CIBC Mellon Global Securities Services Company
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Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Securities Administration Branch, New Brunswick
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Ontario 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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Dear Sirs/Madams:

Re: 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

CIBC Mellon is pleased to provide its comments on Proposed National Instrument 24-101 Post-trade Matching and Settlement, Proposed Companion Policy 240101CP to National Instrument 24-101 and Discussion Paper 24-101 on Straight-through Processing (STP). We appreciate the

opportunity to contribute to the development of rules in support of STP and commend the Canadian Securities Administrators (CSA) on their Proposal and overall interest in STP.

CIBC Mellon is one of Canada's leading custodians and largest corporate trust and transfer agents. We offer a broad range of specialized services, including stock transfer, registrar, debt trusteeship, investor services, domestic and global custody services and securities lending. We are driven by the needs of our 2500 institutional clients who are some of Canada's largest securities issuers and institutional investors. CIBC Mellon has over 1,400 employees with offices in seven major cities across Canada.

CIBC Mellon fully understands the benefits the Proposed Instrument aims to bring to Canada's capital markets in terms of increasing efficiency. In fact, we have focused many of our reengineering efforts in support of STP. And today, we continue to work with our clients and their investment managers to automate the trade process. We are committed to the STP effort and proud to be a founding member of the Canadian Capital Markets Association (CCMA).

We are commenting on Part IV of your Discussion Paper 24-401 on STP without specifically addressing Proposed National Instrument 24-101 and Companion Policy 24-101. Our comments on the specific questions as set out in the Paper are below.

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

   We do not believe that mandatory STP readiness certificates are required. In the case of Y2K, there was a clear deadline imposed on all participants and failure to meet that deadline could have seriously impacted a participants' existence. There is no such imposed deadline for STP. Participants should be able to decide how best to minimize their costs through a combination of investments, systems development and day-to-day operational process improvements. Forcing external STP readiness is not critical to a participants' existence unless there is a T+1 mandated deadline.

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?**

   Achieving STP at the same time as the United States is desirable but not necessary. However, market forces will recognize both efficiencies as well as inefficiencies. As such, the competitiveness of Canada's capital markets could negatively be impacted should Canada grossly lag behind the United States in its STP initiatives.

   Also, failure to move to a T+1 settlement cycle simultaneously with the United States could have serious consequences. Differing settlement conventions between the two countries could risk disruptions, distortions and dislocation of business and likely increase costs and risks for those buying and selling in the North American markets.

   However, we do not believe there is an immediate threat that the United States will be shortening its settlement cycle to T+1 in the near future. The Securities Industry Association (SIA) has noted that there are benefits to further shortening the settlement cycle however these benefits <u>are not justified by the costs at this time</u>. There is still a considerable amount of work

that needs to be done for affirming fixed income trades, eliminating physical certificates and planning for disaster recovery and business continuity. They also note that T+1 could impose significant hardships on foreign investors who purchase U.S. securities through a foreign exchange transaction which currently settles in two days. They suggest that shortening the settlement cycle should only be re-evaluated by the United States Securities and Exchange Commission (U.S. SEC) once these goals have been achieved.

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?**

   We believe that it should be one of the CCMA's tasks to identify the critical paths necessary to reach specific cross-industry STP goals, including identifying transaction paths that support the critical business process, real time measures of performance, trend analysis, industry benchmarks and compliance measurements.

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?**

   Although the industry is actively pursuing STP efficiencies, we do not believe that matching on trade date will happen without a CSA mandate.

   Today, SRO rules only provide regulatory oversight of its members and are not as far reaching as required for matching depository-eligible institutional trades. A CSA rule would be more compelling on all participants and could perhaps compliment SRO and other regulatory rules.

   We do not believe that an effective date of July 1, 2005 is achievable. We suggest the CSA consider implementing a phased in approach, similar to what the SIA has suggested to the U.S. SEC whereby the rule would be phased in over a reasonable period of time and be accompanied by strong economic disincentives for those who fail to meet the specific time-driven milestones.

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

   We believe a definition of close of business is necessary to ensure all processing is targeted towards a common point in time. The Canadian Depository for Securities (CDS) is regulated by the Ontario Securities Commission and is a recognized clearing agency under section 21.2 of the Ontario Securities Act, and a SRO under section 174 of the Quebec Securities Act. As such, we believe the designated time of day should be associated with the close of business of CDS.

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?**

   Rules of engagement between counterparties needs to be addressed and should expressly be identified in the Proposed Instrument however the identification of data elements for trade

matching is not necessary. Reliance on matching utility or central depository rules governing trade data elements should be sufficient for this purpose.

7. **Should the CSA rely on the best practices and standards established by the CCMA ITPWG?**

   We believe the CSA needs to determine if the CCMA ITPWG best practices and standards are appropriate and if they meet the objectives of the CSA. If the CCMA ITPWG best practices and standards are deemed appropriate, the CSA should encourage SRO endorsement and adoption.

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?**

   We believe the CSA has captured the appropriate transactions and types of securities that should be governed by requirements to effect trade date comparison and matching by the end of trade date and settlement by the end of T+3. We also believe that the rule should apply to all depository-eligible securities.

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?**

   The contractual method may be the most feasible way to engage the buy-side community. We recognize that this may be onerous for some.

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?**

    Exceptions to the requirement to match on trade date should only be allowed when parties are unable to agree to the trade details before the end of trade date. Exception processing should not be used as an alternative to settlement processing. We support the specific exception time criteria of no later than the close of business on T+1 as described in the Proposed Instrument.

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)?**

    We believe the CSA should establish an industry benchmark for trade matching and monitor a participant's activity should they not meet the set benchmark. The CDS should be identified as the responsible reporting party, reporting all exceptions to the CSA, on a monthly or quarterly basis.

    A copy of the report provided to the CSA should also be provided to the depository participant, for regulatory reporting purposes. In addition, the CDS should publish on a monthly or quarterly basis, the industry benchmark on an aggregate basis.

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?

Mandating the use of a matching service utility for Canada could negatively impact the small to medium sized broker dealers and investment managers financially. Trade matching can be achieved, as is done today, without the services of a matching utility.

13. Should the scope of functions of a matching service utility be broader?

We provide no comment.

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 are unable to comment on the filing and reporting requirements, however we do believe that a matching service utility does not necessarily need to be recognized as a clearing agency under provincial securities legislation.

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

As a practical matter, Canada's capital markets cannot support more than one matching service utility. However should there be more than one utility they should be inter-operable, ensuring that an end-user of one can communicate with the end-user of another. Also, there should be no additional costs or fees to the end-user when communicating with the end-user of another matching utility service.

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?

For greater definition of market practices, it may be appropriate if the CSA were to mandate a T+3 settlement cycle with amendments thereto, if and when, the settlement cycle was to change to T+1. Alternatively, settlement cycle timeframes could be managed and identified in SRO rules.

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?

We believe the CSA should require the reporting of corporate action information to a centralized hub, which will provide industry uniformity. The development and maintenance costs associated with the centralized hub should be borne primarily by those extracting information from the hub. Consideration should be given to the CDS for development and maintenance initiatives.

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

We believe the CSA should not wait until the centralized hub has been developed before it imposes any requirements. To avoid industry confusion, the CSA should impose specific requirements in advance of any and all development.

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

We believe the CSA should not require issuers and offers to make their entitlement payments by means of the LVTS? All requirements relating to LVTS payments should be dictated by the Canadian Payments Association (CPA).

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?

As noted above, we believe all payment requirement rules should be dictated by the CPA. A point in case, in 2002 the CPA adopted a ceiling of $25 million as the maximum value for any cheque or other paper-based payment. All payments exceeding this ceiling are to be made using LVTS funds. Consideration should however be given by the CPA to reduce the general ceiling from $25 million to $5 million.

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 believe the CSA should consider implementing rules to modify the current processing of investment funds. We also believe that it should be the responsibility of the CCMA Retail Trade Processing Working Group to identify best practices and industry standards necessary to facilitate a STP business model, similar to the CCMA's institutional trade processing model. The CSA should ensure that issues such as data quality, message protocols and timing are addressed.

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?

Securities immobilization and dematerialization should be encouraged and supported by the CSA, with the ultimate goal being complete dematerialization.

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 believe that regulating Canadian transfer agents who operate a direct registration system that interfaces with the CDS is appropriate.

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

For practical reasons, we believe each Canadian transfer agent should operate its own direct registration system and that there is no need for them to be inter-operable.

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

We provide no comment.

In addition to the questions above, the British Columbia Securities Commission requested specific comment on the following questions for which we provide the following comments:

1. Is the Rule necessary?

As noted in our response to question number four, we do not believe that matching on trade date can be realized without a CSA mandate. We support an incremental rule approach.

2. Can industry achieve STP without regulatory intervention?

We believe the industry can achieve STP without regulatory intervention. As noted in our response to question number one, we believe that participants should determine how best to achieve STP within their own organizations. Although STP is desirable and may make good business sense, it is not critical to a participant's existence.

3. If the Commission adopts the Rule, should the Rule include filing and reporting requirements for matching service providers?

As noted in our response to question number twelve, trade matching can be achieved without the services of a matching utility. If the rule imposes the use of a matching service provider, then it should also specify filing and reporting requirements.

We hope the CSA will continue its high level of interest in, and support for, STP. If you have any questions on our submission or if you would like to discuss our comments in greater detail please contact me at (416) 643-5240.

Yours truly,

Robert Shier
Senior Vice President and Chief Operations Officer