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**BY E-MAIL and COURIER**

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Registrar of Securities, Northwest Territories
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Dear Members of the Canadian Securities Administrators,

**Re: CSA Request for Comment – Discussion Paper 24-401 on Straight-through Processing**

TSX Group Inc. welcomes the opportunity to comment on behalf of both Toronto Stock Exchange and TSX Venture Exchange on Discussion Paper 24-401 published by the Canadian Securities Administrators (the "CSA") on April 16, 2004. We believe that it is vital to the well-being of the Canadian capital markets that the move to a shortened settlement cycle in Canada occur at the same time that such a move is effected in the United States. To lag behind the United States would result in different settlement conventions between the two countries which could increase complexities, inefficiencies, costs and risks for those participants trading securities in North America. Although the goal of achieving a settlement cycle of T+1 in the

United States may have been deferred indefinitely, Canadian participants must be in a position to respond quickly to and in tandem with US straight-through processing ("STP") initiatives to avoid lagging behind United States pre-trade and post-trade operations, especially if the move to T+1 in the US is revived. It is with this focus that we respond to the CSA's questions below.

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

We do not believe that the use of STP readiness certificates is warranted. From a practical perspective, it may be difficult for an entity to measure, and therefore provide a certificate with respect to, its level of STP readiness. However, we do advocate the use of readiness certificates in the future as Canada approaches the move to a T+1 settlement cycle, in order to ensure that all Canadian market participants will be in a position to make the adjustment from T+3 to T+1.

*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?*

We believe that it is necessary for Canadian capital markets to reach STP at the same time as the United States. For the reasons outlined below, competitiveness of the Canadian capital markets could be adversely affected if Canada were to lag behind the US in its STP initiatives. Canadian market participants must also ensure that they are in a position to achieve T+1 at the same time as participants in the United States. In order to be poised to respond quickly to any US advancement of the settlement cycle, Canadian capital markets participants must not fall behind their US counterparts as regards STP. Independent from achieving T+1, an excessive gap between Canada and the United States with respect to STP readiness could also result in the US markets becoming measurably more efficient than Canadian capital markets. Such a difference in efficiency and ultimately, trading costs, could entice Canadian dealers to trade cross-border interlisted securities in the US rather than in Canada. This shift in trading could remove liquidity from the Canadian markets and be detrimental to the competitiveness of Canadian marketplaces.

*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 believe that the Canadian Capital Markets Association ("CCMA"), through its industry participants, is best positioned to identify the critical path and specific tasks to be achieved in order to reach 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?*

In order to be in a position to ultimately achieve a shortened settlement cycle, we believe that market participants should begin to match institutional trades on trade date. This matching on T could be phased-in gradually, but it must be effected in the long term in order to be competitive with the United States marketplace. We believe that the CSA is in a better position to require such market behaviour than a self-regulatory organization ("SRO"), given that the CSA has the ability to regulate certain buy-side participants as well as dealers. It will also be necessary to include obligations of custodians in any institutional trade matching rules. Based on the level of

industry progress to date, we believe that the July 1, 2005 implementation date is not achievable.

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

We believe that a close of business definition would provide clarity and would be a useful common target for market participants.

*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 believe that it is sufficient for industry best practices and standards, as identified by market participants through the CCMA, to address any necessary details with respect to the matching of institutional trades.

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

As referenced above, we believe that the best practices and standards established by the CCMA Institutional Trade Processing Working Group should be relied on by the CSA. These best practices have been developed by market participants and reflect what the industry views as best practices that should be accepted and followed by them.

*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?*

It is our view that the scope of proposed National Instrument 24-101 *Post-Trade Matching and Settlement* (the "Proposed Instrument") is appropriate in terms of the types of transactions and securities captured. We believe that the Proposed Instrument is appropriately 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 have a concern that the use of contracts to ensure institutional trade matching on T will require dealers to police their clients and place them in an unfavourable position with their clients and could lead to enforcement issues that have not been addressed in the Proposed Instrument. We are also concerned that the implementation of a contractual regime will greatly increase administrative requirements and costs without obtaining the benefit that is intended to be achieved by the Proposed Instrument. However, we understand the difficulty in ensuring that buy-side participants match their trades on T. In the event that the contractual method gains favour with industry representatives as the best alternative to achieve trade matching on T, we submit that custodians should be included in the contractual relationships. We further submit that the CSA should provide an agreement template or standard acceptable language to market participants, in order that the resulting relationships are established in a common manner.

*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 trade matching requirement should be allowed when parties are unable to agree to trade details before the close of business of T.

*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 that exceptions should be reported, however, the parties must be able to provide a report of such exceptions upon request by an applicable securities regulatory authority or applicable SRO.

*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 it is necessary to mandate the use of a matching service utility in Canada. Our understanding is that certain buy-side participants are already able to achieve very good results in trade matching by the end of T. We submit that these and other participants should be permitted to continue to use methods of trade matching that may not necessitate the functionality of a centralized trade matching system.

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

As we do not believe that the use of a matching service utility should be mandated in Canada, we have no comment as to the scope of functions of a matching service utility.

*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?*

In the event that the use of matching service utilities is mandated in Canada, we do not believe that they should be recognized as clearing agencies under provincial securities legislation. We believe that the information to be included in proposed Form 24-101F1 will provide sufficient information to the relevant securities regulatory authority for regulatory oversight purposes.

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

We believe that the industry, through market forces, will decide whether Canadian capital markets can support more than one matching service utility. We would expect that if more than one matching service utility exists, they should be in a position to operate with each other in a seamless manner.

*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?*

It is our view that it is unnecessary for the CSA to mandate a T+3 settlement cycle. Similarly, when the US moves to a shortened settlement cycle, the Canadian move to T+1 can be adequately dealt with in SRO rules. In 1995, the settlement cycle was successfully reduced from T+5 to T+3 without the implementation of 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 believe that the reporting of corporate actions through a centralized hub would be a significant benefit to the marketplace. If used properly, this hub would ensure that various market participants are provided equal access to corporate actions data in a timely fashion. A central hub would enable market participants to be confident that they are making investment decisions based on all publicly available corporate information. We believe that all market participants should share the cost of developing and maintaining such a hub.

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

We understand that the creation of a centralized hub for corporate actions reporting is not a high priority for market participants. Clearly there are other priorities to be met in order to achieve STP. However, we believe that prior to shortening the settlement cycle, dissemination of corporate actions must evolve into a streamlined process that would require little additional effort on the part of issuers/offerors, and result in the timely availability of consistent information to market participants. In order to send a message to capital markets participants, we believe that it will be necessary for the CSA to begin imposing requirements regarding additional information to be produced by, or the manner of dissemination that will be required on the part of, issuers/offerors. Further, for an organization to be motivated to build a centralized hub, the industry will need to receive a clear message from the CSA that issuers/offerors will ultimately be required to file their information through a central system.

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

No comment.

*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 comment.

*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?*

No comment.

*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?*

We support the development of CSA rules that will promote the dematerialization of publicly traded securities in Canada.

*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 believe that there should be some form of regulation over entities that operate direct registration systems ("DRS") in order that market participants and individual investors obtain a requisite level of confidence in these new systems. The CSA should determine, with input from market participants, whether the CSA is best positioned to provide regulatory oversight of transfer agents and, if so, the level of regulation required.

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

We see no reason why there could not be separately operating DRS systems if there is a need in the marketplace. We expect that, so long as each DRS could interface as necessary with the Canadian Depository for Securities, there need not be a requirement that DRS systems be inter-operable with each other.

*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?*

No comment.

Sincerely,

"Rik Parkhill"

Rik Parkhill
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TSX Markets