May 2, 2006

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

Dear Madame Beaudoin:

Re: Comments regarding Proposed National Instrument 24-101

We have reviewed the proposed National Instrument 24-101 and the related companion policy document and would like to provide you with our comments, concerns and questions related to the above noted initiative in the hopes that they may assist the members of the CSA in their discussions.

Our Comments and Concerns:

National Instrument 24-101 appears to us to be a transitional national instrument on the way to one that will most likely set out the full requirements related to straight through processing ("STP"). This proposed national instrument deals primarily with the first step on the road to STP – matching all trades by T+1 and then by T. While transitional and relatively short term in nature, the proposed national instrument nonetheless requires an extensive exchange of agreements or mutual written assurances by each trading party to a transaction (the investment adviser to an institutional client, the broker who executes the trade, and the custodian of the client) and these agreements or mutual assurances and the policies and procedures that underlie them must be in place before January 1, 2007, which is six months after the comment period for the proposed national instrument expires. This would seem to be a very ambitious date and a very short lead time for investment managers to make or seek contractual or written assurance arrangements with all of the brokers and custodians with which they deal (e.g. PH&N deals with more than 40 Canadian brokers and 12 client custodians at this time).

We question the need for an exchange of agreements or written assurances by each of the parties involved in a trade on behalf of an institutional investor. We understand from our reading of the proposed national instrument that there would have to be a written agreement or written assurance in place between the investment manager and each broker with whom an investment manager deals on behalf of an institutional investor and an agreement or an assurance in place between the investment manager and each custodian of an institutional investor who is a client of the investment manager. We question why a less time-consuming and less expensive option has not been adopted. Would it not be sufficient for the appropriate regulator to impose on the

relevant parties a specific duty that requires all trading parties to have policies and procedures in place by a certain date that ensure that the matching of any trade in which the trading party is involved will be matched by no later than T+1, moving to T in 2007, and to impose a significant penalty on those who fail to meet this duty in the mandatory timeframe?

If the three trading parties involved in a trade have agreements in place with the other relevant trading parties and one of the trading parties does not act in compliance with the trade matching policies and procedures that it has agreed to put into place and its failure causes trades to fail to match by T+1 or, ultimately, T, we would assume that, over the course of a year, this could result in the other trading parties with whom the first trading partner deals also being required to make the mandatory quarterly filing that is supposed to indicate to regulators who is not capable of matching trades within the mandated time, even though it has not been a failure of the latter trading parties that caused the matching of the trades to fail. Would it not be a more effective way to determine who specifically is unable to comply with the mandatory trade matching responsibilities if the three trading parties involved in an unmatched trade were required to report the details behind a failure to match to the regulators immediately after such an event occurred?

On another issue, if an investment manager, on behalf of an institutional client, cannot deal with a specific broker because that broker has not been able to provide the required written assurance or enter into the necessary written agreement with the investment manager by January 1, 2007, but that broker is the broker who could provide best execution for the investment manager's client, this inability to use the broker could ultimately have a negative effect on the client of the investment manager. In these circumstances, the investment manager would be forced to breach its fiduciary duty to get best execution for its client because the proposed national instrument would require the investment manager to use the services of a less qualified broker.

If a client's custodian cannot provide an investment manager with the necessary written agreement or assurance by January 1, 2007, that it has established policies and procedures to achieve matching as soon as practicable after the trade is executed and in any event no later than the times set out in NI 24-101, this would seem to mean, under the terms of the proposed national instrument, that the investment manager would not be able to order a trade for its client's account through any broker as of January 1, 2007, if the client's custodian is offside. The investment manager would, it would seem, be well advised to update its client months before the deadline of January 1, 2007, about its custodian's progress towards providing the investment manager with the above noted written assurance or executed agreement in order to ensure that there is no need for its client to change custodians as of January 1, 2007, and/or to ensure that there will not be any excessive delays in the ability of the investment manager to trade for the account of the client concerned as of January 1, 2007.

Another of our primary concerns relates to how our actual role as an investment manager appears to differ from the role of the investment manager that is described in the proposed national instrument. In our experience, it is our responsibility, as an investment manager, to report to the client's custodian the details of a trade that we have ordered on the client's behalf and, when needed, to help resolve any matching issues that the custodian and the broker dealer involved in

the trade cannot settle between themselves. The matching activities, however, occur between the broker and the custodian; we, as the investment manager, do not play a significant role in the matching process. We, as an investment manager, may report trades to a custodian, but we do not confirm the details of those trades. That is a matter that is between the custodian and the broker. Therefore, the extent of the investment manager's responsibilities in trade matching under the proposed national instrument appears to be inconsistent with current industry practice.

We also suppose that large organizations with proprietary information systems will have to incur the expense of altering these systems so that they can comply with what appear to be only short-term monitoring requirements in order to be able to determine whether or not they need to provide the necessary reports to regulators. This monitoring and reporting will apparently only be necessary until STP is ultimately achieved in a few years. Depending on the extent of the systems changes that a large organization has to make, this could result in such additional costs being passed on to clients in the form of increased fees. We also note that the cost of meeting the upfront technological requirements and the ongoing monitoring requirements that will stem from the introduction of this proposal could be one more barrier to entry into the market for a new broker or investment manager.

Our Questions:

In Part 1, section 1.3 (3) of the Companion Policy, one of our representatives found the definition of "Settlement Day" confusing and inquired whether the words "Matching Day" should not, in fact, replace the words "Settlement Day" as the definition is apparently describing the matching day and not the settlement day.

In Part 2, section 2.1 of the Companion Policy, paragraph (a) refers to certain trade data elements that must be verified and agreed to by the trading parties. Specifically, there is a reference to security identification by use of a security's ISIN, currency, issuer, etc. However, we note that it is common industry practice to use CUSIPs and not ISINs. We would appreciate clarification as to why ISINs have been identified as a security identification element. Will it be necessary for us to convert all our security identifiers to ISINs as opposed to the existing CUSIPs that we use?

With respect to forms 24-101F2 and 24-101F5, those who are required to complete these forms are asked to report on CAD Equity and Debt and USD Equity and Debt. However, we note that section 2.1 of Part 2 of the proposed national instrument indicates that the instrument does not apply to a trade in securities that settles outside of Canada. Therefore, why are USD Debt and Equity included in the form? Is this to represent Canadian securities that pay in / trade in USD? Part 2, 2.1 also states that it doesn't apply to options or futures contracts that are cleared through a clearing house. Does this mean that the proposed national instrument applies to other derivative instruments?

With respect to mutual funds, would the proposed national instrument apply to trades in units of non-prospectused mutual funds? If it does apply to trades in units of non-prospectused mutual funds and a non-prospectused mutual fund holds units of another non-prospectused mutual fund,

would we as an investment manager have to take trades in the bottom fund into account for reporting purposes?

Are trades in equity securities listed exclusively on a Canadian exchange the only trades affected by the proposed national instrument or will it also apply to trades in securities that are registered on a U.S. exchange?

Although the proposed national instrument clearly states (Part 1, 1.2 (2)) that a reference to time is meant as a reference to EST, would not repeating this clarification in the Companion Policy also be helpful to readers?

Thank you for this opportunity to express our concerns and to raise the questions that we have with respect to the proposed national instrument.

Sincerely,

PHILLIPS, HAGER & NORTH
Investment Management Ltd.

[original signed by Larry Neilsen]

Larry Neilsen
Vice President, Risk & Compliance

LAWN/lmr

Enclosure