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Via E-Mail

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Anne-Marie Beaudoin
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James E. Twiss,
Vice President, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
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**Re: CSA Notice of Proposed Amendments to National Instrument 21-101 Marketplace
Operation and National Instrument 23-101 Trading Rules
and
IIROC Request for Comments on Provisions Respecting Implementation of Trade-
Through Protection**

We are writing on behalf of RBC Asset Management Inc. ("RBC AM") and Phillips, Hager & North Investment Management Ltd. ("PH&N") to provide you with our comments in respect of the above-captioned proposed amendments to National Instrument 21-101 *Marketplace Operation* ("NI 2-101") and National Instrument 23-101 *Trading Rules* ("NI 23-101") published on October 17, 2008. These comments will also serve as our response to the IIROC proposal to amend the Universal Market Integrity Rules ("UMIR") and the related concept proposal published on October 27, 2008. RBC AM and PH&N are indirect, wholly-owned subsidiaries of the Royal Bank of Canada and provide a broad range of investment services to investors through mutual funds, pooled funds and separately managed portfolios.

At the outset, we would like to thank the CSA and IIROC for considering and adopting many of our comments submitted in our responses to earlier proposals. We applaud the CSA's and IIROC's position of ensuring market integrity through enhanced trade-through protections. We are strongly supportive of the direction to implement a framework for fair trading in a multiple marketplace environment by introducing the full depth-of-book trade-through obligation on marketplaces. Below are our responses to additional questions concerning which industry input is sought.

CSA Proposals

1. *Should marketplaces be permitted to pass on the trade-through protection obligation to their marketplace participants? If so, in what circumstances? Please provide comment on the practical implications if this were permitted.*

In the event that a marketplace experience a failure, malfunction or delay due to system problems, it should be permitted to pass on the trade-through protection obligation to the marketplace participants who have technology in place to meet the trade-through protection requirements.

2. *What length of time should be considered an "immediate" response by a marketplace to a received order?*

One second.

3. *Are any additional exceptions necessary?*

No comment.

4. *Please comment on the various alternatives available to a marketplace to route orders to another marketplace.*

Another alternative would be for new ATSS to adopt the US model, in which they display their quotes through a Self-Regulatory Organization (SRO) such as the NYSE or NASDAQ. In this way, dealers would need to connect to the SRO rather than to each new marketplace.

5. *Should the CSA set an upper limit on fees that can be charged to access an order for trade-through purposes? If so, is it appropriate to reference the minimum price increment described in IIROC Universal Market Integrity Rule 6.1 as this limit?*

We agree with the view that access fees should be limited in order to ensure that prices are easily comparable across marketplaces and to prevent significant price distortion after the fee is applied. Marketplaces should only charge a fixed nominal fee for accessing an order for trade-through purposes.

6. *Should there be a prohibition against intentionally creating a "locked market"?*

Yes, there should be a prohibition against intentionally creating a locked market.

7. *Should the marketplace statistics focus on units of securities traded instead of orders and number of trades?*

The statistics should focus on units and volume of securities traded as this is the most appropriate measure of liquidity. Liquidity is a very important element of the best execution requirement.

8. *Should the marketplace statistics require separate reporting on specific order types that would include market orders, intentional crosses, and prearranged trades?*

No comment.

9. *Should the focus of the liquidity measures be the number of orders or the cumulative number of shares?*

In our view, number of shares is the most appropriate liquidity measure.

10. *Would it be useful to have information about partially or fully hidden liquidity that is available on certain marketplaces? If so, what measures of that liquidity would be most informative?*

No comment.

11. *Would it be useful to include reporting similar to the near-the-quote orders required by the SEC in the United States? What price increment away from the quote would be appropriate to use for the Canadian market?*

No comment.

12. *Are statistics regarding average realized and effective spreads useful without a consolidated best bid and offer?*

We believe that consolidated best bid and offer would be helpful.

13. *Are the time frames used to assess speed and certainty of execution on a marketplace in section 11.1.1 of NI 21-101 appropriate? If not, what time frames should be used?*

Yes, the proposed time frames seem appropriate.

14. *In addition to the proposed reporting requirements for marketplaces, would other information, such as the following, be useful to dealers or advisors to assess best execution:*

- a) a breakdown of the information by order size (i.e. 100-499 shares, 500-1999 shares, 2000-4999 shares, 5000 or more);*
- b) the proportion of time that a marketplace had orders that were at the best bid or the best ask;*
- c) the proportion of trades (in number of shares or number of trades based on our decision) executed inside the best bid and ask price?*

Yes, we believe that the proposed information would be useful to assess best execution. In addition, we would like to suggest that average spread (in bps) be reported for stocks of different market caps (e.g. under \$100million, \$100-200million, \$200-500million, \$500-1,000million, \$1,000million-\$5,000million, \$5,000million+).

We would also suggest that a statistic that would report the percentage of the month, quarter and the year that the exchange was not available for trading would be useful to assess marketplaces.

15. *Do you agree that an information processor should disseminate consolidated trade information along with a feed that contains the best bid and best offer and all orders at all price levels (along with the marketplace identifier/marker)? For practical reasons, should the price levels be limited? If so, to how many levels?*

Yes. We feel that it is very important that an information processor is introduced and is responsible for providing consolidated quotes to the marketplace. We favour the US style

approach, where a single consolidator handles the data and distributes the revenue to each venue fairly and equitably. However, care should be taken to avoid creating a monopoly through this process.

UMIR Amendments

1. *Should specific provisions be added to UMIR to protect better-priced orders on marketplaces before permitting trading at an inferior price on a foreign organized regulated market?*

Yes, we believe that this is a very important requirement which should prevent trade-through on trades in interlisted securities.

2. *If a requirement to consider better-priced orders on marketplaces before permitting trading at an inferior price on a foreign organized regulated market is added to UMIR, should such the requirement be limited to the handling of:*
 - *intentional crosses;*
 - *pre-arranged trades;*
 - *block orders with a market value of \$100,000 or more?*

As we stated in our previous comment letters, there is a legitimate need for some special terms orders to receive exemption from the trade-through obligation and any abuses of these terms are sufficiently covered by UMIR. All other types of orders should be subject to the requirement to consider better-priced orders on marketplaces.

3. *If a requirement to consider better-priced orders on marketplaces before permitting trading at an inferior price on a foreign organized regulated market is added to UMIR, are there any exemptions or other limitations on the requirement that would be appropriate?*

As stated above, in our view only some special terms orders should receive exemption.

4. *Should a Participant that trades as principal with a non-Canadian account in a trade that is not executed on a marketplace or a foreign organized regulated market (in accordance with the exemption for “off-marketplace” trades provided in clause (e) of Rule 6.4 of UMIR) be required to consider better-priced orders on a marketplace that are on the same side of the transaction as the Participant?*

We support the intention of the new trade-through regulation to place an obligation on each marketplace, rather than market participants to establish, maintain and enforce written policies and procedures that are reasonably designed to prevent trade-throughs. Requiring a Participant to consider better-priced orders would not be in line with the spirit of the new regulation.

With respect to the proposed Part 6 of Policy 6.4 *Foreign Currency Translation*, we would like to draw attention to significant volatility in foreign currency markets witnessed over the past several months. Daily foreign exchange rate moves can be very significant and depending on the time a foreign exchange rate quotation is obtained, the currency conversion can make a material difference in price. It is therefore important that participants have the ability to obtain real time exchange rate quotes and that the time of those quotes match the time the order is sent to the marketplace for the purpose of determination whether a better priced order existed on a marketplace. It is our recommendation that the market regulator poll market participants to determine whether they have the technology available to accommodate this requirement before the rule becomes mandatory.

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,

"Daniel E. Chornous"

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Asset Management Inc.
Phillips, Hager & North Investment Management Ltd.

- c. Alberta Securities Commission
- Autorité des marchés financiers
- British Columbia Securities Commission
- Manitoba Securities Commission
- New Brunswick Securities Commission
- Nova Scotia Securities Commission
- Registrar of Securities, Department of Justice, Northwest Territories
- Registrar of Securities, Government of Yukon Territory
- Registrar of Securities, Legal Registries Division, Department of Justice, Nunavut
- Registrar of Securities, Prince Edward Island
- Saskatchewan Financial Services Commission
- Superintendent of Securities, Newfoundland and Labrador
- Ontario Securities Commission