Request for Comment

CSA Proposed NI 24-401 and CP 24-101P
Institutional Trade Matching and Settlement

Due May 2, 2006

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Commission in duplicate, as indicated below:

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Registrar of Securities, Northwest Territories

Legal Registries Division, Nunavut

Registrar of Securities, Yukon Territory

c/o John Stevenson, Secretary

Ontario Securities Commission

20 Queen Street West

Suite 1903, Box 55

Toronto, Ontario

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Submissions should also be addressed to the *Autorité des marchés financiers (Québec)* as follows:

Madame Anne-Marie Beaudoin

Directrice du secrétariat de l'Autorité

Autorité des marchés financiers

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REQUEST FOR COMMENTS

CSA NI 24-101 and NI 24-101P

Institutional Trade Matching and Settlement

General comments on matching on T+0:

BMO Financial Group (BMO) appreciates the opportunity to comment on the revised CSA NI 24-101 and 24-101P dated March 3, 2006.

BMO is supportive of a CSA rule mandating matching. However, a standard compliance agreement or statement for all trade matching parties and additional clarification on roles and responsibilities for matching participants is required. We believe an industry standard is beneficial to all parties and will ensure that, regardless of which dealer(s) or custodian(s) provide services to clients, every party will clearly understand what is expected of them regarding matching. If responsibility for crafting the content of this compliance agreement or statement is left to the individual participant, then there is a potential that policies and procedures will be inconsistently applied which would be contrary to the intent of the rule.

BMO is in favour of phasing in matching based on specific targets, (please refer to our recommendation outlined in the answer to question seven below). As noted in BMO's response to the CSA Discussion Paper, BMO is not supportive of mandating participant use of a matching utility and believes that participants should be able to utilize technologies and processes suitable to their business model and size.

BMO offers the following additional comments on questions relating to NI 24-101.

1. **Should the definition of "institutional investor" be broader or narrower?**

   It is BMO's view that the definition of institutional investor is of little relevance to the trade matching criteria since the Instrument applies to all DAP and RAP trades regardless of trade size or the client's investment value.

   BMO recommends that the CSA definition of an institutional client be consistent with the IDA definition recently published in Policy 4.

2. **Does the definition of "trade-matching party" capture all the relevant entities involved in the institutional trade matching process?**

   While the Instrument clearly identifies the participants in trade matching it is unclear how custodians are covered under the rule.

   To address this gap, the CSA should define the roles and responsibilities of each trade matching party in a standard compliance agreement or statement. This way, regardless of which dealer or custodian the client chooses to use, the roles and responsibilities of the trade matching party would be the same in every case.

3. **The scope of the matching requirements of the Instrument is limited to DAP or RAP trades.**

a. **Should the requirements be expanded to include other trades executed on behalf of an institutional investor?**

We believe that the scope of the Instrument is appropriate and should not be expanded. The CSA is asked to confirm that REPOs, New Issues, Account Transfers, Borrow /Lend and Money Market trades with less than a T+3 settlement date are excluded from the scope of NI 24-101.

b. **Should the requirements capture trades executed with or on behalf of an institutional investor settled without the involvement of a custodian?**

Yes, the rule must be clear that all DAP/RAP trades, regardless of clearance by a traditional Custodian, a Prime Broker acting as a custodian or a Broker Dealer settling a third party DAP / RAP trade, are covered by the rule.

4. **Are each of these methods (compliance agreement and signed written statement) equally effective to ensure that the trade-matching parties will match their trades by the end of T?**

Either approach would be effective, but only if the CSA defines a standard agreement/statement that applies to every trade matching party. NI Part 3(b) refers to institutional clients and dealers but not to custodians. How does the CSA envision custodian compliance under the rule? How does the CSA propose dealers ensure client or custodian compliance? It is unclear from the rule how the CSA expects registered dealers to "use reasonable efforts to monitor compliance with and enforce the terms of the compliance agreement" when the custodial relationship is between the client and the custodian not between the dealer and the custodian. What does the CSA consider "reasonable policies and procedures in place to achieve matching of trades"?

As noted above, the CSA should define the roles and responsibilities of being a trade matching party and provide a standard template for the trade matching parties. In addition, CSA should describe how it anticipates this agreement/statement will be implemented, e.g. as an addendum to existing client documentation or an insert. Also, transitional timelines must be provided. A standard template will assist this process, however updating the documentation for every client will be a lengthy task.

a. **Should trade-matching parties be given a choice of which method to use?**

No, as noted above, there should be a single standard for all trade matching parties.

5. **Will exception reports enable practical compliance monitoring and assessment of the trade matching requirements?**

Yes, BMO believes exception reporting will enable participants to identify the reasons for matching failures and will help correct problem areas. However, CDS reporting will need to be more robust, as the experience to date shows that additional development will be required. As an example, the report(s) must be available as a data file with all the relevant information, in order to allow participants to do their analysis and reporting.

6. **Is it necessary to require custodians to do exception reporting in order to properly monitor compliance with this Instrument?**

Yes, it is necessary that custodians, as an essential trade matching party, be subject to the same reporting standards as dealers.

7. **Is it feasible for trade-matching parties to achieve a *7:30 p.m. on T* matching rate of *98 percent* by July 1, 2008, even without the use of a matching service utility in the Canadian capital markets?**

No. We believe the proposed target does not allow enough time to complete all stages of the trade matching process. Broker/Dealers are mainly responsible for the reporting of trades and as such have little or no control over the confirmation process. Considering that NI 24-101 does not have regulatory jurisdiction over all matching parties, it is highly unlikely that full compliance to the proposed 98% matching can be achieved on T. Also, it should be noted that the 7:30 p.m. CDS date roll over is not in line with most Clearing Agencies where the date roll over is between 12:00 a.m. to 1:30 a.m. on T+1.

***We propose that NI 24-101 be amended to require matching by 12:00 p.m. (noon) on T+1**, as this timeline is believed to be more realistic and achievable. Considering the current T+3 settlement date environment, we see no advantage or additional risk to matching prior to noon on T+1. In addition, our recommendation will allow adequate timing for settlement if the Canadian Capital Markets ever decides to move to a T+1 settlement cycle. Matching at noon on T+1 provides the most flexibility for all parties, regardless of regulatory jurisdiction and it has the most potential for success if implemented as proposed. BMO believes this recommendation affords the most viable and cost effective solution for all trade matching parties while providing the highest level of trade matching in North America.*

8. **Are the transitional percentages outlined in Part 10 of the Instrument practical? Please provide reasons for your answer.**

No. Although the first transition to 70% matching at noon on T+1 is reasonable, the other transitional percentages of 80%, 90% and 98% matching on T are significantly different and will be extremely difficult to achieve. Based on our recommendation of matching at noon on T+1, the transitional percentages are acceptable, but matching should be moved to noon on T+1 accordingly.

Yours truly,

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