3 Trade Matching**

- (1) A first step in settling a securities trade is to ensure that the buyer and the seller agree on the details of the transaction, a process referred to as trade confirmation and affirmation or *trade comparison and matching*. A dealer who executes trades on behalf of others is required to confirm trade details, not only with the counterparty to the trade (if the trade is not automatically matched at the marketplace), but also with the client for whom it acted. Agreement of trade details (sometimes referred to as *trade data elements*) must occur as soon as possible so that errors and discrepancies in the trades can be discovered early in the clearing and settlement process.
- (2) The typical institutional trade involves at least three parties: an investment manager or portfolio adviser (institutional client), usually acting on behalf of one or more underlying client accounts, who decides what securities to buy or sell and how the assets should be allocated among the client accounts; a dealer to execute the resulting trades; and one or more financial institutions appointed as custodian to hold the institutional client's assets. After placing an order with, and receiving a notice of execution of a trade from, a dealer, the institutional client must provide the dealer and custodian(s) with certain details to facilitate the settlement of the trade. In particular, the institutional client must provide details with respect to the underlying client accounts managed by it, and must instruct the custodian(s) to release funds and/or securities to the clearing agency. The dealer must also issue a customer trade confirmation to the institutional client containing required information pertaining to the trade pursuant to securities legislation or the rules of a self-regulatory organization (SROs).

**1.4 Trade Settlement**

- (1) A trade is the entering into of a contract for the purchase or sale of securities. If the facilities of a marketplace are used, the marketplace is not directly involved with the exchange of property for other property or money. The rules and customs of a marketplace or an SRO will generally set the terms of the contracts that are formed through the trading of securities.
- (2) Settlement is to be distinguished from clearance. Clearing is the process which begins immediately after the execution of a trade, and includes the process of comparing trade data elements. It also includes the calculation of the mutual obligations of market participants, usually on a net basis, for the exchange of securities and money—a process which occurs within the operations of a clearing agency. The concept of *clearing* or *clearance* is given a broad meaning to



include the process of transmitting, reconciling and confirming payment orders or security transfer instructions prior to settlement. *Settlement* is, on the other hand, the moment when the property right or entitlement to the securities is transferred finally and irrevocably from one investor to another, usually in exchange for a corresponding transfer of money. In the context of settlement of a trade through the facilities or services of a clearing agency acting as central counterparty, settlement is viewed as the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and the participants of the clearing agency. Through the operation of novation and set-off in law or by contract, the clearing agency becomes a counterparty to each trade so that the mutual obligation to settle the trade is between the clearing agency and a participant.

### 1.5 The Process of Comparing Trade Data

- (1) The process of comparing trade data relating to a trade executed on behalf of an institutional client is explained in Section 1.2 of the Instrument. It includes the following activities:
  - (a) The dealer notifies the institutional client of the execution of the trade.
  - (b) The institutional client advises the dealer and custodian or custodians how the securities in the trade are to be allocated among the underlying client accounts managed by the institutional client. For so-called *block settlement trades*, the dealer may not necessarily need such allocation information, or may receive allocation information from the institutional client based solely on the number of custodians used by the institutional client instead of on the actual underlying client accounts managed by the institutional client.
  - (c) The dealer confirms to the institutional client the trade details, and submits trade data details to the clearing agency.
  - (d) The custodian or custodians of the assets of the institutional client verify the trade details and settlement instructions against available securities or funds held for the institutional client.
- (2) There is a difference between the process of comparing trade data, as described in Section 1.2 of the Instrument, and the moment an institutional trade is *matched*, as indicated in Section 1.3 of the Instrument (see also Section 3.5 of the Instrument). Comparing trade data is a necessary process to achieve the matching of a trade executed on behalf of an institutional client. Matching occurs when the relevant parties to a trade executed on behalf of an institutional client have, after comparing trade data, reconciled or agreed to the details of the trade. Matching also requires that the custodian holding the institutional client's assets be in a position to report the trade to a recognized clearing agency. At that point, the trade is ready for the clearing and settlement process through the facilities of the clearing agency.
- (3) The distinction between the process of comparing trade data and matching is made partly because of the scope of the trade matching requirement in Section 3.1 of the Instrument. A dealer is required *to take all necessary steps* to match the trade as soon as practicable after its execution, and in any event no later than the close of business on T, irrespective of whether the trade was executed on behalf of an institutional client. This implies that, in the context of an institutional trade, the dealer must promptly complete the process of comparing trade data so as to enable trade matching no later than the close of business on T. However, if there is an error with respect to a detail of a trade or the details of the trade are incomplete, the relevant parties involved in settling the trade may not be in a position to match the trade by T. In that case, exception processing will apply, but the parties nevertheless have an obligation *to take all necessary steps* to correct the details of the trade and match the trade as soon as practicable thereafter and in any event no later than the close of business on T+1. See Sections 1.4 and 3.5 of the Instrument and Section 3.4 of this Policy.
- (4) Trade data elements that must be compared and agreed upon are those identified in the best practices and standards for institutional trade processing established and generally accepted by the industry as a whole. See Section 3.5 of this Policy. They include those trade data elements required to be included in customer trade confirmations pursuant to securities legislation<sup>1</sup> and the rules of the marketplace or SRO.<sup>2</sup> Thus, trade data elements that must be transmitted, compared and agreed upon may include the following, where applicable:
  - (a) Security identification: ISIN, currency, strike date, issuer, type/ class/series, strike price, market ID.
  - (b) Order and trade information: dealer ID, account ID, account type, buy/sell indicator, order status, order type, unit price/face amount, number of securities/quantity, message date time, trade transaction type, commission, accrued interest (fixed income), broker settlement location, block reference, net amount, settlement type,

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<sup>1</sup> See, for example, section 36 of the *Securities Act* (Ontario).

<sup>2</sup> See, for example, TSX Rule 2-405 and Investment Dealers Association of Canada (IDA) Regulation 200.1(h).

allocation sender reference, custodian, payment indicator, IM portfolio/account ID, quantity allocated, and settlement conditions.

- 1.6 Definitions of Depository Eligible Security and Recognized Clearing Agency** — The trade matching and settlement requirements of the Instrument are limited to trades in depository eligible securities. Section 1.1 of the Instrument defines *depository eligible security* as a publicly traded security in respect of which settlement of a trade in the security may be performed through the facilities or services of a recognized clearing agency. Thus, securities that are not eligible for deposit at The Canadian Depository for Securities Limited (CDS) are not securities that would be covered by the Instrument. Generally, most publicly traded securities in Canada are eligible for deposit in, and are cleared and settled through the facilities and services of, CDS. The definition of *recognized clearing agency* takes into account the fact that only the provinces of Ontario and Quebec have recognized or otherwise regulate clearing agencies under provincial securities legislation.<sup>3</sup> The term *clearing agency* is defined in the securities legislation of certain jurisdictions (see, for example, s. 1(1) of the *Securities Act* (Ontario)).
- 1.7 Definitions of DVP and RVP** — Section 1.1 of the Instrument defines *delivery-versus-payment* (DVP) as a service available to a buyer of a security which allows the buyer to pay for the security when the security is delivered at settlement. The definition of *receive-versus-payment* (RVP) is essentially the mirror image of DVP. RVP means, in relation to a sale of a security, a service available to the seller which allows it to deliver the security when payment is received at settlement.
- 1.8 Definitions of Custodian, Institutional Client and Portfolio Adviser** — The definition of custodian in Section 1.1 of the Instrument expressly excludes a dealer, and is an important component of the definition of *institutional client*. This latter term is defined as a person or company that appoints a custodian to hold securities on his, her or its behalf. It expressly includes a *portfolio adviser*, which, in turn, is defined as an adviser registered under securities legislation for the purpose of managing the investment assets of one or more clients of the adviser through discretionary authority granted to the adviser by the clients. While most institutional clients are investment, pension or other types of funds or entities, an individual can be an institutional client. Some individuals, usually *high net-worth* individuals, hold their investment assets through securities accounts maintained with a custodian rather than with a dealer.
- 1.9 Trade-Matching Compliance Agreement** — This term is described in detail in Section 1.4 of the Instrument. A trade-matching compliance agreement contractually binds all institutional clients, even those that the Canadian securities regulatory authorities do not regulate, such as pension and insurance funds. Institutional clients are required by agreement to *take all necessary steps* to complete the process of comparing trade data and matching a trade as soon as practicable after the trade is executed and in any event no later than the close of business on T.
- 1.10 Trade Matching and Trade Settlement** — Sections 1.3 of the Instrument describes when a trade executed on behalf of an institutional client is *matched*. The term *settlement* is defined in Section 1.1 of the Instrument and means the completion of a trade, whereby the seller transfers the security to the buyer and the buyer transfers the payment to the seller. The term also includes, in the context of completion of a trade through the facilities or services of a clearing agency acting as central counterparty, the discharge of obligations in respect of funds or securities, computed on a net basis, between and among the clearing agency and the participants of the clearing agency. The Instrument does not describe when an institutional trade is executed.

## PART 2 APPLICATION OF INSTRUMENT

- 2.1 Application of Instrument** — Part 2 of the Instrument largely defines the scope of the Instrument. It will not apply to certain types of trades, such as a trade that is a distribution of a security and a trade in a security of a mutual fund to which National Instrument 81-102 Mutual Funds applies. Nor will the Instrument apply to a trade in a security where the parties expressly agreed from the outset to *special settlement terms*. In addition, a trade in a security to be *settled outside Canada* is not subject to the Instrument.

## PART 3 TRADE MATCHING REQUIREMENTS

- 3.1 Trade Matching Compliance by Dealer** — Pursuant to Section 3.1 of the Instrument, a dealer who executes a trade in depository eligible securities must *take all necessary steps* to match the trade as soon as practicable after the trade has been executed and in any event no later than the close of business on T. This requirement is not necessarily limited to trades executed on behalf of institutional clients. However, the obligation to take all necessary steps to match trades by T for non-institutional trades, such as retail equity trades listed or traded on a marketplace, is not particularly onerous, as most non-institutional trades are usually automatically matched, or locked-in, or can easily be confirmed

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<sup>3</sup> CDS is also regulated by the Bank of Canada pursuant to the *Payment Clearing and Settlement Act* (Canada).

and affirmed on T through the facilities of a marketplace or CDS.<sup>4</sup> With respect to institutional trades, however, a dealer's obligation to take all necessary steps to match a trade as soon as practicable, but no later than the close of business on T, will necessarily imply an obligation to promptly complete the process of comparing trade data. See the interpretation rules in Sections 1.2 and 1.3 of the Instrument, which describe the process of comparing trade data and when a trade executed on behalf of an institutional client is matched.

- 3.2 Trade-Matching Compliance Agreement** — Section 3.2 of the Instrument prohibits a dealer from accepting instructions to open an account or an order to trade in a depository eligible security from an institutional client pursuant to an arrangement under which (a) the payment for the security purchased is to be made on a DVP or RVP basis by a custodian, or (b) the delivery of the security sold is to be made on a DVP or RVP basis by a custodian, unless the dealer has entered into a trade-matching compliance agreement with the institutional client. A dealer and institutional client need only enter into one trade-matching compliance agreement at the time of opening one or more trading accounts with a dealer for all future trades in relation to such accounts. A trade-matching compliance agreement should form part of the dealer's institutional account opening documentation. Moreover, a dealer should use reasonable efforts to monitor and enforce compliance with a trade-matching compliance agreement. It should, for example, suspend any DVP or RVP trading privileges of an institutional client that materially breaches a trade-matching compliance agreement until such time as the breach has been remedied.
- 3.3 Trade Matching Compliance by Adviser** — Pursuant to Section 3.3 of the Instrument, a portfolio adviser who gives an order to a dealer to trade in a depository eligible security on behalf of one or more clients of the portfolio adviser must take all necessary steps to match the trade as soon as practicable after the trade has been executed and in any event no later than the close of business on T. Section 3.4 of the Instrument further prohibits a portfolio adviser from opening an account with or giving an order to a dealer to trade in a depository eligible security on behalf of one or more underlying clients pursuant to an arrangement under which (a) the payment for the security purchased is to be made on a DVP or RVP basis by a custodian, or (b) the delivery of the security sold is to be made on a DVP or RVP basis by a custodian, unless the portfolio adviser has entered into a trade-matching compliance agreement with the dealer. These requirements are the mirror image of the combined provisions of Sections 3.1 and 3.2 of the Instrument in relation to dealers. Because the Canadian securities regulatory authorities regulate portfolio advisers, Section 3.3 directly requires portfolio advisers to take all necessary steps to match trades as soon as practicable. It is not necessary, in this case, to rely only on the terms of a trade-matching compliance agreement and the enforcement of contract law by a dealer.
- 3.4 Exception Processing** — As mentioned in subsection 1.5(3) of this Policy, a person or company subject to Section 3.1 or 3.3 of the Instrument or bound by a trade-matching compliance agreement is relieved from the requirement to match on T if, after comparing trade data, the details of the trade are found to be incorrect or incomplete and the person or company, acting reasonably, is unable to agree on the details of the trade with another relevant party before the close of business on T. However, the terms of a trade matching compliance agreement (see subsections 1.4(2) and (3) of the Instrument) and Section 3.5 of the Instrument require the person or company to nevertheless take all necessary steps to correct the details of the trade and match the trade as soon as practicable thereafter, but no later than the close of business on T+1.
- 3.5 Trade Data** — The description of a trade-matching compliance agreement in Section 1.4 and the provisions of Sections 3.1, 3.3 and 3.5 of the Instrument use the expression *take all necessary steps* (or a variation of such expression). These provisions describe the obligation of a person or company to complete the process of trade-matching as quickly as possible—by the close of business on T as a general rule or by the close of business on T+1 where exception processing is required to correct the details of a trade. The Canadian securities regulatory authorities are of the view that a person or company will be presumed to have taken all necessary steps to match a trade as soon as practicable after a trade has been executed if the person or company has complied with the best practices and standards for institutional trade processing established and generally accepted by the industry as a whole.<sup>5</sup> Current industry best practices and standards contemplate two future state scenarios for the Canadian marketplaces:

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<sup>4</sup> Non-institutional trades in non-exchange traded securities, including government debt securities, by direct participants of CDS can be matched through the facilities of CDS' trade confirmation and affirmation system. The IDA is proposing a rule that will require their members to confirm and affirm *broker-to-broker* trades in non-exchange traded securities within one hour of the execution of the trade through CDS' trade confirmation and affirmation system. See proposed IDA Regulation 800.49, February 13, 2004, 27 OSCB 2038.

<sup>5</sup> The Canadian Capital Markets Association (CCMA) released on June 9, 2003 for public comment a document entitled *Canadian Securities Marketplace Best Practices and Standards: Institutional Trade Processing, Entitlements and Securities Lending* ("CCMA Best Practices and Standards White Paper") that sets out best practices and standards for the processing for settlement of institutional trades, the processing of entitlements (corporate actions), and the processing of securities lending transactions. The final version of the CCMA Best Practices and Standards White Paper dated December 2003 can be found on the CCMA website at [www.cma-acmc.ca](http://www.cma-acmc.ca).

- (a) where institutional trade comparison and matching is achieved through connectivity to centralized facilities of a matching service utility, and
- (b) where institutional trade comparison and matching is achieved without connectivity to centralized facilities of a matching service utility.<sup>6</sup>

See subsection 1.5(4) of this Companion Policy for a brief discussion of some of the trade data elements that must be compared and agreed upon by the relevant parties to process a trade executed on behalf of an institutional client. Current industry best practices and standards contemplate confirmation and affirmation of up to 26 trade data elements.

**3.6 Matching Service Utility** - The Instrument takes a neutral position on whether market participants should use the facilities of a matching service utility to accomplish comparison of trade data and trade matching. Section 3.6 of the Instrument stipulates that a person or company subject to Section 3.1, 3.3 or 3.5 of the Instrument or bound by a trade-matching compliance agreement may use the facilities or services of a recognized clearing agency, a recognized exchange, a recognized quotation and trade reporting system, or a matching service utility to comply with the Section or the trade-matching compliance agreement if the facilities or services are reasonably designed to accomplish the matching of trades by the close of business on T.

#### **PART 4 REQUIREMENTS FOR A MATCHING SERVICE UTILITY**

##### **4.1 Matching Service Utility**

- (1) Part 4 of the Instrument sets out filing, reporting, systems capacity, and other requirements of a matching service utility. Section 1.1 of the Instrument defines a “matching service utility” as a person or company that provides centralized facilities for the comparison of trade data and has filed Form 24-101 F1. The term expressly excludes a recognized clearing agency, a recognized exchange, or a recognized quotation and trade reporting system (see definitions of these terms in Section 1.1 of the Instrument). Thus a recognized clearing agency, a recognized exchange, or a recognized quotation and trade reporting system are not subject to the requirements of Part 4 of the Instrument because, as a matter of policy, they are generally subject to similar requirements under the terms of their recognition. A matching service utility is a system operated by an entity that provides the services of a post-trade central comparison and matching facility for dealers, institutional investors, and custodians that clear and settle institutional trades. The entity uses technology to match in real-time trade data elements throughout a trade’s processing lifecycle. A matching service utility is not meant to include a dealer who offers “local” matching services to its institutional clients.
- (2) A matching service utility would be viewed as a critical infrastructure system involved in the clearing and settlement of securities transactions and the safeguarding of securities. The securities regulatory authorities believe that, while a matching service utility operating in Canada would largely enhance operational efficiency in the capital markets, it would raise certain regulatory concerns. Comparing and matching trade data are complex processes that are inextricably linked to the clearance and settlement process. A central matching utility concentrates processing risk in the entity that performs matching instead of dispersing that risk more to the dealers and their institutional clients. Accordingly, we believe that the breakdown of a matching service utility’s ability to accurately compare trade information from multiple market participants involving large numbers of securities transactions and sums of money could have adverse consequences for the efficiency of the Canadian securities clearing and settlement system.

##### **4.2 Initial Filing Requirements for a Matching Service Utility**

- (1) Section 4.1 of the Instrument requires any person or company that intends to carry on business as a matching service utility to file Form 24-101F1 at least 90 days before the person or company begins to carry on business as a matching service utility. Form 24-101F1 is attached to the Instrument.
- (2) The securities regulatory authorities will review Form 24-101F1 to determine whether it is contrary to the public interest for the person or company who filed the form to act as a matching service utility. The Canadian securities regulatory authorities will consider a number of factors when reviewing the form filed, including,
  - (a) the performance capability, standards and procedures for the transmission, processing and distribution of details of trades in securities executed on behalf of institutional clients;
  - (b) whether market participants generally may obtain access to the facilities and services of the matching service utility on fair and reasonable terms which are not unreasonably discriminatory;

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<sup>6</sup> See the CCMA Best Practices and Standards White Paper, at 12.

- (c) personnel qualifications;
  - (d) whether the matching service utility has sufficient financial resources for the proper performance of its functions;
  - (e) the existence of another entity performing the proposed function for the same type of security;
  - (f) the systems report referred to in subsection 4.5(b) of the Instrument.
- (3) The securities regulatory authorities request that the forms and exhibits be filed in electronic format, where possible.

**4.3 Change to Material Information** - Under subsection 4.2 of the Instrument, a matching service utility is required to file an amendment to the information provided in Form 24-101F1 at least 45 days before implementing a material change involving a matter set out in Form 24-101F1. In the view of the Canadian securities regulatory authorities, a material change includes a change to the information contained in the General Information items 1-11 and Exhibits I and O of the Form 24-101F1.

#### **4.4 Ongoing Filing and Other Requirements Applicable to a Matching Service Utility**

- (1) Ongoing quarterly filing requirements will allow regulators to monitor a matching service utility's operational performance and management of risk, the progress of inter-operability in the market, and any negative impact on access to the markets. A matching service utility will also provide trade matching data (e.g., number of trades matched on T) and other information to the securities regulatory authorities so that they can monitor industry compliance.
- (2) The Form 24-101F3 completed by a matching service utility will provide information on whether it is:
- (a) developing fair and reasonable linkages between its systems and the systems of any other matching service utility in Canada that, at a minimum, allow parties to executed trades that are processed through the systems of both matching service utilities to communicate through appropriate effective interfaces;
  - (b) negotiating with other matching service utilities in Canada fair and reasonable charges and terms of payment for the use of interface services with respect to the sharing of trade and account information; and
  - (c) unreasonably charging its customers more for use of its facilities and services when one or more counterparties to trades are customers of other matching service utilities than the matching service utility would normally charge its customers for use of its facilities and services when all counterparties to trades are customers of the matching service utility.

#### **4.5 Capacity, Integrity and Security System Requirements**

- (1) Subsection (a) of section 4.5 of the Instrument requires a matching service utility to meet certain systems, capacity, integrity and security standards. Subsections (b) and (c) of section 4.5 of the Instrument require a matching service utility to meet certain additional systems, capacity, integrity and security standards.
- (2) The activities in subsection (a) of section 4.5 of the Instrument must be carried out at least once a year. The Canadian securities regulatory authorities would expect these activities to be carried out even more frequently if there is a material change to trading volumes that necessitates that these functions be carried out more frequently in order to ensure that the matching service utility can appropriately service its clients.
- (3) The independent review contemplated by subsection (b) of section 4.5 of the Instrument should be performed by competent, independent audit personnel, following established system audit procedures and standards.

### **PART 5 TRADE SETTLEMENT REQUIREMENTS**

**5.1 Trade Settlement by Dealer** — Section 5.1 of the Instrument sets out a basic rule that, to some extent, already exists through market practices and the rules of marketplaces and SROs. A dealer who executes trades in depository eligible securities must *take all necessary steps* to settle the trades no later than the end of T+3. Like Section 3.1 of the Instrument, this requirement is not necessarily limited to trades executed on behalf of institutional clients. Although current SRO rules already mandate a minimum T+3 settlement cycle period for most equity and long term debt securities,<sup>7</sup> the Canadian securities regulatory authorities believe a general T+3 settlement cycle requirement in provincial securities legislation will strengthen the clearing and settlement system in Canada.

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<sup>7</sup> See IDA Regulation 800.27.

- 5.2 Good Delivery Rule** — Section 5.2 of the Instrument sets out a *good delivery* rule that, to some extent, already exists in SRO rules.<sup>8</sup> The rule provides that a dealer is not permitted to grant DVP or RVP trading privileges to a client in respect of trades in depository eligible securities unless settlement of the trade is effected through the facilities of a recognized clearing agency. Like the T+3 rule, the Canadian securities regulatory authorities believe a *good delivery* rule enshrined in provincial securities legislation will strengthen the clearing and settlement system in Canada.

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<sup>8</sup> See IDA Regulations 800.30C and 800.31.