

May 2, 2006

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
New Brunswick Securities Commission  
Office of the Attorney General, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland & Labrador  
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  
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Toronto, ON M5H 3S8

- and -

Anne-Marie Beaudoin  
Directrice du secretariat de l'Autorité  
Autorité de marchés financiers  
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**Re: Proposed National Instrument 24-101 – Institutional Trade Matching and Settlement (the “Proposed Instrument”), and Proposed Companion Policy 24-101CP to National Instrument 21-101 - Institutional Trade Matching and Settlement**

Perimeter Financial Corp. and its wholly owned subsidiary, Perimeter Markets Inc., thank the Canadian securities regulatory authorities for the opportunity to comment on this

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topic. We operate two marketplaces – BlockBook for the trading of equities and CBID for the trading of fixed income instruments – each with a mix of buy-side institutions and dealers. As such, we have a strong interest in the development of industry-wide standards for enhancing and expediting the trade matching and settlement process.

Our three principal comments are as follows:

### **1. Finding the Appropriate Level of Regulatory Enforcement**

Parts 3 and 7 of the Proposed Instrument impose trade matching and settlement requirements as a pre-condition to dealers executing trades on behalf of buy-side clients. In particular, dealers must enforce on their buy-side clients reasonable policies and procedures to facilitate trade matching, whether by contract or by a signed written statement addressed to the dealer of the procedures to be followed.

The Companion Policy (Section 1.2(3)) identifies four aspects to trade matching - two of which are within the control of the dealer (notification of execution and reporting of trade details) and the two of which are within the control of the buy-side client (allocations and custodian verification).

The Proposed Instrument will therefore place the dealers in a position of sub-contracted enforcers of securities regulation. In the event a dealer fails to meet its trade-matching thresholds *solely* because of the actions of its client, or its client's custodian, the implied result is for the dealer to enforce contractual remedies against the client – principally, suspension or termination of the trading relationship. Whereas such an enforcement regime is entirely appropriate in instances where harm to the capital markets is patently obvious (for example, where clients engage in manipulative or deceptive trading or other market fraud), the harm to the capital markets of failing to *trade match* in accordance with the requirements of this Proposed Instrument is not patently obvious and the nature of the harm has not yet been quantified to a degree that would justify this manner of enforcement.

We respectfully ask the securities regulatory authorities to consider modifying the Proposed Instrument as follows:

1. hold the dealers to requirements that are within their direct control - principally, (1) notification of execution and reporting trade details by the applicable trade match deadline, (2) advising clients of such deadline, and (3) reporting failures to meet the trade match deadline, and reasons for such failures
2. collect evidence of reasons for trade match failures
3. consider the effect of 1 and 2 on trade matching and settlement over a period of time
4. revisit what added regulation is required based on 3

## 2. Role of Alternative Trading Systems under the Proposed Instrument

Section 8.1 will require that Perimeter Markets, in its capacity as a marketplace, adopt rules to “promote compliance” with the trade matching and settlement facilitation requirements of Parts 3 and 7. We respectfully request that this requirement be deleted from the Proposed Instrument for the following three reasons:

1. Trade-matching requirements already enforced on buy-side clients *qua* dealer. As an ATS, Perimeter Markets is required under National Instrument 21-101 to be registered as a dealer. On both of its BlockBook and CBID marketplaces, Perimeter Markets executes trades on behalf of its buy-side clients (or “institutional investors”, as defined in the Proposed Instrument) in its capacity as a dealer (as acknowledged in Section 1.2(1) of the Companion Policy). Accordingly, all DAP or RAP trades executed by us on behalf of our buy-side clients will be covered directly by the *dealer* requirements of Part 3 without the need for additional *marketplace* requirements under Part 8. Thus, while not necessarily the case for marketplaces that are not registered as dealers (such as stock exchanges), ATSs should be exempt from Part 8.

2. Potential commercial conflict in our marketplace intervening in our dealer clients’ relationships with their buy-side clients. In addition to providing direct market access to buy-side clients, Perimeter Markets also grants marketplace access to dealers. To the extent these dealers are trading on behalf of buy-side institutions, the dealers will bear direct responsibility for complying with Part 3 of the Proposed Instrument in respect of such buy-side institutions. We anticipate that at least some of our dealer clients would be suspicious of our attempts to investigate their buy-side client relationships, particularly as we are a commercial enterprise offering direct market access to buy-side institutions.

3. Departure from the traditional role of an ATS in rule enforcement. In any event, we submit that we are not the appropriate entity to promote compliance with securities regulation. National Instrument 21-101 governing operation of our ATS and National Instrument 23-101 and the Universal Market Integrity Rules, which govern trading by our clients on our ATS, contemplate the outsourcing of rule enforcement (in our situation, to Market Regulation Services Inc. (“RS”). Whether it be RS, the IDA (in respect of its dealer members), or the securities commissions, all have, when compared to us, a greater scope of independence, legal authority and resources appropriate to the enforcement of rules such as the Proposed Instrument. Moreover, it is not clear that an ATS can adopt rules without being viewed as a stock exchange (see section 3.1(2)(c) and (d) of Companion Policy 21-101CP).

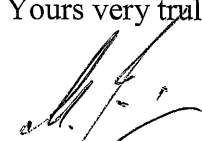
## 3. Nature of a Matching Service Utility

We also request that ATSs be expressly excluded from the definition of “matching service utility”, which we take to be the underlying intention of the drafters of the Proposed Instrument. The last sentence in Section 4.1(1) of the Companion Policy states that a “registered dealer who offers ‘local’ matching to its institutional clients” would not be viewed as a matching service utility.

As discussed above, ATSs must be registered as dealers, so that trades made by buy-side institutions directly accessing an ATS will in all circumstances be captured by Parts 3 and 7 of the Proposed Instrument. Since ATSs will be subject to trade matching and settlement obligations under the Proposed Instrument (including the reporting obligation with respect to trade match failures and the reasons for such), we respectfully submit that there is no compelling policy reason for imposing on ATSs the additional burdens of being a matching service utility.

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Yours very truly,



Mario Josipovic  
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Vice President, General Counsel, *Perimeter Financial Corp.*