FOREFACTOR

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T+2 is 2 Days Too Long

(Toronto) –Forefactor Inc. recently completed an in-depth study of the various clearing and settlement rules, policies and preventative measures currently being implemented by North American market participants in an effort to mitigate risk throughout the trading cycle.

According to Forefactor President, Renée Colyer, "Clearing risk has become a particularly hot topic during the recent months of market uncertainty. Investment managers are methodically examining any risk that might be opaque to them now. That includes carrying and introducing broker differences." To provide guidance to the buyside, a rigorous compilation, analysis and summary of the various clearing and depository service entities, related regulatory authorities and other trade-related associations was undertaken by Forefactor. The research also captured data through in-depth telephone interviews with a sample of clearing brokers by thoroughly probing experiences with, and perspectives on, clearing operations policies, procedures and client servicing.

One noteworthy findings of the research is how different each country is in terms of the level of protection being offered by the various clearing and settlement entities. For example, in the equities markets, while the National Securities Clearing Corporation (NSCC) in the US is making strides towards offering the market a real-time, or 'accelerated' guarantee for the trades that it handles, CDS Clearing and Depository Services Inc. (CDS) is still stuck at T+2. Conversely, the Canadian Derivatives Clearing Corporation (CDCC) has implemented a system that more closely reflects the high industry standards of clearing and settlement in global derivatives markets (i.e. US, UK).

The policing of the "trouble-makers" by each jurisdiction is handled differently. The US and select other global markets impose fines and penalties to help prevent inappropriate trade behaviour and reduce the incidence of trade fails. According to Ms. Colyer, "in Canada, National Instrument 24-101 (NI 24-101) has gone a long way toward reducing all types of risk associated with trade matching and the subsequent clearing and settlement processes. However, absent any consequences (as is the case currently) it becomes difficult to enforce. A capital levy on trade fails and on falling short of targeted match rates would serve to spur the Canadian clearing and settlement industry further toward increased efficiency and lower the associated risk levels".

As global markets stabilize, investment managers will undoubtedly want to ensure that their assets are safe and that trading partners have solid balance sheets along with policies to protect against loss. Ms. Colyer adds that "there are clearly several 'layers' of protection in Canada that safeguard investors throughout the trading cycle, however, we are still lagging the US. By accelerating the trade guarantee, and incorporating a penalty system for failing trades, Canada can pull itself up onto equal footing with other global markets in terms of clearing and depository risk management".

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About Forefactor

Forefactor Inc. is an independent research and strategic consulting firm specializing in global financial markets. We combine experience in design and execution of targeted research with expertise in global securities markets, trading technology, private equity & venture capital and global banking. We aid clients with risk reduction by facilitating informed, fact-based, decision making. Our team of professional consultants continually challenges conventional thinking and provides clients with critical insights and a disciplined approach to every project.