



THE CANADIAN DEPOSITORY
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OFFICE OF THE SECRETARY

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Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549-0609
U.S.A.

Dear Mr. Katz:

Re: Concept Release: Securities Transactions Settlement [Release No. 33-8398; 34-49405; IC-26384; File No. S7-13-04]

The Canadian Depository for Securities Limited has reviewed the Concept Release: Securities Transactions Settlement (the "Release") and appreciates this opportunity to provide comments.

The Canadian Depository for Securities Limited (CDS)

CDS is Canada's national securities depository, clearing and settlement hub, providing valued, secure and reliable securities market services that continuously improve efficiency, effectiveness and global competitiveness, for example, through straight-through processing (STP) initiatives.¹ CDS supports Canada's equity, fixed income and money markets, holding over \$2 trillion on deposit and processing securities transactions valued in the hundreds of billions of dollars daily.

Handling over 50 million securities trades annually, CDS settles over 13 million cross-border transactions with the Depository Trust and Clearing Corporation (DTCC) each year, in addition to having custodial relationships with other clearing and settlement organizations. CDS and DTCC have collaborated successfully for over 20 years to develop the most extensive cross-border clearing, settlement and custodial linkage in the world.

¹ CDS has full connectivity with its participants and CDSX (its main platform) is STP-capable. CDSX functionality allows both matching and confirmation. CDS has published standards for vendors wishing to send matched institutional trades to CDSX for settlement and expects to implement the necessary functionality to accept the matched institutional trades from matching utilities in late 2004 or early 2005. As well, CDS intends to implement the distribution of entitlements information in ISO-15022 format by the end of 2004, to further promote STP.



Importance of Uniform North-American Settlement Cycle

Canadian capital markets are integrally inter-related with those in the U.S. to such an extent that many now simply refer to a North-American market. Fifteen per cent of securities issued on the Toronto Stock Exchange (TSX) and 40 per cent of the TSX's trading volume are interlisted. Approximately one quarter of all settlements at CDS are cross-border.

A Charles River Associates study (2000) concluded that Canadian and U.S. markets should change settlement cycles at the same time – not earlier and not later. This is due in part to the potential operational complexities and confusion that different cycles in Canada and the U.S. would cause. In fact, it was for this reason that both countries shortened their securities settlement cycles from T+5 to T+3 on the same date in 1995. We believe it critical that any change to the settlement cycle be discussed in advance and allow time for implementation and testing to ensure no market disruptions. In contrast to the T+5 to T+3 move, when most changes were behavioural, a move to shorten the settlement cycle further is complex and requires technology changes as well.

Attached are our detailed comments. We would be pleased to answer any questions that you may have.

Yours truly,

A handwritten signature in black ink, reading 'Jan A. Gilbooley'. The signature is written in a cursive style with a large, sweeping flourish at the end.



CDS COMMENTS ON SEC CONCEPT RELEASE

CDS has addressed select questions asked in the Concept Proposal.

A. Same-Day Trade Confirmation/Affirmation

Question 8: Would same-day confirmation/affirmation affect cross-border trading? If so, how would it do so?

Canadian firms participating in the U.S. market and U.S. firms participating in the Canadian marketplace are used to the operations, market practices and settlement conventions of each others' markets, which are generally not dissimilar. There will be some additional challenges with same-day confirmation/affirmation, however, we believe that these are resolvable and that efforts should continue to provide as seamless as possible a clearing and settlement service to North-American investors.

Regarding cross-border trading beyond North America, some adjustments will likely have to be made due to differences in time zones.

B. Securities Settlement Cycles

Question 7: How much would it cost to shorten the settlement cycle beyond T+3?

a. Is achieving 100% of confirmation/affirmation or matching on trade date a prerequisite for shortening the settlement cycle beyond T+3?

To minimize risks, achieving 100 per cent (or close to 100 per cent) matching or confirmation/affirmation on trade date is required before making the decision to shorten the settlement cycle. The synchronization of the changes necessary by participants in one country alone can be challenging and will require significant testing before conversion.

Question 14: What impact would a shortened settlement cycle for U.S. equities and corporate securities have on cross-border trading by non-U.S. entities of these instruments?

As noted above, Canadian firms participating in the U.S. market and U.S. firms participating in the Canadian marketplace are used to operating in each others' markets. There will, however, likely be additional challenges in a T+1 environment, for example, if all transactions must be real-time or near real-time. As mentioned earlier, we still believe that all efforts should be directed toward continuing to ensure domestic and cross-border transactions between Canada and the U.S. are processed as similarly as possible. There should be few if any foreign currency limitations to consider.

Regarding cross-border trading beyond North America, however, there is a serious concern regarding the attractiveness of North-American markets should offshore investors not be able to comply with shorter timelines. While there may be ways to work around this, we believe that additional analysis of potential market effects is required.