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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Securities Office, 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 Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

Madame Anne-Marie Beaudoin
Directrice du secrétariat de l'Autorité
Autorité des marchés financiers
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Dear Mr. Stevenson:

Re: Discussion Paper 24-401 on Straight-Through Processing, and Proposed National Instrument 24-101 Post-Trade Matching and Settlement, and Proposed Companion Policy 24-101CP

www.etrade.ca

E*TRADE Canada Securities Corporation

(Discount Broker – Order-Execution Only Accounts)

is a member of The Toronto Stock Exchange, the Montreal Exchange, the Canadian Venture Exchange, the Investment Dealers Association and the Canadian Investor Protection Fund

E*TRADE Canada Securities Corporation (E*TRADE Canada or we), through its parent, E*TRADE Technologies Corporation (E*Tech), is a leading provider in Canada of electronic trading technologies and services, connecting institutional and retail investors, brokerage firms, and regulated markets to enable investors to manage their own securities orders, route their orders directly for execution to the markets of their choice, and receive comprehensive data, reports, and other information services relevant to their trading activity and the markets in which they trade. The E*TRADE Network operates to enable investors to utilize the broker execution services of brokers selected by them that are participants on the Network, and is integrated with markets in Canada, the U.S., Europe, and Asia. E*TRADE Canada and E*Tech are therefore uniquely positioned to comment on issues regarding further market streamlining and integration. We appreciate the opportunity to comment on the Discussion Paper 24-401 and proposed National Instrument 24-101 Post-Trade Matching and Settlement, and Proposed Companion Policy 24-101CP.

Please find below E*TRADE Canada's responses to selected questions from the Discussion Paper 24-101.

Question 1: If the CSA were to implement mandatory STP readiness certificates, what should be the subject matter of such certificates?

No comment.

Question 2: Is it important to the competitiveness of the Canadian capital markets to reach STP at the same time as the U.S.? Please provide reasons for your answer. Are there any factors or challenges unique to the Canadian capital markets?

STP initiatives in Canada and U.S. can progress at different pace as long as the settlement day remains T+3 in both countries.

However, if U.S. were to shorten the settlement cycle, it would be very important for Canadian capital markets to make that transition at the same time as the U.S., or else investors and issuers would perceive U.S. markets as more efficient and liquidity would move south of the border.

Having in mind that STP initiative is just the first step toward shortening the settlement cycle, and that SEC has raised the issue of shortening the settlement cycle again in March 2004, E*TRADE Canada is of the view that Canadian capital markets would benefit from reaching STP at about the same time as U.S., although possibly using a different implementation plan.

Question 3: Should it be one of the CCMA's tasks to identify the critical path to reach specific STP goals? If so, what steps and goals should be included?

E*TRADE Canada strongly supports managing Canadian STP initiative as one integrated program with a critical path, clear dependencies and consolidated status reporting to the industry.

Management of the STP program could be done under the CCMA umbrella, as it is the role of CCMA to help the industry reach STP goals¹. Another option could be to form an STP Program Management Office under the CSA.

Question 4: Should the CSA require market participants to match institutional trades on trade date? Would amending SRO rules to require trade matching on T be more effective than the Proposed Instrument? Is the effective date of July 1, 2005 achievable?

E*TRADE Canada agrees that in order to achieve one hundred per-cent matching on trade date, a rule should be introduced to mandate matching on T. However, we believe that the rule must be expanded to mandate the use of a defined STP communication protocol, as further described in our answer to question 6.

Based on observed readiness of the industry participants, lack of clarity on messaging standards and lack of available technical solutions, E*TRADE Canada does not believe that effective date of July 1, 2005 is achievable.

Question 5: Is a close of business definition required? If so, what time should be designated as close of business?

E*TRADE agrees with CSA's proposal that close of business should be the latest time that CDS accepts end-of-day trade affirmations for the last batch settlement cycle of the day.

Question 6: Should the Proposed Instrument expressly identify and require matching of each trade data element, or is it sufficient for the Proposed Instrument to impose a general requirement to match on T and rely on industry best practices and standards to address the details?

E*TRADE Canada has been actively discussing STP implementation in Canada with its clients, other technology vendors and market participants. Through these discussions we observed that very little if any progress has been made in the last year towards STP implementation.

We believe that one of the key reasons for slow progress is lack of Canada-ready STP technology solutions for investment managers and broker-dealers that guarantee interoperability. We also believe that, technology vendors are not investing in Canada-ready STP solutions, as true interoperability standards are not available yet. Although CCMA Best Practices and Standards white paper offers good guidelines for STP processing in Canada, it does not offer enough detail to guide implementation and guarantee interoperability among various systems. Relying only on industry best practices and standards would lead to numerous interpretations/implementations which would prevent industry-wide interoperability, would incur significant additional costs for involved parties and would delay industry STP adoption.

E*TRADE Canada believes that a pre-requisite to industry-wide STP adoption is a defined STP communication protocol, endorsed by the industry and mandated by the regulators. This communication protocol needs to specify a data

¹ It would be important to understand why CCMA is not engaged in this kind of STP program management already.

transmission standard (open, real-time), data content (messages with data elements) and implementation guidelines (e.g. exception handling process).²

Question 7: Should the CSA rely on the best practices and standards established by the CCMA ITPWG?

Although CCMA ITPWS established best practices and standards were endorsed by the participants in 2003, it is possible that as the industry is looking at implementation details, some of the standards or processes may need to change.

One of the prime examples is the endorsement of the ISO15022 standard. The CCMA best practices and standards document advocates use of ISO15022 for all post-trade messaging. However, the current industry trend is to exchange buy-side and sell-side post-trade messages using FIX protocol.

At the time of writing of the CCMA's document, it was believed that FIX and ISO 15022 standards will merge. This initiative did not gain any momentum and at this time it seems that the two protocol will remain distinct.

Question 8: The CSA seek comments on the scope of the Proposed Instrument. Have we captured the appropriate transactions and types of securities that should be governed by requirements to effect trade comparison and matching by the end of T and settlement by the end of T+3? Have we appropriately limited the rule to public secondary market trades?

No comment

Question 9: Is the contractual method the most feasible way to ensure that all or substantially all of the buy side of the industry will match their trades by the end of T?

No comment.

Question 10: Should an exception to the requirement to match a trade on T be allowed when parties are unable to agree to trade details before the end of T and are required, as a result, to correct the trade data elements before matching?

E*TRADE is of the view that this could be an acceptable exception to the rule, but only in the initial phases of the STP implementation.

With new technology and process reengineering, there should be very few exceptions and they should be resolvable on T. However, it will take a long time for the entire industry to achieve this.

Question 11: Should registrants be required to report all exceptions from matching by the close of business on T? If so, who should receive the report (e.g. recognized clearing agency, SROs, and/or securities regulatory authorities)?

No comment.

Question 12: Is it necessary to mandate the use of a matching service utility in Canada? If so, how would the appropriate centralized trade matching system be identified? Are there institutional investors or investment managers that may not

² It should be noted that both FIX and SWIFT protocols are already defined on all three levels.

benefit from being forced into an automated centralized trade matching system? Can STP trade matching be achieved without a matching service utility?

E*TRADE believes that the use of a matching utility should not be mandated in Canada as it would (1) force substantial changes to all existing systems that deal with post-trade processing, (2) would incur large costs for small firms that could otherwise satisfy the STP requirements with local matching at a much lower cost and (3) would most likely be an expensive utility to use due to the relative complexity of such a system and the small size of the Canadian marketplace that would share in the costs.

Question 13: Should the scope of functions of a matching service utility be broader?

No comment.

Question 14: Are the filing and reporting requirements set out in the Proposed Instrument for a matching service utility sufficient, or should a matching service utility be required to be recognized as a clearing agency under provincial securities legislation?

No comment.

Question 15: Can the Canadian capital markets support more than one matching service utility? If so, what should be the inter-operability requirements?

E*TRADE Canada strongly believes that if more than one matching utility is operated in Canada, they must guarantee interoperability, so that a firm needs only to connect to one matching utility. E*TRADE Canada believes that the market can and should decide whether more than one matching utility can be supported.

Question 16: Should the CSA mandate a T+3 settlement cycle? Should the CSA mandate a T+1 settlement cycle when the U.S. moves to T+1 and the SEC amends its T+3 Rule?

E*TRADE Canada believes that CSA should not mandate T+3 settlement cycle, as such new rule might divert the focus from STP implementation and not solve any of the known existing problems.

E*TRADE Canada believes that it is mandatory for the viability of the Canadian capital markets that CSA mandates a T+1 settlement cycle when the U.S. moves to T+1 and SEC amends its T+3 rule.

Question 17: Should the CSA require the reporting of corporate actions into a centralized hub? If not, is it more appropriate for exchanges and other marketplaces to impose this requirement through listing or other requirements? Who should pay for the development and maintenance of the central hub?

No comment.

Question 18: Should the CSA wait until a hub has been developed by the industry before it imposes any requirements?

No comment.

Question 19: Should the CSA require issuers and offerors to make their entitlement payments by means of the LVTS?

No comment.

Question 20: If there is a CSA requirement to make entitlement payments in LVTS funds, should the requirement apply only to payments in excess of a certain minimum value? If so, what should that minimum value be?

No comment.

Question 21: Should the CSA consider implementing any additional rules to encourage and facilitate the investment funds industry to move towards an STP business model? If so, what issues should be addressed by the CSA?

No comment.

Question 22: Should the CSA develop rules that require the immobilization and, to the extent permitted by corporate and other law, dematerialization of publicly traded securities in Canada?

No comment.

Question 23: To the extent DRS systems operate in Canada, should a securities regulatory authority regulate transfer agents that are operating or using such DRS systems?

No comment.

Question 24: Should there be separate DRS systems and should they be required to be inter-operable?

No comment.

Question 25: Is it sufficient for the Canadian capital markets to rely solely on existing SRO segregation rules? Or, given the growing reliance on the indirect holding system, should the CSA consider an active role in developing comprehensive rules on segregation of customer assets?

No comment.

We appreciate the opportunity to make our views known to the CSA and we hope that our comment letter is helpful.

Yours very truly,

E*TRADE Technologies Corporation

Marc Gunter
Director, Brokerage Technology