



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Ian C.W. Russell FCSI
President & Chief Executive Officer

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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
Registrar of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Registrar of Securities, Nunavut

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

And

Anne-Marie Beaudoin
Directrice du secretariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

**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”)**

The Investment Industry Association of Canada (IIAC) is the professional association for the securities industry, representing over 200 investment dealers in Canada. Our mandate

is to promote efficient, fair and competitive capital markets for Canada and assist our member firms across the country. The IIAC formed a Working Group to review and respond to questions raised by the CSA in the Notice. Below you will find responses to these questions from the perspective of our members, many of which have direct involvement in the institutional market, and all have a clear interest in the efficient and cost-effective operations of Canada's capital markets.

The IIAC commends the CSA in its efforts to help dealers work towards achieving better matching of trades on T+0 and appreciates the opportunity to provide feedback on the proposals contained within the Notice.

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 IIAC Working Group is of the consensus that a move to matching from T+1 at noon to T+0 at midnight should only occur when global markets shorten the current settlement standard of T+3. Given that there is a small failure rate at T+1 at noon, our members question the benefit of moving to T+0 compared to the relative costs. However, if the CSA is determined to move toward a T+0 at midnight deadline, the IIAC Working Group recommends a flexible deadline which could be reassessed once all participants are able to meet the T+1 at noon deadline. A flexible deadline would give dealers time to determine if the initial suggested deadline is reasonable and realistic, given the number of parties and technologies that must interact to meet regulatory expectations.

At the present time, not all parties are ready to move to a shortened deadline of T+0 at midnight, however, the IIAC Working Group recognizes that it is important to continue working towards achieving this goal. Many dealers have allocated firm resources based on existing targets and there is a concern that if targets are indefinitely postponed that momentum will be lost and these resources will be re-allocated for other projects.

However, the reality is that after-hours trading and alternative trading systems have widened, not compressed, the window for trading, and consequently, allocations are sent later in the evening, or first thing the next morning. If the global settlement cycle is compressed, the move to T+0 at midnight will need to be phased in to match the target date for the new settlement cycle. The match rate for a target of T+0 at midnight should more realistically move toward a rate of 80% or 85% until the global standard and all parties are prepared to meet compressed deadlines.

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?

For those firms, especially small to mid-size firms, who have not yet invested in the technology required for a real-time environment, the heaviest costs of moving to matching on T+0 will be the costs of systems improvements, as well as the increase in payroll for entering, matching and management personnel. For some firms, it may be cost

prohibitive to meet the requirements. If matching on T+0 is to be achieved by the industry, the IIAC Working Group recommends the implementation of an industry-wide requirement for all trading and custodial firms to have the prerequisite personnel available in real-time to process information. Despite the costs involved, our members recognize that a move towards matching on T+0 will be impossible to achieve without full participation by all parties.

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?

Most dealers are unable to estimate fully the potential costs they would incur as a result of the extension. Firms are limited by the availability of internal and external systems, the negative impact of having to staff for the extended timeframe and potential inability to have contact and system availability with both clients and matching participants of the trade.

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 IIAC Working Group is of the opinion that the benefit of an industry-wide trade identifier for distinguishing between western and non-western hemisphere trades does not justify the investment required and the related operating costs involved. The IIAC Working Group indicated that the majority of trades are within North America and that many dealers already have in-house systems and processes to deal with this.

Additionally, with respect to the terms “western hemisphere” and “non-western hemisphere” used throughout NI 24-101, the IIAC Working Group is of the opinion that it would be more appropriate if trades were differentiated as “North American” and “non-North American”. The current differentiation of the designations for what is western hemisphere and what is non-western hemisphere is not easily ascertained and somewhat subjective and therefore it would be more effective to use North American and non-North American.

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?

The extension of matching on T+1 at noon to T+1 at 2 p.m. will not provide substantial benefit to dealers, relative to costs. While matching rates may improve slightly with a 2 p.m. deadline, this change would entail extensive system changes as well as the addition of resources that are very scarce today. Since this change is only proposed for the next two years, further costs and resources would be required to eventually revert back to a noon on T+1 deadline. Dealers with the majority of the trading volumes generally prefer to use their already scarce resources to continue to improve the matching rates for T+1 at Noon.

Additional Comments

Quarterly exception reporting requirement

Currently, the threshold percentages are determined by measuring both the total number and total value of DAP/RAP trades executed by or for a registered firm that matched within the deadline during a calendar quarter. This is currently used for both equity and debt securities trades. The CSA is considering amending the calculation with respect to how the threshold percentages are determined for both equity and debt securities. The IIAC Working Group is not in favour of such changes as most dealers have already built their reporting processes to measure both volume and value. In addition, the requirement to report only the number of equity trades and actual dollar value for debt will deter the ability of dealers to focus on clients who process a limited number of equity trades but for a large dollar value as well as a large number of debt trades for small dollar value.

If the CSA chooses to modify the reporting requirements to volume only for equity trades and value only for debt trades, dealers will simply use their current measurement processes and report only what is required.. Many dealers use the processes in place for purposes beyond compliance with NI 24-101 and will continue to calculate both regardless of modifications to the regulatory requirements.

Definition of “trade-matching party”

The IIAC Working Group commends the CSA for making changes to the definition of trade-matching party, clarifying which parties fall under the definition. However, to meet targets, we believe the responsibilities of all parties should be further explained. As an example, we question what responsibility each member will have to monitor the accounts or assets “under administration or management of less than \$10 million”.

In closing, we welcome the opportunity for an ongoing dialogue with the CSA on this important initiative and would be pleased to discuss this submission should you have any questions.

Yours sincerely,

“Ian Russell”