SCEPTRE
INVESTMENT COUNSEL LIMITED

July 12, 2004

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory

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Sceptre Investment Counsel Limited appreciates this opportunity to respond to the Canadian Securities Administrators request for comment on Discussion Paper 24-401 on Straight-through Processing and Proposed National Instrument 24-101 Post-trade Matching and Settlement, and Proposed Companion Policy 24-101CP to National Instrument 24-101 Post-trade Matching and Settlement. We appreciate the CSA in providing all interested parties the opportunity to discuss the important issues outlined in these documents.

Question 1: If the CSA were to implement mandatory STP readiness certificates, what should be the subject matter of such certificates?

It is our belief that the CSA should not implement mandatory readiness certificates for the following reasons:
As STP is somewhat immeasurable and hard to define it is difficult to determine how this would be translated into a certificate of readiness.
Unlike Y2K, business will continue to run as compared to not knowing if you're your operations would be up and running on January 1, 2000.
Due to these factors we do not belief this action would be prudent.

Question 2: Is it important to the competitiveness of the Canadian capital markets to reach STP at the same time as the U.S.? Please provide reasons for your answer. Are there any factors or challenges unique to the Canadian capital markets?

We do not believe it is important for the competitiveness of the Canadian capital markets to reach STP at the same time as the U.S. It would only be important if the U.S. decides to move to a shorter settlement period (of which STP is an enabler.
As far as the factors or challenges unique to the Canadian capital markets. Given the size of the Canadian market, which includes volumes and the number of market participants compared to the U.S., the Canadian market is perhaps in a better position to move forward on STP. Most importantly, if the U.S. was to move to a shorter settlement period, the Canadian marketplace could move quickly to meet the timetables of the U.S. for the reasons above.

Question 3: Should it be one of the CCMA's tasks to identify the critical path to reach specific STP goals? If so, what steps and goals should be included?

It should be one of the CCMA's tasks to identify the critical path. Given the work that the CCMA has done to date in this regard, they would be the most appropriate organization to provide direction due to their uniqueness as a cross industry forum. As Sceptre Investment Counsel, is an active member of the CCMA, we anticipate providing our input to the steps and goals to reach STP through our participation in this organization.

Question 4: Should the CSA require market participants to match institutional trades on trade date? Would amending SRO rules to require trade matching on T be more effective than the Proposed Instrument? Is the effective date of July 1, 2005 achievable?

It is our belief that the CSA should mandate trade matching on trade date. We think a phased in approach would be the best course of action, due to the fact that the systems needed to achieve this goal are not totally in place and the cost vs. benefit right now would be tough to gage. We should continue to monitor the initiatives of the CCMA as they are developed and implemented so over time we can be ready in the event a date for T+1 is re-established.
If this date is re-established it will be extremely important that the trade matching on T be implemented by the same deadline.
In order to have the broadest coverage of the industry the CSA should mandate. The SRO's should compliment any CSA rule by modifying any existing language in their rules an regulations.
No we do not think this is achievable given that the industry has a considerable amount of work to do in this regards.

Question 5: Is a close of business definition required? If so, what time should be designated as close of business?

Yes we believe that a definition of close of business is required ensuring a common target for the industry.

Question 6: Should the Proposed Instrument expressly identify and require matching of each trade data element, or is it sufficient for the Proposed Instrument to impose a general requirement to match on T and rely on industry best practices and standards to address the details?

No as these elements could change over time and in some cases differ by product. We feel that it would provide greater flexibility to rely on industry best practices and standards.

Question 7: Should the CSA rely on the best practices and standards established by the CCMA ITPWG ?
Yes as these were developed by a broad spectrum of participants in the marketplace (i.e., investment managers, broker/dealers custodians etc)

Question 8: The CSA seek comments on the scope of the Proposed Instrument. Have we captured the appropriate transactions and types of securities that should be governed by requirements to effect trade comparison and matching by the end of T and settlement by the end of T+3? Have we appropriately limited the rule to public secondary market trades?

Yes, we feel that the appropriate transactions and security types have been captured.

Question 9: Is the contractual method the most feasible way to ensure that all or substantially all of the buy side of the industry will match their trades by the end of T?

We as a company would need to see what would be contained in such a document, It would need to be an industry standardized document. All three parties would need to be included.

Question 10: Should an exception to the requirement to match a trade on T be allowed when parties are unable to agree to trade details before the end of T and are required, as a result, to correct the trade data elements before matching?

Yes. The CCMA Best Practices & Standards speaks to and captures accurately this same issue.

Question 11: Should registrants be required to report all exceptions from matching by the close of business on T? If so, who should receive the report (e.g. recognized clearing agency, SROs, and/or securities regulatory authorities)?

No they should not be required. In our opinion the industry should work with the Depository to develop and enhance this kind of reporting.

Question 12: Is it necessary to mandate the use of a matching service utility in Canada? If so, how would the appropriate centralized trade matching system be identified? Are there institutional investors or investment managers that may not benefit from being forced into an automated centralized trade matching system? Can STP trade matching be achieved without a matching service utility?

We do not think that it is necessary to mandate the use of a VMU. The CCMA best practices and standards were developed on the basis of an environment with and without a VMU. Yes we believe that STP trade matching can be achieved without a matching utility.

Questions 13 (Should the scope of functions of a matching service utility be broader?) and 14 (Are the filing and reporting requirements set out in the Proposed Instrument for a matching service utility sufficient, or should a matching service utility be required to be recognized as a clearing agency under provincial securities legislation?)

We have no further comment on this issue

Question 15: Can the Canadian capital markets support more than one matching service utility? If so, what should be the inter-operability requirements?

We have no further comment on this issue

Question 16: Should the CSA mandate a T+3 settlement cycle? Should the CSA mandate a T+1 settlement cycle when the U.S. moves to T+1 and the SEC amends its T+3 Rule?

No we do not see a requirement to mandating a T+3 settlement cycle. We do not see any advantage to this as market participants have complied with this period since 1995 when the North American markets moved from T+5 to T+3.

Question 17: Should the CSA require the reporting of corporate actions into a centralized hub? If not, is it more appropriate for exchanges and other marketplaces to impose this requirement through listing or other requirements? Who should pay for the development and maintenance of the central hub?

In theory this is an excellent idea, as there has been a need for standardizing corporate actions for some time. I don't think at this time the CSA should mandate this until the industry has completed more analysis

Question 18: Should the CSA wait until a hub has been developed by the industry before it imposes any requirements?

We have no comment on this question

Question 19: Should the CSA require issuers and offerors to make their entitlement payments by means of the LVTS?

We have no comment on this question

Question 20: If there is a CSA requirement to make entitlement payments in LVTS funds, should the requirement apply only to payments in excess of a certain minimum value? If so, what should that minimum value be?

We have no comment on this question

Question 21: Should the CSA consider implementing any additional rules to encourage and facilitate the investment funds industry to move towards an STP business model? If so, what issues should be addressed by the CSA?

We have no comment on this question

Question 22: Should the CSA develop rules that require the immobilization and, to the extent permitted by corporate and other law, dematerialization of publicly traded securities in Canada?

We have no comment on this question

Question 23: To the extent DRS systems operate in Canada, should a securities regulatory authority regulate transfer agents that are operating or using such DRS systems?

We have no comment on this question

Question 24: Should there be separate DRS systems and should they be required to be inter-operable?

We have no comment on this question

Question 25: Is it sufficient for the Canadian capital markets to rely solely on existing SRO segregation rules? Or, given the growing reliance on the indirect holding system, should the CSA consider an active role in developing comprehensive rules on segregation of customer assets?

We have no comment on this question

Yours truly,

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