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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 Sirs and Madam,

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

RBC Global Services (RBC GS) is pleased to provide comments in response to the proposed National Instrument 24-101 (the Instrument) and Discussion Paper 24-401, which were published for comment on April 16, 2004.

RBC GS is the global corporate and institutional securities custody and transaction processing arm of RBC Financial Group (RBC), the master brand of Royal Bank of Canada and its subsidiaries. RBC is Canada's largest financial institution as measured by market capitalization (C$41.6 billion as at October 31, 2003) and corporate assets (C$412.6 billion as at October 31, 2003) and is one of North America's largest diversified financial services companies.

In terms of custody, RBC GS ranks first in Canada as measured by assets under administration, with over $1.6 trillion, and is among the ten largest global custodians worldwide. We provide custody services to more than 3,200 institutional clients, representing 37,000 accounts. Our clients include administrators of large institutional funds – pension plans, mutual funds, insurance companies, domestic and foreign financial institutions, corporations, governments and their investment managers, as well as investment counsellors representing high net worth individuals. In our role as custodian, RBC GS matches and affirms trades on behalf of our buy side clients and investment managers.

RBC GS fully supports the intent of the proposed instrument, which is to ensure that institutional trades are matched on trade date. We have been working, and continue to work, with our clients and their investment managers in order to meet the CCMA targets for STP and in particular the matching of trades on trade date. Many of our investment manager counterparties are already achieving high levels of STP trade matching.

Regulatory involvement and oversight in the Canadian capital markets STP initiative is important and we appreciate the support the CSA has shown to date. We do however believe that a regulatory requirement to match trades on trade date is not required at this time. We believe that the required results could be achieved through SRO rule changes that appropriately engage the buy side community in the process.

Current data suggest that less than 10% of trades are matched on trade date and approximately 50% of trades are matched on T+1. Given the large gap between current performance and targeted results and given the investment that many buy side and sell side firms will need to make in order to close that gap, we do not believe a July 1, 2005 implementation is achievable. We recommend a phased implementation approach similar to the one outlined in the Security Industry Association (SIA) response to the Securities and Exchange Commission (SEC) Concept Release.

Our detailed responses to the questions asked in Discussion Paper 24-401 are outlined below:

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

RBC Global Services does not support the use of STP readiness certificates. The completion of an STP readiness certificate will not guarantee that the organization completing the certificate is capable of achieving the targeted results. We believe that direct measurement of each market participant's ability to comply with CCMA best practices and standards is a more reliable indicator of future performance.

Where market participants use the services of a trade matching utility, the matching service utility can provide accurate measurements of each process required to achieve matching on trade date. Specifically the matching service utilities can provide data for the following processes:

1) Timeliness of broker submission of NOE
2) Timeliness of allocations from buy side firm to brokers and custodians
3) Timeliness of trade matching

The data provided by matching service utilities can be used to assess the STP capability of the subscribing market participants.

Until matching service utilities are available in the Canadian market place and for those participants who choose not to use a matching service utility, CDS is the best source of data that can be used to measure STP capability of participants. Specifically CDS can provide measurement of the following processes required to achieve trade date matching:

1) Timeliness of broker submission of confirmations to CDSX
2) Timeliness of Custodian affirmation of the confirmation.

In this scenario the affirmation in CDS is the evidence that the trade has been matched. It is not possible to independently measure the timeliness of brokers submitting the NOE nor is it possible to independently measure the timeliness of the buy side submitting allocations to brokers and custodians.

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?

It is important that the Canadian capital markets are able to move to a shortened settlement at the same time as the U.S. but it is not as important for the Canadian market to reach STP at the same time as the U.S. Current measurements suggest that there is a significant gap between the levels of STP in Canada and the U.S. as measured by trade date and T+1 affirmation rates. There is no evidence to suggest that this gap in STP is having a negative effect on the competitiveness of Canadian market. However, there is a risk that if we do not close the gap the Canadian market will not be in a position to shorten the settlement cycle if and when the U.S. market decides to do so.

The Canadian market place does face some unique challenges as it attempts to close the STP gap with the U.S. The most important challenge is that buy side (Investment Managers) in Canada have not been as directly involved in the trade matching /affirmation process as their U.S based counterparts . Virtually all matching and trade affirmation in the Canadian market is performed by Custodians acting on behalf of an Investment Manager. Custodians can match and affirm trades only after receiving allocations from Investment Managers and the broker has submitted the confirmation to CDS. In the US, many Investment Managers perform their own matching and affirmations using direct interfaces to the DTCC ID system.

In addition to including the buy side participants in the matching/affirmation process, DTCC supports timely matching/affirmation through incentive pricing. Trades settling in DTCC that are not affirmed by noon on T+2 attract a significantly higher fee than trades that are affirmed in the ID system.

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. RBC GS fully endorses and supports the mandate of the CCMA. We recognize the CCMA to be the most effective forum for addressing the challenges the Canadian capital market faces in meeting the targeted STP goals. RBC Global Services is represented on all CCMA working groups.

The primary focus of the CCMA should be to achieve the stated goals for institutional trade processing and in particular the goals and the steps required to achieve matching on trade date. The CCMA has recently undertaken a study to benchmark the Canadian market against the US market and they have also undertaken a program of case studies to identify obstacles to trade date matching.

We look to the CCMA to use the intelligence gained from these initiatives to help shape the strategies for achieving STP 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?

RBC GS fully supports the requirement to match institutional trades on trade date. However, we do not believe that a CSA rule requiring market participants to match on trade date is required at this time to achieve desired results. Our preference is to pursue a solution with amended SRO rules requiring matching on trade date. If the targeted results are not achieved through an SRO solution then it may be necessary to impose a regulatory requirement. In either case the challenge for the Canadian market will be to appropriately engage the buy side community in the process. Neither regulatory nor SRO solution should place the burden of implementation and compliance on any one sector of the market.

Given what we understand to be the current capability of the Canadian market, we do not believe that a July 1, 2005 effective date is realistic or achievable. We look to the CCMA to articulate a phased implementation strategy that is based on the information obtained in the Canada - U.S. study and the trade processing case studies.

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

A definition for close of business is required whether the proposed rule is implemented or not. A close of business definition must allow for the following activities to take place:
1) Buy side advises broker of allocations associated with all filled orders
2) Buy side advises custodian or other matching agent of allocations
3) Broker submits confirmations to CDS or matching agent
4) Custodians or matching agents must be able to update CDS with matched (affirmed) trades.

The exact time of day that best accommodates these requirements should be determined through the CCMA.

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 detailed matching criteria should not be specified in the proposed instrument. The best practices and standards developed and recommended by the CCMA represent the consensus of all market participants. The detailed trade matching requirements are specified in the best practices and standards. It is likely that the best practices and standards will change over time and therefore including them in the proposed instrument could reduce the market's flexibility to respond to those changes.

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

As previously stated, we believe that the CCMA is the best forum available to all market participants to influence the best practices and standards for institutional trade processing.

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 trades 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. The scope of the proposed instrument is appropriate and the CSA has included the transaction and security types that should be subject to a requirement to matching on trade date. We also agree that the scope should be limited to the 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?

Appropriately engaging the buy side industry will be one of the most significant challenges in achieving STP goals and matching on trade date in particular.

The contractual method is certainly one of many alternative strategies that could be used to encourage the buy side to ensure that trades are matched by the end of trade date. However, we believe that the contractual method as proposed would place an unreasonable burden for compliance on the other counterparties to the trade and on brokers in particular. Any contractual solution would also have to include custodians.

The most effective way to ensure that buy side firms can meet requirements for matching on trade date is a sound business case for doing so. Buy side firms that will not or who are unable to ensure that trades are matched on trade date should be prepared to pay more to process trades than those who can comply. This strategy may require incentive pricing that is administered by matching service utilities or CDS. Incentive pricing is one of the strategies already in place in the US market.

We believe that an appropriate SRO rule that includes buy side firms would be more effective than the contractual method in achieving the required levels of trade date matching. In reality it may take a combination of many strategies to ensure that the buy side community is able to comply with the trade date matching requirement.

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?

Exceptions to the requirement to match on trade date should **not** be specified in the instrument or in any SRO rules. Exception processing is provided for in the CCMA best practices and standards and, like the trade matching details in Question 6 above, should not be explicitly defined in the proposed instrument or in any SRO rules. Providing for exceptions within the rule could have a negative impact on compliance and it would also make measurement and enforcement a more complicated and difficult process.

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)?

Measurement and enforcement will be critical to achieving targeted performance for STP and matching on trade date. Registrants should not be required to report exceptions from matching by close of business on trade date. The best and most consistent source of data relating to trade matching and settlement is the Canadian Depository for Securities (CDS). The CCMA has already begun to work with CDS to develop

measurements and reports that can be used to monitor trade matching performance and other activities that contribute to trade date matching. These reports should be made available to CDS participants as well as to all relevant regulatory agencies.

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?

RBC GS does not support the mandatory use of a central matching service utility in Canada. We do recognize that matching service utilities are likely to provide services in the Canadian market and we are prepared to link to matching utilities as required by our clients but we do not believe that a central matching utility is required in order to achieve STP targets.

The decision to use a central matching utility must be made by each buy side firm based on economic business principles. We do expect that a portion of the Canadian buy side community will benefit from using a central matching utility. However, we do not believe there is any benefit to be gained from forcing any buy side participant to use a central matching service. Buy side firms with relatively low trade volume would be particularly disadvantaged if they were forced to use a central matching service.

STP trade matching can be achieved without a central trade matching utility. Our experience shows that many of our Investment manager counterparties are already capable of achieving very high levels of STP trade matching.

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

We are satisfied with the scope of functions of a matching service utility as described in the proposed instrument.

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?

The filing and reporting requirements for a matching service utility set out in the Proposed Instrument are appropriate. We do not believe that a matching service utility should be recognized as a clearing agency under provincial securities legislation.

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 will determine whether or not the Canadian market can support more than one matching service utility. Interoperability must be a requirement if more than one matching service utility is going to provide services in the Canadian market place. “Interoperability” at a high level means that data can be passed seamlessly to/from counterparties of any matching service utility.

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 itsT+3 Rule?

We do acknowledge that a T+3 settlement rule would resolve several systemic and operational issues that are created by ad hoc bilateral agreements to settle trades with a different settlement cycle. However, we do not recommend implementing a new rule at this time to enforce what is essentially the market standard. Instead, our efforts should be focused on achieving STP targets for trade date matching so that the Canadian market place is in a position to move to T+1 should the U.S. market decide to shorten the settlement cycle. Shortening the settlement cycle does not necessarily require the CSA rule to achieve the targeted result. It should be noted that the settlement cycle was successfully shortened from T+5 to T+3 without a CSA rule change.

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?

A central hub populated with consistent, standard corporate actions data is required to ensure that all investors have access to timely and accurate information about their investments. The CSA is the appropriate body to regulate this requirement because one of the primary mandates of the securities commissions is to protect investors from inequitable, improper and fraudulent practices and to foster fair and efficient capital markets.

All market participants should share the cost of developing and implementing and maintaining the hub. Issuers and their agents, offerors, buy side firms, broker dealers and custodians should all share in the cost of operating a corporate actions 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 without a regulatory requirement the corporate actions hub will not be developed. The CSA can also take action prior to the building of the hub by introducing data standards for reporting corporate action events.

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

Yes. All issuers and offerors should be required to make entitlement payments by means of LVTS. The relatively small costs of using LVTS are more than offset by the benefits of having a single consistent, reliable and irrevocable payment system.

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?

No. The use of LVTS should be a mandatory requirement regardless of amount. Much of the benefit in using LVTS is derived from using a single system. Making exceptions reduces the benefits of LVTS. Furthermore, the size of the payment is not the only element of risk that needs to be managed. The reversal of a small dollar value payment to a large number of holders can be equally disruptive to the market as a large dollar value payment to a smaller number of holders.

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?

Our preference is to focus on the institutional trade processes and we therefore have no comments related to this question.

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

The CSA should develop rules that permit immobilization and dematerialization of securities but should stop short of mandating immobilization and /or dematerialization. Investors should continue to have the right to hold or own their securities in a direct legal relationship with the issuer. Investors wishing to hold physical securities should also understand that there might be higher costs associated with physical holdings.

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 issue at the present time.

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

As with matching service utilities, market forces will determine the number and type of DRS systems that are viable in the Canadian market. Unlike the matching service utilities, interoperability of DRS systems is not required. CDS through CDSX already provides the required connectivity.

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 are uncertain as to how this issue relates to STP and trade date matching. Fully paid for client assets are segregated and we are not aware of any issues with respect to segregation.

Thank you for your consideration of our comments. We would be pleased to take part in further consultations, and discuss these issues with you or your delegate at your convenience.

Yours truly,

Don G. Smith
Vice President
Securities Services

DGS/JR/hw