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July 26, 2004

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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

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

Dear Mr. Stevenson:

We are writing to provide our comments on the questions outlined in Discussion Paper 24-401and the related material, including Proposed National Instrument 24-101 and Companion Policy 24-101CP.

In the attached document we provide the questions as outlined in the Discussion Paper and our corresponding remarks to each.

We thank you for considering our comments on this industry issue.

Sincerely,

Paul M. Pugh, CFA
Senior Vice President
Public Investments
OMERS

Encl.
Cc: Jenny Tsouvalis, Vice President, Investment Operations and Applications

Comment – Discussion Paper 24-401 on Straight Through Processing & Proposed National Instrument 24-101 Post-Trade Matching & Settlement

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

STP readiness certificates or surveys would be helpful to determine the status of the industry participants. Evaluations for readiness could include each participant's STP rates. STP rate measurement could involve submission, and affirmation rates for the various instrument types (debt, equity etc.). Where submission is defined as entry into the system for processing, once the trade has been made, such as sending the trade to the custodian and affirmation as matched with the broker side.

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 to Canada to be prepared to move to T+1 at the same time as the U.S. for competitive reasons including the impact to interlisted securities and operational efficiencies for managing cash flow specifically for an investment manager. Both countries can proceed with automation for their marketplace to capture efficiencies and reduce risk. If it is determined that STP is the precursor to achieving T+1, then close tracking of the U.S. progression towards STP to ultimately reach T+1 would be beneficial.

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?

Based on the CCMA's mission and purpose to enhance and maintain the competitiveness of the Canadian market and promote straight through processing, they should be involved in identifying the critical path to reach STP. Part of the steps and goals could include progressing participants to T or T + 1 matching initially and determining the bottlenecks in the industry that need to be overcome. Also increasing STP affirmation rates amongst the participants, as the Canadian rates are currently significantly lower than the U.S. rates. Tracking closely the status and approach of the U.S. should also continue to take place.

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?

Yes, the CSA should pursue requiring all market participants to match institutional trades on trade date or trade date + 1 as a potential first phase. Based on the statistics gathered and tracked by the CCMA, July 1, 2005 does not appear to be an achievable date at this time.

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

Yes, a close of business definition is required for the industry. In order to establish an appropriate time, research and evaluation on all the processes in the industry cycle needs to be conducted. This would help establish what the appropriate timeline should be.

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 specify the critical trade data elements for achieving matching. Industry standards and best practices can be relied on for further details and guidance.

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

The CSA should review the standards and best practices published by the CCMA ITPWG as a guideline.

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?

The CSA has captured the appropriate transactions and security types. Depository eligible security instruments such as debt and equity are appropriate instruments for the matching rule.

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?

Contracts amongst the parties such as broker dealers and investment managers is a feasible approach for the buy side industry to establish the matching rules amongst them.

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 will have to be considered to allow participants to correct trades in order to ultimately match for settlement.

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)?

Yes, exceptions that have not matched by the close of business on T need to be tracked. All parties involved with the trade and requiring it to be matched need some forum to be made aware of the status. Custodians, brokers and investment managers will need to be advised by clearing agents and depositories.

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?

There are a number of avenues available for achieving trade matching between a broker and investment manager. This includes utilities such as Omgeo, fmcnet and using FIX protocol etc. Participants must be allowed to select the most cost effective business model for their purposes. The objective is trade matching on T or T + 1 in an electronic fashion to achieve settlement. The issue with the various approaches to electronic matches is the commonality required by participants in order to communicate with each other. Service providers including Custodians, broker dealers and depositories need to allow for the various approaches or linkages to the various services and utilities that will be made available to investment managers.

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

The scope of a matching utility should cover the ability for the parties to a trade, an investment manager and broker dealer to fill orders, confirm and match the details on line. It is an electronic communication vehicle that allows for conducting trade business in a real time capacity and also allows for the tracking of trades on line to validate when matching has occurred. Thus, the parties to

a trade are made aware of the trade status along the way and can fulfill their obligations to complete the match.

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 should be specified for matching utilities and significant oversight should be applied to these entities. Consideration could be given to recognize utilities as clearing agencies.

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

In order to allow participants to choose the business model best suited to them, and to not allow for one entity to develop as a monopoly in the industry, corporations wishing to establish matching utilities should be allowed to, based on the filing and reporting requirements set out. As a result of this, interoperability will be essential to ensure participants can communicate amongst the various parties. Achieving interoperability would involve the industry establishing protocols, platforms and guidelines for prospective utilities to be allowed entry into the marketplace.

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?

Mandating the industry's current cycle of T + 3 is not likely necessary at this time as it has operated as such since 1995 and it is considered the industry standard. Consideration should be given as to the approach for moving to T+1, whether being a mandated rule similar to the U.S. or the same approach that was used in 1995 for the move from T+5 to T+3.

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*?

As many issues arise from corporate actions, a centralized hub of some sort by which all publicly traded companies must provide their key information electronically by specified timelines would be

very beneficial for the industry. Corporate actions today rely too heavily on manual paper. Consistent, timely and up to date information relating to corporate actions of all publicly traded entities would be beneficial to all institutional investors. As to who should pay for the development, that needs to be further assessed based on what the hub will seek to achieve and the service it will provide to the interested participants.

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

The CSA should play a role in all aspects of STP and that includes the automation of corporate actions, which is a significant issue in the industry today. The CCMA Corporate Actions Working Group has published a white paper on the efficiencies required around corporate actions. The Corporate Actions white paper could serve as a guideline for the CSA similar to the standards and best practices white paper published by ITPWG.

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

As LVTS seeks to ensure payments by acting as an electronic wire system, this would be a good method to employ to ensure all payments from issuers are made.

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 issues should be addressed by the CSA?

Once a definition is established of all payments to be made directly to LVTS by issuers such as dividends and interest etc, then all such entitlements payments should be structured through the one system.

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 CSA has taken a good approach by proposing the National Instrument for post trade matching and settlement.

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?

Regulatory oversight and controls on the books and records for securities holders both institutional and retail are critical to ensure the integrity and accuracy at all times. The industry should review in depth the processes for maintaining accurate records of securities ownership in order to assure the public that immobilization is a safe and secure method for all record holders. The book based system has been in place for some time with issuers moving instruments onto the system. Consideration should be given for investors who wish to maintain physical certificates, including appropriate fees for the different services seeking to be obtained.

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, the Direct Registration System should have oversight to ensure the accuracy at all times. Similar to the comment above, the processes and controls should be established for the system to give the public comfort for operating in book based form versus physical paper certs.

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

As each Transfer Agent and Custodian operates it's own system for their businesses, interoperability will be required for Direct Registration Systems.

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 CSA should review the impact of the indirect holding system to determine if the SRO segregation rules are sufficient or if additional segregation rules are required.