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BRITISH COLUMBIA SECURITIES COMMISSION
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c/o John Stevenson, Secretary
ONTARIO SECURITIES COMMISSION
20 Queen Street West
Suite 1903, Box 55
Toronto, ON
M5H 3S8
Email: jstevenson@osc.gov.on.ca

Dear Mr. Stevenson;

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

State Street Trust Company Canada appreciates the opportunity to respond to and make comment on the Discussion Paper regarding Proposed National Instrument 24-101 on Straight Through Processing,

As a member of the Canadian financial industry, State Street is committed to the Straight Through Processing initiative.

Please feel free to contact me with any question you may have regarding our response or if you require any further information.

Yours sincerely,

Tim Robertson

c.c. Madame Anne-Marie Beaudoin, Directrice du secrétariat de l'Autorité, Autorité des marches financiers

State Street Responses to Questions re Proposed National Instrument 24-101 and Discussion Paper 24-401 On Straight Through Processing

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

State Street does not believe that STP readiness certificates should be required. The definition of STP within an organization is open to interpretation and may vary from participant to participant. It would be difficult to establish standards from which to award certificates. The measurement of those standards would result in additional costs to all participants.

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?

The Charles River Associates study, commissioned by the CCMA, concluded that in order to remain competitive with the U.S., Canada must move to T+1 in the same timeframe as the U.S. The focus of the U.S. and Canadian markets has shifted from T+1 to STP. However, the overall conclusion is still valid. Canada must not fall behind the U.S. with respect to operational efficiencies. Canada must achieve a higher level of STP, close to the levels achieved in the U.S., or risk losing business.

Many participants operate on both sides of the border. The operations of those participants are so entwined that processes can easily shift from one market to the other. The challenge is to reach all participants, large and small, with a trading and settlement process that is cost effective and easy to use.

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?

The CCMA should identify STP high level targets or goals. The CCMA should not identify the critical path that each organization must take in order to achieve those targets. Competitive forces in the small Canadian market will cause organizations to converge. However, each organization, based on its own business priorities, must make the decisions as to how it differentiates itself in the market and which steps will be undertaken to meet the STP demands of its clients and stakeholders.

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?

State Street plays various roles in the Canadian market. In its role as custodian, State Street relies on other parties to provide trade instructions and facilitates the delivery and receipt of

securities. In this role, State Street does not play a primary role in the match process between broker/dealers and investment managers.

In its role as a transition manager, State Street acts as both an investment manager and executing broker. This unique structure where the same organization is both the investment manager and executing broker must be considered in the context of any trade match compliance agreement.

The extra layer between executing and clearing brokers increases the complexity of trade match timing and error resolution. The CCMA's 2003 Best Practices and Standards documents state that in the case where there is both an executing and clearing broker, passing information within the established timeframes is still to be addressed. This unique structure also requires consideration when discussing institutional trade matching and trade match compliance agreements.

State Street supports the migration to a trade date matching process and believes that working within the existing rules rather than mandating a trade date matching contract between participants is the better route.

Based on the statistics provided to date by the CCMA, we do not believe that the date of July 1, 2005 is achievable. A phased in approach has been recommended in the U.S. by the SIA in its response to the SEC Concept Release. Further analysis is being performed by the CCMA's ITPAC, the result of which should help clarify where the current gaps in the process are. Once an analysis is complete, the industry should be in a better position to recommend an achievable timeframe for migrating to a trade date matching environment.

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

A close of business definition is required to ensure that a common objective is defined for all market participants. The link between brokers and custodians is the Canadian Depository for Securities (CDS). The end of the processing day at CDS, currently 7:00PM, should be used as the deadline for trade instructions matched between CDS participants. After the 7:00 PM deadline, the next business day should serve as the match date deadline.

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 it be adopted, should not identify and require matching of each trade element. Industry standards, such as those outlined in the CCMA's Best Standards and Practices and CDS's user requirements, should dictate the required trade match fields.

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

Yes, the CSA should rely on the best practices and standards established by the CCMA ITPWG as they are currently documented, realizing that over time those standards will likely change.

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, you have captured the appropriate transactions and types of securities.

Yes, you have appropriately limited the rule 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?

As indicated above, we do not believe that the contractual method is the most feasible way to ensure that trades are matched by the end of trade date. The contractual method adds complexity and paperwork that will in increase the cost of doing business in Canada.

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, sufficient time must be built into the process to allow participants to resolve discrepancies. The CCMA's Best Practices and Standards provide details regarding exception resolution which should be considered together with an end of day definition as noted in question # 5. Those Standards should also be reviewed to include participants such as executing brokers who must pass trade instructions to a clearing broker.

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)?

Individual registrants should not be required to report all exceptions. A central agency such as CDS may be able to report trends across the industry and at the individual participant level. Such reporting comes at a cost that should be shared by all registrants/participants.

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 believe that mandating the use of a matching service utility is required in Canada. STP trade matching currently is achieved and can be further achieved without a 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 its T+3 Rule?

The Canadian market operates effectively without a T+3 rule. State Street believes that a rule is not necessary and that T+3 settlement should not be mandated.

The move to a T+1 settlement cycle will be driven by the U.S. market. As mentioned above, Canada must remain competitive with the U.S. or risk losing business. The move to T+1 will be driven by market forces which may negate the need for a T+1 rule. Further discussions should be held if the U.S. does in fact move to T+1.

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*?

Response pending, will be forwarded separately.

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

Response pending, will be forwarded separately.

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

Yes.

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?

There should be no minimum value for entitlement payments.

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?

The move towards an STP business model will eventually require fund accounting agents to process trade activities with a later deadline. This may impact the agent's ability to provide the daily net asset valuations to the respective information vendor such as Fundata and The Globe & Mail. The CSA should work with IFIC to address this potential issue.

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?

State Street supports the development of rules that promote immobilization and dematerialization of securities. The use of certificates is an impediment to STP and results in increased risk when processing entitlements.

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?

DRS systems should be regulated to protect individual and institutional assets, should a custodian model be implemented. To operate effectively, the investing public must have confidence in the infrastructure that supports the industry. Regulation will ensure that minimum standards are set and maintained.

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?

The current segregation rules appear to be adequate. The segregation of client assets or participants' assets at CDS, for example, does not appear to be an issue.