July 18, 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

c/o Mr. John Stevenson, Secretary
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Dear Mr. Stevenson:

Regarding: Discussion Paper 24-401 on Straight-Through Processing and Proposed National Instrument 24-101 Post-Trade Matching and Settlement

We are writing to provide the views of the Scotiabank in relation to the questions posed in Discussion Paper 24-401 and the related material, including Proposed National Instrument 24-101 and Companion Policy 24-101CP. We hope our responses to the questions you have posed will be helpful in developing regulatory policy in this area.

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

STP is a broad and somewhat imprecise requirement, which will be difficult to quantify for an objective readiness assessment. Achieving cost effective STP is a primary goal for us, one that we are working constantly to achieve and that we believe is common to most industry participants. It is our opinion that issuing STP certificates would not add value to this process, which is already underway.

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?

Although it is important for the Canadian capital markets to remain synchronized with the U.S. markets on certain fundamental processes (such as T+1), we do not believe that it is imperative that the Canadian capital markets remain in lockstep with the U.S. on STP.

Although the basic model for clearing and settlement is the same in the U.S. and Canada, the realization of that model has produced a much simpler environment in Canada. This is a result of the difference in the number of market participants, volumes, and the use of a single clearing and settlement process for all securities in Canada, through CDS-X. The Canadian environment lends itself to Canadian solutions that should be less onerous and rigid than those required in the U.S.

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?

Yes, the CCMA should identify milestones required for all industry participant groups to reach specific goals. Regular review of these goals and the progress made towards them is key to identifying the effectiveness of the work being done by the industry and to developing standards and regulations which may be required to support these goals.

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?

A rule requiring matching (or affirmation) on T is, in our view, only justified in support of a T+1 settlement environment. Absent T+1, we do not believe the cost and workflow

changes required to achieve this are supported by sufficient benefits. A requirement to report trades on T and match trades by the close of T+1 would however attain most of the benefits and be cost effective. Should matching on T be required at some future date, the scope of the effort required will have been significantly reduced by the work undertaken now.

Our view is that CSA involvement is not required and that SRO regulations would be the most effective and efficient method of achieving this goal.

The detailed processes and workflow changes required for trade matching on T are not achievable by July 1, 2005.

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

We believe that a common definition of "end of day" will be required and should be developed. However, work will be required by industry participants to establish a definition which satisfies a variety of issues including; service providers / depository systems cutoff times, time zone issues, industry standards / practices etc.

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?

The proposed instrument should not identify the data elements that must be matched. The details of how matching will occur is best determined by the market participants as expressed though the requirements of CDS and the CCMA.

Question 7: Should the CSA rely on the best practices and standards established by the CCMA ITPWG?

We believe it is appropriate for the CSA to rely on the CCMA Best Practices and Standards, which were established with broad industry input.

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?

We agree that the scope of the instrument is appropriate, and that the rule should be limited to public secondary market trades.

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 believe that the most feasible way is through regulatory changes and that these changes can be most effectively implemented and enforced through SRO regulations.

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?

Until the details of a trade are agreed, a match is not possible. It is not reasonable to require that a trade where the details are in dispute be matched in the same timeframe as one where the details are agreed. As such a longer time frame will be required for resolution of disputed trades.

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)?

We do not believe registrants should be required to report exception transactions individually. However, regulations must provide for some form of reporting, either by the participant, the service provider or the depository, to the SRO for compliance monitoring.

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?

It is not desirable to mandate the use of a matching facility in Canada. While there are undoubtedly savings and improvements that might be realized by instituting matching for client trades, this will not be the case for all transactions and all clients. In many cases it will be simpler and more cost effective to simply follow the current process, albeit on an accelerated basis and this eventuality has been provided for in the CCMA's Best Practices and Standards.

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

The scope of activities undertaken by a "matching service" should be flexible and determined by the users of that service. .

Question 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 do not agree that a matching utility should be subject to regulation.

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

Market forces should determine the number and type of matching services offered. This will ensure that the services are effective, efficient, competitive, and reflect the needs of the industry.

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?

We do not believe that a move to T+1 settlement in the U.S. will require a rule by the CSA, mandating that change in Canada. The current T+3 settlement cycle was implemented and has operated effectively for many years, without a CSA rule.

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?

We support the development of a single centralized hub and the mandatory reporting of corporate actions by issuers. The cost should be borne by market participants who will benefit from the hub.

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

It is our belief that absent a rule it is doubtful that a centralized reporting hub will be developed. Although it seems impractical to impose a reporting requirement prior to the completion of a reporting facility, it may be necessary to do so. The CSA should consider, in consultation with the issuers, setting a date for this activity to begin.

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

We would support the migration of entitlement payments made to CDS by issuers to LVTS, however we do not believe that this requires CSA regulation to be achieved.

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?

Please refer to the answer to question 19.

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 view on this.

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?

While the immobilization of securities is of benefit to the clearing and settlement process, the number of trades settled physically is very low. It is our opinion that pursuing 100% immobilization is not justified by sufficient efficiency gains.

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?**

Yes, we agree with this approach.

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

It seems likely that each transfer agent will operate a proprietary DRS. Although the systems do not need to be inter-operable, they should have a common interface protocol with CDS.

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 believe the SRO rules currently in place adequately deal with segregation requirements.

Yours truly,

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ISS Securities Operations