Mackenzie MUTUAL FUNDS

July 21, 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
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

Madame Anne-Marie Beaudoin
Directrice du secrétariat de l'Autorité
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
Telephone: (514) 940-2199, ext. 2511
Fax: (514) 864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

Dear Mr. Stevenson:

Re: 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 operational views of Mackenzie Financial Corporation in regards to the questions posed to the investment community within Discussion Paper 24-401 relating to proposed National Instrument 24-101. We thank you for taking the time to survey the industry and hope you find our views helpful in evaluating and drafting its final form.

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

We do not see any added value in creating mandatory STP readiness certificates. We view such certification an unnecessary step that will add to the cost and burden of an already expensive and time-consuming project for the industry with little value for the average investor.

We assume that brokers, investment managers and custody banks would be required to prepare and release such certification. These three members of the investment community are well versed on the importance of STP and, we think, prepared to rely on the competitive advantage that being ready brings. The investing public would likely be more alarmed than reassured if these firms were to start releasing “Certificates of STP Readiness”.

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?

While we believe that there is a critical importance in Canada reaching a set settlement cycle change to T+1 at the same time as the US, we do not see any real value in reaching STP at the same time as the US. Failure to meet a set settlement cycle change has been widely reported to result in a shift in trading activity to the US and, we believe, this would be the case. Obviously, such an occurrence would be disastrous to the Canadian capital markets.

No achieving widespread STP in Canada however, would not cause trading to shift south but it would make for a market that has not taken advantage of available efficiencies. With the deferring of the move to T+1 in the spring of 2002, in favour of a focus on STP, the importance moved from the competitiveness of the industry to the competitiveness of the firm. We see this as an organic process within a firm with co-ordination amongst other stakeholders in the industry. Industry groups such as the CCMA in Canada and the SIA in the US are important to the success of industry-wide STP. While internally we must re-work our processes to fit STP all will be wasted if the industry does not, as a whole, embrace and adopt STP. For example, as an investment manager, we may adopt a system that allows us to generate notices of execution (NOE’s) electronically, route them to a broker and receive notice back of filled trades. But what good is this system, this expense, if only a handful of brokers in Canada are capable of receiving electronic orders? Similarly, down-stream, we may be able to electronically send that same trade to our custody bank, pre-matched with the broker, but what good is it if they are still running an old over-night batch process that fails to take advantage of this?

We see the danger of not reaching STP as far greater to the firm than to the industry. If we are capable of sending electronic NOE’s then we would be more likely to deal with those firms that can accommodate this and allow us to realize more cost effective trading. Similarly custody banks that rely on outdated systems and processes will likely become less cost effective competitors in that market.

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?

We agree that one of the CCMA's roles in STP should be identify the critical path needed to reach this goal. We support the mandate of the CCMA and see its role as a forum for the capital markets industry as crucial to the success of STP in Canada.

It is critical for the CCMA to accomplish a number of goals to assist the industry in achieving STP. Some of which are: a) continue to engage and inform as many industry participants as possible. Currently the CCMA is reaching a large number of stakeholders but it must continue to reach more and convince all stakeholders of the importance of STP. b) As will be covered later, publish, refine as necessary, and promote its Best Practices and Standards as a means for the industry to reach STP. c) once the Rule has become effective help in setting an industry timetable to reach STP and NI 24-101 compliance.

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?

We believe that this is one of the most important questions posed to the investment community and fully support the CSA mandating the matching of institutional trades on T. In fact, we believe that without the mandate within the National Instrument achieving true STP will never happen (at least until the settlement cycle is changed to T+1). All industry participants need a regulatory push on this to make it happen. While the competitive advantages are there, as mentioned above, they will not be as effective if all parties are not involved.

From the point-of-view of a mutual fund company we do not see any advantage to amending SRO rules to require trade matching. While the IDA may have an impact on the broker/dealers the investment managers and custodians do not have the same type of SRO rules to follow. Relying on this would put an unfair burden on brokers and leave the rest of the industry drifting without the same focus. A National Instrument is the only way to effectively create a level playing field for the industry.

We believe the date of July 1, 2005 is far too aggressive and would not be attainable by the industry as a whole. Internally, our Investment Management Department is currently undergoing a system conversion to a STP ready trade order management system. Given that, the date is reachable by Mackenzie's investment area but it would still be a very tight deadline. In speaking to many of our peers in the industry they are not nearly as close to having such system capabilities and would clearly not be ready. It is important that STP be achieved but it is equally important that it be achieved in a widespread and efficient manner.

Additionally, these comments are based on the assumption that the NI was put forth today. As we are still in the comment stage, presumably we are still some time from this becoming effective. This deadline is also heavily contingent on what is meant by "matching on trade date". This means different things to different parties and should be clearly defined, as we will discuss below.

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

As touched on above, a close of business definition is needed, as is a definition on what is meant by matching on trade date. In discussions with other members at CCMA meetings, it became apparent that matching on trade date and close of business meant different things to different parties. As an investment manager, we see matching on trade date to mean that we have matched our trade instructions with the broker and agree on all details. Close of business for this activity could be 6:00pm to 6:30 in order to give enough time for the brokers to fill all trades and to match the details. In a T+3 environment we would then pass those matched trades on to the custody bank on T+1 for matching in CDS (this should be a formality as we have already matched with the broker) and settlement.

Section 3(i) of the RFC seems clear that the matching is between the broker and IM but then muddies this by suggesting the end-of-day be "the latest time at which CDS accepts end-of-day trade affirmations…". So others took this to mean that the IM and broker have matched the trade, passed it to the custodian and matched at CDS and waiting settlement, all by the close of business on T. While this is ideal for T+1/T+0 STP we see it as far too aggressive as a "first step" to trade matching and that mandating such a step would be disastrous. For a mutual fund company to achieve this in our current environment, we would likely have to stop our portfolio mangers from booking trades after 2:30pm-3:00pm in order to meet the cut-off times for matching that would have to be imposed by the custody banks and CDS. Such activity would negatively affect our business process and potentially disadvantage our funds.

Clearly trade matching and close of business should be specifically defined.

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?

We do not see any value to specifying each data element in the Instrument. Over time, these requirements will change making the Instrument outdated and may put requirements on data that is not relevant. Established industry best practices and standards is a much better way to ensure and efficient process.

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

Yes, we were involved in the process of drafting the Best Practices and Standards document and agree with its form. The CCMA did a good job of pulling in a wide cross section of the industry to draft these standards.

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 appropriate transactions and security types have been captured here and that the rule should be limited to public secondary markets.

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 do not see any value to establishing a contractual method to ensure buy-side compliance with trade date matching. By creating a National Instrument buy-side firms, such as Mackenzie, would have to be compliant with the NI and that is more than sufficient. We abide by the rules of all other applicable NI's without the need for a contract and see no need for one in this case.

Creating a contractual arrangement will generate a good deal of unnecessary paperwork for both the buy and sell side and also poses an enforcement question. The administration and maintenance of this paperwork will also add significant, and unnecessary, cost to process.

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, where the two parties cannot agree on trade details, or the traders responsible for the trade are unavailable, by the end-of-day and exception should be allowed. With or without an exception rule this will happen as there will always be some trade discrepancies regardless of how well the process is designed. Allowing for an exception, in this case, is simply acknowledging the reality of trading.

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 see any value to having registrants report exceptions at the close of business. Again, this would create an unnecessary amount of paper and overhead that will add little value to the process.

There may be some value in custody banks producing aggregate reports for clients and reporting that back to them against their whole client base. This would allow clients to see where they are ranking and assist them in improving trade matching. Custodians do this now for STP evaluation.

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 see the need to mandate the use of a matching service utility (VMU) in Canada as long as we remain on a T+3 settlement cycle. We believe that STP can be achieved without a VMU and support the CCMA's Best Practices and Standards for a non-VMU process. However, in changing the settlement cycle to T+1 there may be some value to mandating a VMU. The answer to that question would depend on the VMU providers available and how well the market has embraced STP at that time.

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

N/A, see 12.

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?

N/A, see 12.

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

N/A, see 12.

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 think that the CSA should mandate the T+3 settlement cycle. It is operating fine without the mandate and such action would be confusing and unnecessary. The move from T+5 to T+3 was accomplished quite well without a CSA mandate and we would agree that the move to T+1 could be accomplished again without such a mandate. As mentioned earlier we feel that Canada should move to T+1 at the same time as the US but a CSA mandate would be unnecessary given the completive pressures to 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?

We feel that mandating the use of a central corporate actions hub would be a great benefit to the industry. It seems unlikely that such a system would be developed without legislation. The key to such a hub would be to have one central system where issuers can report into and intermediaries and institutional investors are advised. Accomplishing this is key to the success of the hub and regulations requiring issuers to file to this system will be necessary to ensure all actions are reported properly.

It's difficult to comment on who should bear the cost of this system. Clearly, if properly built, the issuers would benefit from a simpler, more cost effective filing system, institutions would benefit from more reliable data and reduced market risk and custody banks would benefit from a central source of information for their clients and reduced risk. How is this to be paid for depends on how it is to be built and how well the industry and issuers understand the benefits.

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

As indicated above, we feel that regulation is the only way to successfully make a central hub a reality.

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

As we are on the receiving end of entitlement payments we would be in favour of any system that simplifies and automates this process. As with the corporate actions hub requiring issuers to file via this system is likely the best way to ensure success. Making it mandatory for issuers to make payments via this system is likely

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?

N/A

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 believe that it is still too early in the process to determine what additional rules are required to promote retail fund operations movement to STP. Detailed work on the Documentation Agreements is in the early stages and we anticipate that further discussions with the CSA concerning any amended or new rules will be required once the details have been finalized

The primary regulatory issue with the proposed implementation of Documentation Agreements is the transfer of liability from the Fund Company to the Distributor. The proposed STP business process is that the Distributor will maintain the client documentation and will conduct business in an electronic manner.

With respect to electronic standards, we are in agreement that Fund Companies must use the correct error code to reject a transaction to support timely correction and processing of the trade. However, in practice it may not be feasible to reject 100% of the trades on the day they are placed due to system limitations.

We agree that the use of physical cheques must be eliminated in order to move to an STP environment.

We do not think that the issues involving the relationship with the client is an STP issue and therefore we recommend that this subject not be included in future STP discussions.

In summary, we believe that the proposed changes significantly impact the way business is conducted and will require legislative or regulatory amendments to ensure that the liability and responsibility of all parties are clearly defined.

Questions 22 to 25: N/A

We thank you for taking the time to review our comments and the time and interest you have taken to assist in improving institutional trade flow.

Sincerely,

Chuck Murray	Alastair Heath	Marilyn Smolsky
Assistant Vice President	Assistant Vice President	Assistant Vice President
Portfolio Administration	Securities Operations	Operations