

October 12, 2006

Via E-Mail

British Columbia Securities Commission
Alberta Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland & Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Department of Justice, Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

c/o John Stevenson, Secretary
Ontario Securities Commission
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Toronto, Ontario M5H 3S8
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and

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

**Re: Proposed Amendments to National Instrument 21-101 Marketplace Operations
and National Instrument 23-101 Trading Rules (“ATS Rules”)**

RBC Dominion Securities Inc. is pleased to have the opportunity to provide its comments on the Canadian Securities Administrators' (the “CSA”) proposed amendments to the ATS Rules. RBC Dominion Securities Inc. is the leading trader of all Canadian debt and fixed income derivative products and as such, is well positioned to comment on the proposed amendments to the ATS Rules.

In principle, we are supportive of the objectives of the amendments, that is to ensure fair and efficient trading, improve price discovery, decrease execution costs and enhance integrity. However, we are not convinced that further regulatory changes are required at this point since there has been sufficient industry-driven progress regarding fixed income

transparency. In our view, the proposed mandatory order and trade reporting requirements would provide no improvement but may have some negative impacts on liquidity within fixed income markets in Canada. We believe that a proper balance must be reached between the objective of increased transparency and ensuring that measures introduced to achieve this objective do not adversely affect market liquidity and efficiency.

RESPONSES TO SPECIFIC QUESTIONS

Question 1: Should there be a mandatory requirement to report and disseminate information related to designated government debt securities? What are the benefits and disadvantages of this and the alternative approaches?

While RBC Dominion Securities Inc. as a fixed income dealer is in a position to provide data on government fixed income securities, it is felt that such mandatory reporting requirements would provide no additional benefit to what is already available on the market for the following reasons:

- there is already adequate transparency in the government fixed income marketplace given the fact that inter-dealer bond brokers currently voluntarily post pre and post trade information;
- sufficient progress has already been made towards greater price transparency in this area as evidenced by both industry initiatives (TSX trade reporting, CanBid, online pricing by dealers, etc) and regulatory initiatives (i.e. CanPx); and
- the TREATS initiative is also leading to greater disclosure requirements in this area.

There is a concern that a mandatory requirement to report and disseminate trade information related to designated government debt securities may have some negative impacts on the fixed income markets. Exposure of transaction information may negatively affect the liquidity as some dealers may be reluctant to trade in certain issues. Further, the display of order and trade information could signal the trading intentions of institutional investors that could discourage their participation in secondary markets. Such reduced trading activity by dealers and investors will result in widening of bid-ask spreads.

Question #2: Should dealers be subject to order and/or trade transparency requirements for government fixed income securities? If so, should they be required to report order information, trade data or both?

As stated above, we believe that requesting market participants, including dealers, to disseminate trade information related to designated government debt securities may negatively affect liquidity and increase spreads on government fixed income securities.

As for order information, we do not believe dealers should be required to provide pre-trade information for any fixed income securities for these reasons:

- it may be hard to define what constitutes an order – is it an expression of interest, a query as to available prices, etc.;
- it may be difficult to separate what is an order from a trade as the decision to execute is often made immediately after an expression of interest is made by an

investor. It would be difficult to separate this into two distinct events that have to be posted to the marketplace twice; and

- we do not feel that pre-trade information is of benefit to the marketplace, because executed trades represent real data (real transactions) and orders do not. Capturing orders may in fact be misleading for some of the less liquid securities.

Question #3: What type of pre-trade information should be disseminated? Should it include indications of interest?

As described above, we don't think that pre-trade information should be disseminated, as this information would not provide improvement over the current process. We also feel the costs involved with creating a new system to capture expressions of interest would be unwarranted.

Question #4: Are the reporting timelines appropriate -- i.e. order information in real time and trade information within one hour of the time of the trade?

Order information should not be reported. Reporting trades within one hour of the time of the trade is appropriate. Shortening the time frame may lead to a de-liquification of the market. A real time reporting requirement would have huge systems and cost implications for some dealers.

Question #5: Are the volume caps applicable to government fixed income securities set out in the Companion Policy to NI 21-101 adequate? Should there be further tiering of volume caps for the different types of government bond securities?

Yes, the suggested volume caps set out in the Companion Policy to NI 21-101 are adequate.

Question #6: Should we require pre-trade transparency for corporate fixed income securities? If so, should the requirements be applicable to marketplaces only or should they also apply to dealers?

As outlined in Question #2, we do not think that pre-trade information should be required.

Question #7: Should the time for reporting the trades be reduced (for example, should all trades be reported and disseminated in real time)?

Current timelines for reporting are adequate. In our view, real-time display of trades would have detrimental effects of the dealers' willingness to provide liquidity. See our response to Question 4.

Question #8: Has the process for designating benchmark corporate fixed income securities been effective? Please explain your response.

Yes, it has been effective. We are aware of the process, and consider the current list representative.

Question #9: Has there been sufficient progress, both regulatory and industry-driven, regarding fixed income transparency to date? For retail investors? For large and small institutional investors?

As per our response to Question #1, we believe there is sufficient transparency within the market for institutional investors.

We also believe that there is sufficient transparency in the retail market where regulatory initiatives, industry competition and technology driven factors have played an important role in providing a growing and increasingly robust resource for investors seeking to educate themselves and make informed decisions. Specifically:

Increased on-line offerings – The majority of discount investment dealers provide a large inventory of fixed income instruments via on-line offering systems. There are few barriers preventing individual investors from opening accounts at multiple firms and securing their fixed income purchases on a competitive basis. These on-line offerings augment the other traditional sources of transparency including lengthy newspaper listings, and websites such as those from Perimeter Systems (CBID) and the TSX.

On-line Account Statements – At most dealers, investors can view their account on-line. At RBC DS, and likely most other dealers, pricing is updated daily with the same feeds that drive the firm's accounting systems and which is closely scrutinized by an independent risk management group. An investor can view the current market bid price on a security the day after a transaction, increasing the transparency related to retail margins and bid-offer spreads, which also creates a self-policing mechanism for the industry. In addition to providing a means of monitoring the value of their holdings, clients also have an objective indication of a selling price should they desire to dispose of a position.

Regulatory Developments:

- Through CanPx, pricing information is already available to investors on benchmark bonds. Any increase in the range of securities included in transparency initiatives through amendments to NP 21-101 will, at the margin, provide a more robust source of information for the individual investor.
- We view the current TREATS initiative as an excellent opportunity for the industry and regulators to develop a better understanding of retail participation in the bond market that would be more conclusive in determining the cost-benefit trade-off in relation to additional regulation of the retail markets. In particular, TREATS could provide an objective perspective on the size of retail participation in the markets, the consistency between institutional and retail wholesale pricing, and the dispersion of retail commissions relative to each firm's guidelines as mandated by Policy 5B.

In a market characterized by a large amount of securities that trade very infrequently, regulatory initiatives to increase the range of securities for which post trade disclosure is available are useful, but might not address the large number of illiquid, but investment grade issues held by retail. As many securities are differentiated in a way that prices cannot be directly compared, the ability to translate this information in a way that can be used to evaluate a fixed income purchase will continue to pose challenges for some retail investors.

More useful for the individual investor is a wider range of executable offerings that can be competitively sourced at the time an investment is made, something that is facilitated by increased online competition for investors' assets. Equally important, and somewhat overlooked in the current discussion, is the existence of a live (daily) and objective estimate of the market value for each position they own, many of which would rarely show up on the ticker of a TRACE-like system on a timely basis. In effect, this performs the task of translating current market information for the purposes of valuing a security on behalf of the investor.

Thank you for the opportunity to submit our comments. We would be pleased to discuss with you any of the matters outlined in this letter.

Yours truly,

"Peter Dymott"

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RBC Dominion Securities Inc.