



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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*For distribution to fixed income trade desk personnel
and operations support staff within your firm*

MEMBER NOTICE 2007-03-30

March 30, 2007

**Proposed Procedural Changes to the Delivery and Settlement of
Large Value Debt Trades**

Over the past year, representatives from the dealer community and the IIAC have been working closely with CDS staff and custodians to explore improving the efficiency of the delivery and settlement process for large value debt trades.

To better prevent delayed or failed settlement of large value debt trades, and reduce end-of-day gridlock, it has been proposed that the Canadian market adopt a “street standard” whereby debt trades would be split and reported to CDS for settlement and delivery with a maximum threshold of C\$50 million par value. Settlements that occur in the reported quantities are considered complete; even though part of a larger order. Many brokers and clients have already voluntarily adopted this standard, and it is consistent with U.S. practice.

Amongst other things, it is expected that such a change would:

- Require CDS participants and their clients to split debt trades in excess of C\$50 million par value into settlement multiples of \$50 million and a residual or stub amount, thereby reducing the risk of settlement delays and fails involving large trades where the dealer/custodian lacks sufficient position or credit within CDS to process the settlement.

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- Prevent gridlock and delayed and/or failed settlements by reducing the number of market participants that consolidate and deliver large positions very late in the day.
- Reduce time spent by trading and operations staff on working out splits on the settlement system at the end of the day.
- Harmonize Canadian processes with those of the United States.
- Reduce the levels of inventory needed to be set aside for clearing purposes, leading to a more productive use of capital.
- Achieve an overall more efficient capital marketplace.

Representatives from CDS, several dealers and custodians, and other stakeholders are participating on an implementation working group focusing on operational and communication strategies for this initiative. The objective is to implement a CDS maximum threshold delivery and settlement requirement for fixed income trades later this year. An implementation date of **August 13, 2007** has been targeted. Please refer to CDS Bulletin 2007-00029C for full details.

What is required of the dealer community?

To facilitate a smooth transition on implementation date, it is vital that dealers consider the following:

- For dealers not already voluntarily adhering to a \$50 million maximum delivery and settlement threshold, discuss internally within your firm the required procedural and, if needed, systems changes that need to be implemented prior to implementation date.
- Communicate with clients that this initiative has been proposed and possibly implemented this summer.
- Inform clients that they need to discuss this initiative internally or with their trade order management system providers and custodians to ensure that their trade information is relayed to the custodian in the same splits (all \$50 million and a stub amount) as the dealer reports to CDS. This is necessary to ensure that the custodians can match trades in a timely manner and be in compliance with the timelines of National Instrument 24-101, *Institutional Trade Matching and Settlement*.

CDS is taking comments on the proposed changes. Comments are encouraged and should be made in writing by **May 4th, 2007** and delivered to:

Tony Hoffmann
Legal Counsel
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

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Copies of all comments to CDS should also be forwarded to the Ontario Securities Commission (OSC) and the Autorité des marchés financiers (AMF) as part of their request for comments. Please refer to the March 9th 2007 issues of the [OSC Bulletin](#) or [AMF Bulletin](#) for additional details.