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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

To:
John Stevenson,
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

and

Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal Québec H4Z 1G3

Dear Sir/Madame,

Re: Notice and Request for Comment on National Instrument 24-101 (NI 24-101) - Institutional Trade Matching and Settlement and Companion Policy (24-101 CP) Institutional Trade Matching and Settlement (the "Notice")

CDS Clearing and Depository Services Inc. (CDS) is Canada's national securities depository, clearing and settlement hub. CDS clears and settles Canada's equity, fixed income and money market securities, holds over $3 trillion on deposit and handles over 250 million domestic securities trades annually.

CDS appreciates the opportunity to provide comments on the proposed amendments to the CSA National Instrument 24-101 and Companion Policy (24-101 CP).

CDS solicited comments from members of the Debt/Equity subcommittee of CDS's Strategic Development Review Committee (SDRC) and has incorporated the feedback received into this document. Many of the members of the subcommittee have worked extensively with the Canadian Capital Markets Association (CCMA), CDS and other industry groups towards the goal of achieving timely and efficient institutional trade matching in the Canadian capital markets.

Question 1: For what period should the requirement to match no later than the end of T be deferred? Should the requirement be deferred indefinitely until such time as global markets shorten their standard T+3 settlement cycles? Please provide your reasons.

The Debt/Equity subcommittee members are of the opinion that the current matching target of T+1 at noon is adequate based on the current T+3 settlement cycle in the Canadian capital markets and that a move to matching no later than the end-of-T would not have any significant impact in terms of risk mitigation and increased settlement efficiency.

Some members commented that the national instrument was originally intended to address the potential for a shortened settlement cycle. The likelihood that the settlement cycle will be shortened has diminished in recent years. Indefinite extension of the current end-of-T matching requirement would eliminate the need for further deliberations regarding the effectiveness of matching on T+0 and would allow dealers to utilize their technology resources more efficiently. However, the members acknowledged that, if there is a move towards a shortened settlement cycle to T+2 or T+1, a move to an earlier matching deadline would be appropriate.

Question 2: The CSA is looking for as much information as possible from stakeholders on the costs and benefits of the requirement to match a DAP/RAP trade no later than the end of T, including any available empirical data. What would be the benefits of moving to matching by midnight on T on July 1, 2015?

CDS's operating system (CDSX) currently facilitates real-time trade reporting and matching. Any additional cost to CDS associated with achieving same-day matching would be a result of specific development requests from participants, service bureaus and vendors to support their systems interface requirements with CDS.

The Debt/Equity subcommittee members indicated that the potential costs associated with moving to matching on a same-day basis would increase their operational costs as a result of staff having to manage the same-day matching requirements beyond regular working hours. Also, in some cases one-time costs to upgrade their systems could be substantial. According to the Debt/Equity subcommittee members, matching on a same-day basis would provide some benefits in terms of reduced risk from improved accuracy in post-trade processing. However, the benefits are expected to be low when compared to the associated costs.

Question 3: What are the costs and benefits of extending the current industry ITM processing times to allow market participants to process their trades beyond the CDS 7:30 p.m. cut-off time until late in the evening on T?

It should be noted that when CDSX closes for online processing at 7:30 p.m. CDS continues to accept trade entry files, confirmation files and real-time messages. As a result of improved efficiencies, recent performance tracking by CDS shows that the system is typically reopened by 9:30 p.m. or earlier at which time all files and messages received during the closedown period are processed as same-day trades. Additionally any ITP related trade instructions received prior to midnight are also treated as same-day trades for the purposes of ITP trade matching. CDS believes that the closedown of its online system for approximately two hours or less does not have a negative impact on matching rates. Once the system is back up after the closedown period, there is sufficient time to process all trade instructions received during the closedown period and typically well before the 11:59 p.m. deadline for end-of-T matching.

There could be many downstream impacts on the timing of CDS's current delivery schedule as well as on external participants, service bureaus and vendors. Unless a complete end-to-end review is undertaken by all affected parties in the processing chain to determine the operational impacts and costs associated with changing CDS's processing schedules, it would be difficult to ascertain whether there is an overall benefit to be achieved by the industry.

If CDS were asked by the industry to consider a change in its current system shutdown time from 7:30 p.m. to a later time in the evening, CDS does not expect that there would be a substantial improvement in the current ITP matching rates. The 7:30 p.m. shutdown for online input and processing allows CDS to complete its overnight batch processes on a timely basis, but this timing also aligns with the timelines of external parties, including participants, service bureaus, third party vendors and exchanges. Most of these external parties have established batch processing timelines in place and these timelines have been closely coordinated between CDS and these parties over a number of years in order to ensure timely processing and smooth operations on any given business day.

Question 4: What are the costs and benefits of having a specific industry-wide trade identifier to enable dealers to track and segregate their non-western hemisphere trades from western hemisphere trades?

The industry must determine the benefits to be gained versus the cost of implementing this change.

Currently trades reported to CDS by participants, service bureaus and matching utilities do not identify the geographical location of the client involved in the settlement of a trade and CDS does not currently provide a field in its trade input facilities to specifically identify non-western hemisphere client trades. However, CDS is ready to work with the industry and its participants to make changes as requested within CDS's system that would allow non-western hemisphere trades to be indentified separately from western hemisphere trades in order to more accurately report matching rates including the allowance made for non-western hemisphere client trades. The overall benefit would be that trade matching reports produced by CDS would take into account the additional day allocated to non-western hemisphere client trades for meeting the trade matching requirements versus the western hemisphere clients. This would result in more accurate reporting of matching rates based on the requirements outlined in NI 24-101.

Question 5: Would extending the current requirement to match no later than noon on T+1 to a new deadline of 2 p.m. on T+1 help address current ITM processing delays and problems for the next two years?

Feedback from the Debt/Equity subcommittee members indicates that a change in the matching deadline, from 12:00 p.m. on T+1 to 2:00 p.m. on T+1 would not make a material difference in matching rates for many of the participants, although for some participants the difference may be enough for them to meet the current targets and deadlines. Some participants also expressed concerns about the cost they would have to incur in order to make the system changes required to track matching rates at the proposed time of 2:00 p.m. on T+1 and then reverting back to 12:00 p.m. on T+1 after the expiry of the two-year period.

However, if the CSA decides to proceed with the proposed change to a new deadline of 2:00 p.m. on T+1 for a two-year period, CDS is willing to work with its participants to make the necessary changes to provide reporting based on the new deadline. The cost to CDS for the change would be minimal.

To assist in determining if there would be a notable change in matching rates by moving the matching deadline to 2:00 p.m. on T+1, CDS plans to conduct an analysis of matching rates at 2:00 p.m. on T+1. Additionally, at the request of the Debt/Equity subcommittee members, CDS will also conduct an analysis of matching rates at 7:30 p.m. on T+1. The results of both these analysis will be shared with the CSA working group by the end of February 2010.

Additional Comments

Method of determining threshold percentages

CDS and the Debt/Equity subcommittee members support the proposal to eliminate the threshold percentage based on the total number of trades for debt trades and thus retaining the total value as the only method for determining the matching rates for debt trades. CDS and the Debt/Equity subcommittee members also support the proposal to eliminate the need to determine the threshold percentage based on value for equity trades, thus retaining the total number of trades as the only method of for determining matching rates for equity trades. It was felt that value is a much better measurement for debt trades, because debt trade volumes are generally small and thus are not good indicators of efficient matching. Conversely, due to the high number of equity trades, volume is a better indicator of efficient matching than value.

In conclusion, CDS remains committed to continuing its support for improving matching rates in collaborating with the industry.

Yours truly,

Kris Sanker
Director, Product Development