CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CANADIAN SECURITIES ADMINISTRATORS (CSA)
STAFF NOTICE 24-305

FREQUENTLY ASKED QUESTIONS ABOUT NATIONAL INSTRUMENT 24-101 — *INSTITUTIONAL TRADE MATCHING AND SETTLEMENT* AND RELATED COMPANION POLICY

Except for certain provisions, National Instrument 24-101 - *Institutional Trade Matching and Settlement* (NI 24-101 or the Instrument) came into force on April 1, 2007. Sections 3.2 and 3.4 and Parts 4 and 6 of the Instrument came into force on October 1, 2007.

Since May 2007, a CSA-Industry Working Group (Working Group) has been meeting periodically to identify issues and questions about the Instrument. See CSA Staff Notice 24-304 dated July 6, 2007. To assist market participants in complying with NI 24-101, we have compiled some of the issues and questions in the form of frequently asked questions (FAQs), together with our responses to the questions. This list of FAQs is not exhaustive, but it includes key issues and questions discussed by the Working Group or raised by other stakeholders. CSA staff may update these FAQs from time to time.

Some terms we have used in these FAQs are defined in NI 24-101, in related Companion Policy 24-101CP (CP), or in National Instrument 14-101 *Definitions*.

We have divided the FAQs into the following categories:

A. Definitions, Interpretation and Concepts
B. Application
C. Trade Matching Requirements – General Policies and Procedures
D. Trade Matching Documentation Requirements (Sections 3.2 and 3.4 of the Instrument)
E. Trade Matching Requirements Specific to Advisers
F. Trade Matching Requirements – Cross-Border Trade Orders
G. Reporting Requirements for Registrants
H. Transition, Miscellaneous and CSA Contacts

A. DEFINITIONS, INTERPRETATION AND CONCEPTS

A-1 Q: What types of trades are typically considered as “DAP/RAP trades”?

A: DAP/RAP trades include trades for a delivery-against-payment or receipt-against-payment (or similarly named) account of an institutional investor that are generally settled through a separate custodian on the books of the clearing agency, CDS Clearing and Depository Services Inc. (CDS). The Instrument applies to all types of DAP/RAP trades except those described in section 2.1 of the Instrument.

A-2 Q: Who is an “institutional investor” under the Instrument?

A: Institutional investors are investors that have been granted DAP/RAP trading privileges by a dealer, which typically include investment funds, pension plans, and financial institutions.

A-3 Q: GHI Mutual Fund is a client of Specialized Broker (SB), a dealer that provides specialized trade execution services. SB is not a participant of CDS and has a clearing arrangement with Clearing Broker (CB), a dealer that provides clearing, settlement and custody services for SB. GHI Mutual Fund has a direct custodial arrangement with the Custodian Trust Company, which holds GHI Mutual Fund’s investments. Would trades executed by SB and cleared by CB for GHI Mutual Fund be DAP/RAP trades? If so, which dealer would be required to comply with Parts 3 and 4 of the Instrument for these trades, and who would be “trade-matching parties”?

A: Trades executed by SB and cleared by CB for GHI Mutual Fund would be DAP/RAP trades because these trades would be settled for the client on a delivery-against-payment or receipt-against-payment basis through the facilities of a clearing agency by Custodian Trust Company. SB would be required to comply with Parts 3 and 4 of the Instrument in this case. In addition to SB, each of CB, GHI Mutual Fund and Custodian Trust Company would be trade-matching parties under the Instrument. They would need to enter into a trade-matching agreement with, or provide a trade-matching statement to, SB. See section 3.2 of the Instrument.

A-4 Q: DEF Hedge Fund is a client of ABC Broker, a full-service dealer that provides prime brokerage services for DEF Hedge Fund and other hedge funds, including custodial functions. DEF Hedge Fund uses ABC Broker to execute all of its trades. Do the matching requirements of NI 24-101 apply to these trades?

A: No. These are not DAP/RAP trades because ABC Broker is both executing and settling the trades on behalf of DEF Hedge Fund. A separate custodian is not involved in the trades.

A-5 Q: Assume the same facts as above (A-4), except that DEF Hedge Fund sometimes uses other dealers in addition to ABC Broker to execute its trades. Do the matching requirements of NI 24-101 apply to the trades executed by the other dealers for DEF Hedge Fund?

A: Yes. If another dealer (e.g., XYZ Broker) executes a trade for DEF Hedge Fund, this trade will likely fall within the Instrument's definition of a DAP/RAP trade. This trade is likely settled for DEF Hedge Fund on a delivery-against-payment or receipt-against-payment basis through CDS, involving the accounts of both ABC Broker (as the custodian) and XYZ Broker (as the executing dealer).[1]

A-6 Q: What if, in the above scenario (A-5), XYZ Broker "gives up" a trade executed for DEF Hedge Fund in favour of ABC Broker. Would such a trade still be a DAP/RAP trade?

A: We understand that in a trade "give up" the executing dealer places a trade on behalf of another dealer as if the latter had actually executed the trade itself. Sometimes an institutional client may ask the executing dealer to relinquish or assign the trade (a binding contract) to its prime broker. If the "give up" arrangement is in place prior to execution of the trade and does not involve a trade that is settled for the client on a delivery-against-payment or receipt-against-payment basis through the facilities of a clearing agency by a separate custodian, then we would not view such trades as DAP/RAP trades.

A-7 Q: How are partial fills (i.e., orders that are filled over several days) treated under the matching requirements of NI 24-101?

A: The answer depends on the terms of the agreement governing the trading relationship between the dealer and the investment manager. If the investment manager is contractually bound by a partial fill, thus triggering a notice of execution (NOE) from the dealer either intra-day or at the end of the trading day, that trade is subject to the matching requirements of NI 24-101. If, on the other hand, the investment manager is not bound by the order until it is complete and the NOE is triggered only when the dealer advises the investment manager of the fill, the matching requirements of NI 24-101 only come into effect when the complete order has been filled.[2]

A-8 Q: We are a mutual fund management group that uses a separate registered investment counsel/portfolio manager (ICPM) to trade on behalf of each of our mutual funds through various executing dealers. Are we a "trade-matching party"?

A: No, so long as an ICPM is acting for your mutual funds in their trades. See paragraphs (a) and (b) of the definition "trade-matching party" in section 1.1 of the Instrument.

A-9 Q: We are a mutual fund management group that uses separate domestic and foreign sub-advisers to trade on behalf of our mutual funds through various executing dealers. The sub-advisers are responsible for the trades, including the clearing and settlement process. Would all the sub-advisers be "trade-matching parties"?

A: If a sub-adviser is dealing with a registered dealer directly to execute DAP/RAP trades on behalf of the mutual funds, the sub-adviser would meet the definition of a trade-matching party in either paragraph a or b of the definition in section 1.1 of the Instrument.

As a trade-matching party, section 3.2 of the Instrument requires the sub-adviser to either enter into a trade-matching agreement with the dealer, or provide a trade-matching statement to the dealer. You may need to work with your sub-advisers to identify your respective roles and responsibilities in the processing of the trades of your mutual funds.

A-10 Q: In the above scenario (A-9), some of our U.S.-based sub-advisers may be trading in the Canadian markets for our funds. They usually don't deal directly with a Canadian registered dealer for DAP/RAP trades in Canada, but instead give trade orders to a U.S. broker-dealer, who in turn deals directly with a Canadian registered dealer for DAP/RAP trades in Canada. Would these sub-advisers be "trade-matching parties"?

A: The U.S.-based sub-advisers would not be considered to be trade-matching parties in this case. However, the U.S. broker-dealer dealing directly with the Canadian registered dealer for executing DAP/RAP trades may be considered a trade-matching party under paragraph (b) of the definition of that term in section 1.1 of the Instrument. See Part F for more cross-border questions.

A-11 Q: Does "matching" under the Instrument mean when both sides of a trade report the same details of the trade into a system, and the system itself performs the matching?

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[1] If XYZ Broker is not a direct participant of CDS, then settlements would involve the accounts of ABC Broker (as custodian) and XYZ Broker's corresponding clearing broker maintained at CDS.

[2] This answer is consistent with industry best practices and standards for institutional trade processing. See section 2.4(1) of the CP and the 2003 Canadian Capital Markets Association's (CCMA) Institutional Trade Processing Best Practices and Standards—Resolution of Comments Received—Partial Fills (page 3).

A: The concept of matching for the purposes of the Instrument is actually broader. See section 1.2(1) of the Instrument. Conceptually, it is the *end result* of either a sequential confirmation and affirmation process or a "virtual matching" process. As a result, the Instrument contemplates, and is neutral towards, either matching approach, which is consistent with the industry's best practices and standards.

B. APPLICATION

B-1 Q: The Instrument does not apply to trades "to be settled outside Canada" (see section 2.1(g) of the Instrument). What do you mean by that?

A: Trades that are cleared and settled through the facilities of a clearing agency based outside of Canada would be trades settled outside of Canada.

B-2 Q: My ICPM firm advises a number of mutual funds in managing their portfolio assets. NI 24-101 says that the Instrument does not apply to "a trade to which National Instrument 81-102 – *Mutual Funds* applies" (see section 2.1(f) of the Instrument). What does this exclusion mean?

A: The carve-out in paragraph (f) of section 2.1 of NI 24-101 is intended for trades *in* mutual fund securities (e.g., purchases and redemptions of mutual fund units) and not to trading activities in securities (portfolio assets) owned or acquired *by* the mutual fund.

B-3 Q: Are trades in investment products that normally do not settle through the facilities of a clearing agency subject to the Instrument (e.g., partnership units)?

A: The trade matching requirements of the Instrument (Parts 3 and 4) apply to DAP/RAP trades, which, by definition, are trades that settle on a delivery-against-payment or receipt-against-payment basis through the facilities of a clearing agency. Therefore, trades in investment products that do not settle through the facilities of a clearing agency would not be subject to such requirements. However, the trade settlement provisions of Part 7 of the Instrument may apply to these trades.

C. TRADE MATCHING REQUIREMENTS – GENERAL POLICIES AND PROCEDURES

C-1 Q: The CP says that when establishing appropriate policies and procedures, a party should consider the industry's generally adopted best practices and standards for institutional trade processing (BPSs). The CP footnotes the Canadian Capital Market Association's (CCMA) BPSs as an example. My ICPM firm has developed and designed specific policies and procedures that are unique to our own business structure and risk profile in the trading and investing of securities. While my firm's policies and procedures may not be the same as the CCMA's general BPSs, they are adequate to meet the requirements of NI 24-101. Is my firm complying with NI 24-101?

A: Yes, provided that your policies and procedures are reasonably designed to meet the requirements of NI 24-101. Parties should consider the industry's BPSs, but need not necessarily adopt them. See section 2.4(1) of the CP. We recognize that market participants may have different policies and procedures for their unique business circumstances. See section 2.4(2) of the CP.

C-2 Q: A number of logistical issues are associated with compliance with NI 24-101, for example:

- What do we have to cover in our trade matching policies and procedures?
- What systems and processes do we have to change to comply with the Instrument?
- What are some of the systems or service providers available to help us comply?
- Are we going to have to hire additional staff?

A: NI 24-101 is generally a principles-based rule. It does not prescribe in detail what a market participant's policies and procedures should cover. However, the CP does provide some useful guidance on this question. See section 2.4 and 2.3(2)(b) of the CP. Industry groups, such as the CCMA and Investment Industry Association of Canada (IIAC), have made suggestions to assist market participants in this area. Based on those suggestions, we recommend that trade-matching parties follow these basic steps:

1. Review your current systems capabilities and processes to identify what may prevent your firm from achieving the Instrument's requirements;
2. Develop policies and procedures to achieve the targets set out in sections 4.1 and 10.2 of the Instrument;
3. Identify what changes need to be made to the services provided by third party vendors, or whether third party service providers could assist you in complying with the Instrument;
4. Develop with your trade-matching parties a form of trade-matching statement or agreement;
5. Put in place monitoring processes to assess your own and other trade-matching parties' compliance with the Instrument including the required timelines;
6. Plan to meet the exception reporting targets for each calendar quarter;
7. Make and test any systems and process changes needed; and

8. Enter into any agreements and/or receive any statements from other trade matching parties.

Some service providers will likely be matching service utilities (MSUs) operating in the Canadian institutional marketplace. These MSUs may facilitate the matching process for certain trade-matching parties. See section 2.5 of the CP. In the short term, you may need to hire additional back-office staff to comply with the matching requirements. If so, as you become more efficient, you may be able to reduce staff. In addition, you may need to upgrade your systems to enhance your *interoperability* with other trade matching parties. See section 2.4(2) of the CP.

C-3 Q: If I choose to, can I still match trades on a manual basis?

A: Again, NI 24-101 is generally a principles-based rule and does not prescribe how you match trades. In assessing any trade matching process, you may want to consider how it fits into your firm's overall back-office processes and how it fits with your trade-matching parties' systems in the long term.

D. TRADE MATCHING DOCUMENTATION REQUIREMENTS (SECTIONS 3.2 AND 3.4 OF THE INSTRUMENT)

D-1 Q: Does the Instrument prescribe the form of a trade-matching statement or trade-matching agreement?

A: No, the Instrument does not prescribe the form of the trade-matching statement or agreement, other than that it be in writing.

The CP provides guidance on the use and delivery of a trade-matching statement. See section 2.3(3) of the CP. The CCMA and IIAC have worked together to develop a "model" or "template" statement (see model statement posted on the CCMA's Website at: http://www.ccma-acmc.ca/).

The CP also provides guidance on the types of matters that a trade-matching agreement could address, as well as guidance on the use of an agreement (including that an agreement may be incorporated into the institutional account opening documentation). See section 2.3(2) of the CP. The trade-matching agreement is an alternative to the trade-matching statement. Parties may prefer to use a trade-matching agreement instead of a statement if they have unique trade processing issues and wish to clarify their roles and responsibilities in the matching process.

D-2 Q: If a trade-matching party posted its trade-matching statement on its website, do we (as one of the other trade-matching parties) need to print a copy? Can we simply record the URL address instead to avoid administrative costs and wasted paper?

A: Trade-matching parties should decide how, when and how often they should access the trade-matching statements of other trade-matching parties. While printing a statement posted on a website may not be necessary, registrants should document the date they accessed the website and the statements that have been provided to them by other trade-matching parties on a website.

D-3 Q: How often should a trade-matching party verify the accuracy of the statement?

A: A registered dealer or registered adviser may accept a trade-matching statement from a trade-matching party without further investigation and may continue to rely upon the statement for all future trades in the account, unless the dealer or adviser has knowledge that any of the statements or facts set out in the statement are incorrect. See section 2.3(3) of the CP.

D-4 Q: We are a dealer that has many foreign institutional clients trading in the Canadian markets. We have policies and procedures in place for timely institutional trade matching, and we are attempting to obtain trade-matching statements from all of our clients pursuant to section 3.2 of the Instrument. However, some clients are reluctant to provide a trade-matching statement that confirms their compliance with NI 24-101. How do we resolve this issue?

A: We note that a trade-matching statement need only confirm that your client has policies and procedures designed to achieve matching as soon as practical after a trade is executed. While not necessarily a solution to your issue, it may be helpful to also document your efforts to enter into trade-matching agreements or receive trade-matching statements as part of your policies and procedures.

E. TRADE MATCHING REQUIREMENTS SPECIFIC TO ADVISERS

E-1 Q: My ICPM firm advises a number of mutual funds, hedge funds, and pension plans in managing their portfolio assets. Whom should I enter into a trade-matching agreement with? Alternatively, from whom should I ask for a trade-matching statement? And to whom should I give one?

A: As an ICPM acting for an institutional investor in a DAP/RAP trade, you must either (i) enter into a trade-matching agreement with each of the following trade-matching parties or (ii) give to and receive from each of the following trade-matching parties a trade-matching statement:

- The dealer or dealers executing and clearing the DAP/RAP trade, and

- The custodian or custodians of the institutional investor that are settling the DAP/RAP trade.

E-2 Q: In the above situation (E-1), is the mutual fund, hedge fund, or pension plan required to enter into a trade-matching agreement with, or provide a trade-matching statement to, the ICPM and other trade-matching parties?

A: No. If the ICPM is acting for the fund or plan in the DAP/RAP trades, the fund or plan does not need to enter into a trade-matching agreement or provide a trade-matching statement relating to the DAP/RAP trades. An institutional investor is only a "trade-matching party" when an adviser *is not acting* for the institutional investor in the DAP/RAP trade.

E-3 Q: When is a registered adviser "acting for the institutional investor in the trade" for the purposes of the definition "trade-matching party"?

A: Examples where a registered adviser will be acting for the institutional investor include:

- A registered adviser who has discretionary trading authority to place orders to a dealer or through a marketplace for the institutional investor, or
- A registered adviser who processes trades for the institutional investor.

More than one registered adviser may be acting for an institutional investor in the same trade. For example, a registered sub-adviser may place and execute trades for some of the funds within a broader family of funds, while another registered adviser processes the trade and looks after the clearing, settlement, portfolio reconciliation etc. for the entire family of funds. In this case, both the sub-adviser and adviser would be trade-matching parties.

A registered adviser that is merely providing advice to the institutional investor would not be acting in a trade, if the institutional investor gives trading orders directly to a dealer or places the trading orders directly through a marketplace.

E-4 Q: How will an ICPM firm determine their record of trade matching performance by calendar quarter?

A: Registered advisers should maintain or obtain a record of their DAP/RAP trade matching performance to determine whether they will need to provide to the regulators an exception report in Form 24-101F1 for any given calendar quarter. As noted in section 3.1(b) of the CP, Form 24-101F1 requires registered advisers to provide, among other things, aggregate quantitative information on their equity and debt DAP/RAP trades. Tracking of a registered adviser's trade-matching statistics may be outsourced to another party, such as a custodian. See section 3.1(a) of the CP. Registered advisers may need to obtain from the custodians of their institutional investor clients the details of when each DAP/RAP trade is matched. We understand that custodians are developing standardized DAP/RAP trade matching performance reports for their clients.

F. TRADE MATCHING REQUIREMENTS – CROSS-BORDER TRADE ORDERS

F-1 Q: We are a foreign dealer registered in Ontario in the international dealer category. We give orders from time to time to various Canadian-based registered dealers to execute trades in the Canadian markets on behalf of our foreign institutional clients. Do the requirements of registered dealers in Parts 3 and 4 of the Instrument apply to us?

A: No. You are not subject to the requirements of registered dealers in Parts 3 and 4 of the Instrument if a Canadian registered dealer is executing DAP/RAP trades for you. However, you may be considered a "trade-matching party." If you are a "trade-matching party," you must enter into a trade-matching agreement with, or provide a trade-matching statement to, the Canadian registered dealer before the dealer may accept an order from you. See sections 3.2 of the Instrument and 1.3(5) of the CP.

F-2 Q: What does "western hemisphere" mean for the purposes of sections 3.1(2) and 3.3(2) of the Instrument?

A: By western hemisphere, we mean North America, South America, and Central America as well as surrounding waters and islands (the boundaries are approximately 20˚W to 160˚ E).[3] It includes Bermuda but excludes all of Europe and Africa.

F-3 Q: We are a mid-sized Canadian dealer that has a significant foreign client base. We receive orders from various foreign institutional investors. Most of our foreign institutional clients use a foreign global custodian to hold their portfolio assets, which in turn uses a Canadian sub-custodian to hold their Canadian portfolio investments and process their DAP/RAP trades settled in Canada. Would our foreign institutional investor clients that trade on a DAP/RAP account basis in Canada be considered "trade-matching parties" under the Instrument?

A: Yes. Where a registered adviser is not acting for the foreign institutional investor in a DAP/RAP trade, the foreign institutional investor will be a "trade-matching party." See section 1.3(5) of the CP.

F-4 Q: In the above scenario (F-3), we often receive orders to trade securities on a Canadian marketplace directly from

[3] See Encyclopedia Britannica, <http://www.britannica.com/ebc/article-9382562>.

European institutional investors. Which other entities would be "trade-matching parties" to process the trade in this case, and what timelines apply before July 1, 2008 and after June 30, 2008?

A: In addition to the European institutional investor, you (the dealer) and the Canadian sub-custodian are trade-matching parties. See section 1.3(5) of the CP. Even though we say in the CP that a foreign global custodian would not normally be considered a trade-matching party in these circumstances, you, the foreign institutional investor or the sub-custodian may need to work with the global custodian in establishing, maintaining and enforcing your respective policies and procedures. The timelines in this case are extended by a day (noon on T+2, or 11:59 pm on T+1 after June 30, 2008). See section 3.1(2) of the Instrument.

F-5 Q: We are a Canadian dealer and often receive orders to execute DAP/RAP trades from broker-dealers in the United States acting for various foreign institutional investors, but we don't always know who those foreign institutional investors are or where they're based (i.e., whether within or outside the western hemisphere). Who are the "trade-matching parties" in these cases?

A: We would consider the U.S. broker-dealer as the "institutional investor" in the DAP/RAP trade in Canada for the purposes of the Instrument, not the underlying foreign institutional investor. Therefore, you (the dealer), the U.S. broker-dealer (*qua* institutional investor) and the Canadian sub-custodian would be considered the trade-matching parties.

F-6 Q: In the above scenario (F-5), to what extent are we required to match the details of the trades executed in Canada for the underlying foreign institutional investors?

A: You will likely match the details of the "Canadian component" of the trades in this scenario, which are the DAP/RAP trades placed by the U.S. broker-dealer with you and settled with the Canadian sub-custodian. You are not required to match the underlying "non-Canadian component" of the transactions among the U.S. broker-dealer, its foreign institutional investor clients, and their global custodian or custodians, if information required to match the underlying transactions (e.g., allocations to global custodian) is not needed to match the "Canadian component" of the transactions. We would view the non-Canadian component of the transactions as trades that are settled outside of Canada, to which the Instrument does not apply.

F-7 Q: In the above scenario (F-5), what are the timelines that apply before July 1, 2008 and after June 30, 2008?

A: Because we would likely consider the U.S. broker-dealer as an institutional investor whose investment decisions are usually made in and communicated from the U.S., the western hemisphere timeline will apply. However, if you need information about the non-Canadian component of the transactions to match and settle the Canadian component of the transactions, you may want to find out from the U.S. broker-dealer where the underlying foreign institutional investor is based, so that you can determine whether the western hemisphere or non-western hemisphere timeline applies.

F-8 Q: Will our firm be required to track trade matching statistics for two separate streams of investors for exception reporting purposes, i.e., one for western hemisphere institutional investors and the other for non-western hemisphere institutional investors?

A: You are not required to track your trade matching statistics separately for the two streams of investors. Sections 3.1(2) and 3.3(2) of the Instrument aim to give the trade-matching parties in the DAP/RAP trades of non-western hemisphere-based institutional investors more flexibility, by providing an extra day to achieve matching. These provisions were added after stakeholders expressed concerns that foreign institutional investors operating in time-zones outside of the western hemisphere would likely have difficulty complying with the Instrument's matching requirements on T.[4]

If your trading business for foreign non-western hemisphere investors is a small percentage of your overall trading business, it may not be useful or efficient for you to track these trades separately to avoid exception reporting. If trading for foreign non-western hemisphere investors is an important part of your overall trading business, you may need to track such trades separately, including working with any foreign dealer or global custodian to track these trades separately.

G. REPORTING REQUIREMENTS FOR REGISTRANTS

G-1 Q: If my firm delivers Form 24-101F1 to the regulators for a calendar quarter, does that mean we have not complied with the trade matching requirements of NI 24-101 for that quarter?

A: No. A requirement to provide Form 24-101F1 for a calendar quarter will not necessarily mean that you have failed to establish, maintain and enforce policies and procedures designed to achieve timely matching of DAP/RAP trades. Because there are multiple trade-matching parties involved in a DAP/RAP trade, your firm may not be responsible for

[4] See the CSA's responses in Appendix B – *Summary of Public Comments and CSA Responses on National Instrument 24-101 and related Companion Policy* to the CSA Notice of NI 24-101 dated January 12, 2007 [(2007) 30 OSCB 350].

failing to meet the NI 24-101 exception reporting targets. For example, the failure may have been due to poor policies and procedures of another trade-matching party. Exhibit B of Form 24-101F1 asks you to describe such reasons.

G-2 Q: When would the regulators consider that my firm does not have adequate trade-matching policies and procedures in place to ensure the timely matching of DAP/RAP trades?

A: We may consider a firm to have an inadequate compliance program for the firm's trade-matching processes if it consistently:

- Fails to meet the matching percentage targets and triggers the exception reporting (e.g., three or more calendar quarters in a row), or
- Provides poor qualitative reporting.

These or other signs may show that either the policies and procedures of one or more of the trade-matching parties have not been properly designed or, if properly designed, have not been followed. See section 3.2(b) of the CP.

G-3 Q: If my firm is required to provide Form 24-101F1 to the regulators for three or more calendar quarters in a row, but it is apparent that the underlying causes for failing to achieve the percentage target for matched DAP/RAP trades within the timelines are poor policies and procedures of another trade-matching party or service provider that are involved in processing my DAP/RAP trades, what should my firm do?

A: The CP provides guidance in this area. See sections 2.3(4) and 3.1(c).

G-4 Q: Assuming we are required to complete Form 24-101F1, Exhibit A of the Form requires us to provide data for equity and debt DAP/RAP trades for each calendar quarter. Please explain what you require under the column headings "entered into CDS by deadline (to be completed by dealers only)" and "matched by deadline".

A: We seek aggregate information on the DAP/RAP trades executed by you (if you are a dealer) or for you (if you are an adviser) during the calendar quarter, and submitted to CDS. See section 3.1(b) of the CP.

If you are a dealer, you should show under the column heading "entered into CDS by deadline (to be completed by dealers only)" the aggregate number of trades and the aggregate value of trades that were executed by you and entered into CDS' system within the deadline. The percentage columns should show the aggregate trade number or value entered into CDS by the deadline as a percentage of total trades entered into CDS' system during the calendar quarter.

If you are an introducing broker that executes DAP/RAP trades that are cleared through a corresponding clearing broker, you should obtain the relevant data from your corresponding clearing broker.

Under the column heading "matched by deadline", you should show the aggregate number and the aggregate value of trades executed by you (if you are a dealer) or for you (if you are an adviser) that were matched by a dealer or custodian in CDS' system by the deadline. The percentage is determined by dividing such number or value by the total number or value of your trades that were matched during the calendar quarter by a dealer or custodian in CDS' system, whether on time or late.

G-5 Q: Assuming we're required to complete Form 24-101F1, Exhibit B of the Form requires us to provide information explaining the reasons for the failure to achieve the percentage target for matched equity and/or debt DAP/RAP trades within the deadline for a calendar quarter. If a particular trade-matching party that we regularly deal with is consistently matching trades late, and such party is unable or unwilling to explain why this is happening, what information do we include in Exhibit B?

A: You should explain this situation in Exhibit B, and generally follow the guidance set out in question G-3 above.

G-6 Q. We are a registered dealer that provides a range of services for our institutional investor clients. For some clients, we may provide trade execution and clearing services only. For others, we may provide only custodial and DAP/RAP trade settlement agent services. Assuming we must report on Form 21-101F1 for the calendar quarter, should we combine our matching performance for DAP/RAP trades based on our dealer functions and custodial/settlement agent functions?

A. The roles of a dealer, adviser and custodian in DAP/RAP trading are quite different as they relate to NI 24-101. For a dealer, Form 21-101F1 is only required if the dealer did not achieve the target for the quarter for DAP/RAP trades for which it provided trade execution services. If this report is required, it should not include trades for which it provided only custodial and trade settlement agent services.

G-7 Q: Section 2.3(1)(c) of the CP says that a trade-matching statement should be signed by a senior executive officer of the entity, and lists a number of individuals who would be considered a senior executive officer. Can other senior management individuals not listed in the CP (such as a Senior Vice President & Chief Investment Officer or Chief Compliance Officer) sign a trade-matching statement?

A: Yes. The individuals should have the responsibility to ensure that senior management gives sufficient attention and priority to the entity's trade matching policies and procedures.

G-8 Q: Section 3.4 of the CP states that the securities regulators will be publishing a notice setting out where we can send the exception reporting forms under the Instrument. Is this information available?

A: Registrants will be able to complete their Form 24-101F1 on-line in a secure manner that will be accessible from the CSA's Website homepage at www.csa-acvm.ca. A staff notice will be issued in early January 2008 with further details.

G-9 Q: As a registered dealer and direct participant of CDS, can we rely solely on the report of trade matching results provided to us by CDS?

A: In general, you should be able to rely on the trade matching report provided to you by CDS as your basis for determining whether you have achieved the trade matching target for a particular quarter. However, there are two important exceptions to this.

First, the CDS code trade for "client trades" captures slightly broader types of trades than the DAP/RAP trades defined in the Instrument. CDS will be able to identify some "client trades" that are excluded by the Instrument, such as same-day settled trades, and remove them from the data in CDS' Form 24-101F2 report. However, CDS will not be able to identify certain other types of trades, such as reorganizations and share conversions, that are coded as "client trades" but are excluded by the Instrument. For further information, see the joint IDA and CDS notice MR0495 dated September 28, 2007 that sets out guidance on how dealers and other CDS participants should code their trades entered into CDS for the purposes of the Instrument and IDA Regulation 800.49.

If you use any of these "excluded" trade types during a quarter, and if these trade types, taken together, make the difference between meeting the target and not meeting the target for that quarter, you should determine the number and value of these trades and report this on Form 24-101F1.

Second, to the extent that your trades are processed by an MSU and sent to CDS as matched trades, these will not be included in CDS' Form 24-101F2 report. As a result, you will need to combine your results from CDS with those of the MSU in order to determine whether or not you have achieved the trade matching target for the calendar quarter.

H. TRANSITION, MISCELLANEOUS AND CSA CONTACTS

H-1 Q: The Instrument came into force on April 1, 2007. Is my firm required to generally achieve matching of 95 percent of our DAP/RAP trades on T now?

A: No. The requirements to match on T and deliver exception reports if less than 95 percent of a registrant's DAP/RAP trades have matched within T will be gradually phased in over approximately a 3-year period. See sections 10.1 and 10.2 of the Instrument and section 7.1 of the CP.

H-2 Q: Where can we get information on the Instrument?

A: Information on the Instrument and CP is posted on the following websites:

- OSC Website:
  http://www.osc.gov.on.ca/HotTopics/STP/stp_index.jsp
- BCSC Website:
  http://www.bcsc.bc.ca/policy.aspx?id=5508&cat=2%20-%20Certain%20Capital%20Market%20Participants
- AMF Website:
  http://www.lautorite.qc.ca/reglementation/valeurs-mobilieres/autres-reglements-textes-vigueur.fr.html

If you have any questions about the FAQs or NI 24-101 generally, please contact the following CSA staff:

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