ITG
CANADA

May 2, 2006

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Office
Office of the Attorney General, 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

C/O John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West,
Suite 1903, Box 55
Toronto, OntarioM5H 3S8

and

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 Mr. Stevenson and Mme. Beaudoin:

ITG Canada is pleased to have the opportunity to comment on Proposed National Instrument 24-101, Institutional Trade Matching and Settlement and the Proposed Companion Policy 24-101CP to National Instrument 24-101, Institutional Trade Matching and Settlement.

ITG Canada is a specialized brokerage and technology firm that provides innovative technology solutions spanning the entire investment process. Our sophisticated solutions include pre-trade analytics, advanced trade execution technologies and post-trade evaluation services. ITG Canada has long been a proponent of electronic trading, serving the institutional investing community by combining deep financial knowledge with technological expertise. Globally, ITG Inc. serves hundreds of institutional investors and is committed to providing technology solutions which enable customers to maximize investment performance through lower transaction costs. These technology solutions provide increased opportunities for operational efficiencies, resulting in reduced processing costs and reduced risk.

Increasingly, as trade volumes rise, the efficient recording of the day's trading activities becomes crucial to the minimization of risk and processing costs. ITG Canada provides electronic trade confirmation on trade date to all clients provided the client has furnished either standing trade allocation instructions or, specific allocation instructions for the trade in question.

ITG Canada is supportive of the CSA's efforts to create a framework to improve the timely and efficient processing and settlement of institutional trades. We are supportive of a CSA rule which mandates trade matching deadlines and requires participants to have in place processes and procedures which enable trade matching within the prescribed performance targets. In particular, due to the lack of significant progress made by to date by participants, ITG Canada is in support of a CSA rule which sets realistic achievable performance targets for achieving trade matching on Trade Date.

ITG Canada believes that improved processing and settlement of institutional trades is important for the Canadian securities industry for several reasons. The increase in cross-border trading in the past decade means that Canada cannot afford to remain behind the matching efficiency rates of other countries, in particular, the United States. Canadian participants have been slow to respond to the STP initiative and must seek to align their processes and procedures with other global markets to remain competitive. The efficiencies to be derived from improved processing and settlement of institutional trades will have related benefits for all participants in reducing operational costs and risks. Therefore the cost of the investment for this initiative must be measured in relation to the benefits derived by the organization as a whole.

ITG Canada would like to commend the CSA and the CCMA on their efforts to achieve institutional trade matching and recognizes their efforts to solicit and incorporate industry comments on key issues and concerns.

The following provides ITG Canada's response to the questions posed by the CSA in the <u>Request for Comment on Proposed National Instrument 24-101 –</u> <u>Institutional Trade Matching and Settlement and Proposed Companion Policy 24-101CP to National Instrument 24-101 Institutional Trade Matching and Settlement</u>, dated March 3, 2006.

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

The definition of "institutional investor" has been expanded to include investors with assets over $10 million in order to cover all large investors, such as hedge funds, who may hold securities through a prime broker agreement, rather than a custodian. The growth and increased impact of hedge funds in Canadian capital markets makes it important to include these funds, not previously captured in the definition of an institutional client.

However, we believe that the definition of institutional investor should be harmonized across regulators and that the $10 million threshold may not be appropriate to capture all sophisticated managers of assets. It would be beneficial, in future, to align the definitions used by the CSA with the IDA so that the definition of an institutional client or investor has a standard meaning and interpretation across the industry. We would recommend a definition for institutional investor that is not based on size of assets alone as the test for inclusion.

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

The definition of "trade-matching" party is a significant improvement over the previous term, "relevant party". The new term has been expanded to include all parties who must be involved in the trade matching process, i.e., the investment adviser, the investment dealer and the custodian. It is our belief that, without the inclusion of all related parties, the trade matching rule would have no significant benefit to the industry. Regardless of the fact that regulators do not have jurisdiction directly over some participants, it is absolutely necessary that those participants be included in the framework being established for STP. In order to ensure the efficiency of the entire settlement process, it is critical to ensure that all details required for accurate clearing and settlement of a trade are agreed between the related participants, or "trade matching parties" and that trades be confirmed and affirmed between the adviser, dealer and custodian so that matched trades are submitted to the clearing and depository system.

3. The scope of the trade matching requirements of the instrument is limited to DAP or RAP trades. Should the requirements be expanded to include other trades executed on behalf of an institutional investor? Should the requirements capture trades executed with or on behalf of an institutional investor settled without the involvement of a custodian?

We believe that the requirements are appropriate as written and that the rule should include all DAP and RAP trades executed on behalf of an institutional investor whether or not settled by a custodian. Limiting the rule to DAP and RAP trades is adequate. Any other trades, by definition, settle within the dealer itself and are subject to existing rules regarding margin for possible losses and concentration of amounts loaned against any one corporate issuer.

4. **Is each of these methods (compliance agreement or signed written statement) equally effective to ensure that trade matching parties will match their trades by end of T? Should trade matching parties be given a choice of method to use?**

The use of either a compliance agreement or a signed written statement should be an effective means of ensuring compliance with industry standard protocols for trade matching as soon as practical after trade execution. Either type of document should have equal enforceability from a compliance perspective. From an implementation point of view, however, a compliance agreement would seem a preferable alternative since it establishes the standards to which both parties in the transaction agree. If all parties are required to provide such a document, we would recommend that a standard industry agreement be developed that can be used by all parties, similar to the standard sort of agreement used in the introducing/carrying broker relationship. In this way, the industry will avoid the lengthy and costly process of all dealers and advisers being required to develop their own forms and the associated compliance and legal reviews that such a document would require.

However, we are concerned about the regulatory burden of requiring yet another type of documented agreement between dealers and their clients. An alternative approach would be to include such a statement as to policies and procedures as a clause in a new account agreement or as an addendum to the account agreement.

It should be noted that this rule applies to all existing accounts held by dealers, not only new accounts. One approach for the transition of existing accounts would be the use of a "negative option" letter sent to existing accounts outlining the required policies and procedures. This method has been used in relation to other regulatory changes in the past. If this is not considered sufficient, there should be a transition period (at least 6 months) to allow parties to have these agreements put in place with their existing clients.

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

The instrument provides for overall reporting of institutional trade matching to be performed by CDS for the industry. We believe that there must be accountability for failure to comply with the instrument. Without accountability, it is unlikely that participants will continue to develop better processes and procedures to enable the industry to meet the required deadlines. However, we believe that the publishing of "public" performance reports by CDS for the industry may be sufficient to encourage compliance with the rule. Requiring formal exception reporting will increase the regulatory burden placed on dealers and their clients.

If it is found that this public reporting of performance is not sufficient, then formal exception reporting could be implemented. This may be necessary in order to determine any systemic industry issues which are impeding the STP initiative as well as ensuring that all participants are working to improve their operational efficiencies to meet the prescribed deadlines.

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

If exception reporting is required by the regulators, then custodians should be required to do exception reporting in order to properly monitor compliance with the instrument. The definition of "trade-matching party" was expanded to include custodians in the scope of the instrument since advisers, dealers and custodians are all critical parties to the effective clearing and settlement of a trade. Since custodians are included in the definition then they should also be required to monitor and assess performance issues related to the trade match targets. Custodians must be included in the reporting requirements in order to determine systemic industry issues as well as particular issues related to specific advisers. The inclusion of custodians acts as an additional "check and balance" on the monitoring and assessment process.

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

It is extremely difficult to assess the industry's readiness to achieve the matching rates set forth in the instrument. Certainly there has been little progress to date on moving towards improved matching rates since studies done in 2004. The changes required to meet the deadlines set forth will be significant. There must be sufficient time allowed <u>after</u> the instrument is made final, to allow participants to implement the necessary changes to processes and procedures to enable them to meet these required matching thresholds.

We would recommend that the initial trade matching deadline be moved back but require a higher threshold to be achieved. We would suggest fewer, longer transition stages with a final deadline approximately one year later than set out currently in the instrument. A revised timetable might be:

Trades Executed	Matching Performance Targets
After June 30, 2007 but before July 1, 2008	80% matched on T + 1
After June 30, 2008 but before July 1, 2009	80% matched on T
After June 30, 2009	98% matched on T

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

The transitional percentages outlined in the instrument are in stages which are too short to be meaningful. It will be difficult to accomplish significant changes in six month incremental stages. The most difficult transition phase will be moving from the target deadlines on T+1 to the deadlines on T, which is currently set for implementation approximately one year from now. In order to be realistic in achieving compliance with the instrument, participants need longer implementation lead times to implement their internal process and system changes. We would recommend that there be fewer transition stages during the process of implementation and that each stage be longer, i.e., one year as opposed to six month transition periods.

On behalf of ITG Canada, I would like to thank the CSA for the opportunity to comment on this important initiative. We would be pleased to discuss our views on this issue with the CSA or commission staff at any time.   Please do not hesitate to contact me at 416-874-0737 should you have any questions.

Yours truly,

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