

CANADIAN SECURITIES ADMINISTRATORS NOTICE 33-401

Canadian Capital Markets Association - T + 1 White Paper

The Canadian Capital Markets Association (“CCMA”) is an organization launched last August by participants in the Canadian financial services industries to identify and recommend ways to meet the challenges and opportunities faced by our capital markets. The immediate priority facing the CCMA is to coordinate shortening the time it takes to clear and settle a securities trade (i.e., to exchange securities for money) to coincide with similar efforts under way in the United States. The securities industries of Canada and the U.S. are planning to shorten the settlement period to one day after the date of the trade (T+1) by mid 2004. The current practice is to settle a trade three days after trade date (T+3).

Among the various working groups formed by the CCMA board of directors to work on the T+1 project is the Institutional Trade Processing Working Committee (“ITPWC”). The ITPWC is composed of representatives of dealer firms, fund managers, custodians, industry and pension associations, and infrastructure service providers (such as The Canadian Depository for Securities Limited (“CDS”) and FundSERV Inc). The ITPWC’s mandate is to identify and co-ordinate implementation of institutional trade-related improvements to the Canadian capital markets that require cross-industry support. The ITPWC is seeking industry input for the changes that will be required to move to T+1, in particular the trade communications flow between fund managers, dealers, custodians and CDS. The ITPWC has recently released a “T+1 White Paper” which describes various options for a type of straight-through processing (“STP”) model for Canada, and proposes a “new design” for institutional trade communications in a T+1 environment. STP is the completion of pre-settlement and settlement processes based on trade data that is manually entered only once into an automated system.¹ The paper outlines the process flows for the preferred STP design and highlights the changes that will be required by fund managers and their suppliers, dealers, custodians and CDS.

Attached as Schedule “A” to this notice is a copy of the CCMA press release in connection with the release of the T+1 White Paper. The T+1 White Paper is available on the CCMA’s Internet web site at www.ccma-acmc.ca. The ITPWC is seeking public comments from all

¹ See report of the International Organization of Securities Commissions (IOSCO) and the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten Countries, *Recommendations for Securities Settlement Systems - Report of the CPSS-IOSCO Joint Task Force on Securities Settlement Systems*, January 2001, at page 9. The report is available on the website of the Bank for International Settlements (www.bis.org) and the IOSCO website (www.iosco.org).

interested parties by May 8, 2001. The CCMA press release describes how comments should be submitted.

The Canadian Securities Administrators (“CSA”) support the move to T+1 and applaud the CCMA's initiatives in this regard. Market participants are encouraged to comment on the T+1 White Paper. The CSA are interested in reviewing the comments received by the CCMA on which of the STP models described in the White Paper would best achieve the efficiency and global competitiveness of our capital markets.

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April 6, 2001

Schedule A
PRESS RELEASE OF THE CANADIAN CAPITAL MARKETS ASSOCIATION

For Immediate Distribution
March 8, 2001

Canada Identifies Alternatives for Faster Securities Settlement

Toronto – Canada’s securities industry must work in tandem with its American counterpart to speed up securities settlement. This means reducing the current settlement period from three days after a transaction (T+3) to T+1 – one day after trade date. The *Institutional Trade Processing T+1 White Paper*, released today by the Canadian Capital Markets Association and available at www.ccma-acmc.ca, describes five options for meeting this critical challenge and keeping Canadian capital markets competitive with those in the U.S. The paper solicits feedback on the alternatives and unresolved issues from Canadian securities industry stakeholders.

To identify alternatives, industry experts first identified problems and opportunities in the still highly labour-intensive post-trade processing of institutional transactions. They then designed an approach that addressed these factors. Called “New Design,” the model also served as a benchmark against which to measure options. These options include two proposals using the Global Straight-Through Processing Association (GSTPA) model as well as proposals from other vendors.

The “New Design” model is focussed on addressing the concerns of the Canadian marketplace,” said Allan Cooper, Chair of the Canadian Capital Markets Association. “The made-in-Canada “New Design” is simple, with a blend of sequential and matching processes that provides a direct interface with the settlement system.”

While the “New Design” was built to meet Canadian domestic market needs and to be interoperable with other models being developed for use in the U.S., will it be *the* model adopted? The report sets out the pros and cons of the different alternatives.

The result of an intensive period of interviews, fact-finding, and analysis by IBM Global Services and Katamax Solutions, the White Paper reflects the input of 60 experts from a comprehensive cross-section of the securities industry, including Canada's brokers, dealers, investment funds, fund managers, banks, stock exchanges, securities clearing and settlement organizations and regulators. The next step in the T+1 solution is for stakeholders to discuss the relative merits of the different models and identify areas for

improvement to meet the varied needs of stakeholders. The CCMA is seeking industry-wide feedback from the Association of Canadian Pension Management, Caisse Centrale Desjardins, Canadian Life and Health Insurance Association, Canadian Pension and Benefits Institute, Credit Union Central of Canada, Mutual Fund Dealers Association and others.

The CCMA is also asking for individual views to be sent **by Tuesday, May 8th** to:

Mr. Gary Stephenson
Chair, Institutional Trade Processing Working Committee
Canadian Capital Markets Association
4th Floor, 85 Richmond Street West, Toronto, Ontario M5H 2C9
E-mail: info@ccma.acma.ca; Fax: (416) 365-9025

Once consensus emerges on a T+1 solution, work will begin on the detailed design and implementation of the proposed process. For any new system to work, however, it will need:

1. A critical mass of market players – money managers, broker/dealers and custodians will need to use this model for their Canadian business.
2. Secure access to essential data, for example, money managers will need to access up-to-date and accurate custodian client account details.
3. Standards for data, timeliness, communications and interfaces – these will need to be defined, agreed on, implemented and enforced.

The Canadian Capital Markets Association (CCMA) is a federally incorporated, not-for-profit organization, which has been launched to identify, analyze and recommend ways to meet the securities-industry-wide challenges and opportunities facing Canadian and international capital markets. The CCMA's current top priority is coordinating the effort to shorten the time it takes to settle a trade to one day from the current three days to coincide with similar efforts under way in the U.S.

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Individuals who want to receive further information on T+1 should send their name, title, mailing address, telephone and fax numbers and e-mail address to:

info@ccma-acmc.ca

For more information concerning the T+1 initiative or the Canadian Capital Markets Association, please contact:

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