



RBC Capital Markets®

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June 17, 2011

Via E-Mail

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Dear Mr. Stevenson and Ms. Beaudoin,

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

We are writing on behalf of RBC Dominion Securities Inc. (“RBC DS”) to provide you with our comments respecting the proposed amendments to NI 23-101 and NI 21-101 published for comment by the Canadian Securities Administrators on March 18, 2011 (“Proposed Amendments”).

RBC DS applauds the Canadian Securities Administrators (the “CSA”) for undertaking its review of marketplace and trading rules in Canada. While RBC DS supports the positive changes to Canadian market structure that will result from the adoption of the majority of the Proposed Amendments, we continue to have concerns with specific aspects of the Proposed Amendments. To this end, RBC DS is pleased to be able to provide its comments on those aspects of the Proposed Amendments that we feel are problematic.

“Marketplace” Definition

Under the Proposed Amendments, the definition of “marketplace” prohibits a dealer from instituting “...non-discretionary methods to match or pair orders with contra-side orders...” without registering as a marketplace. In the view of RBC DS, the definition of “marketplace” and more specifically, the circumstances under which a dealer will be deemed to be acting as a

“marketplace”, are unnecessarily broad and may impact the ability of dealers to develop and innovate future enhancements to their respective businesses that provide their clients with enhanced execution quality.

At the time that NI 23-101 and NI 21-101 (each and together, the “Market Rules”) were implemented, one of the key objectives of the CSA was to facilitate innovation, competition and improved market quality in Canada. While much of the focus over the past several years has been around the growth of alternative trading systems in Canada and the corresponding benefit that multiple marketplaces bring to Canada and Canadian investors, it is important to note that dealers, in the same way as marketplaces, must constantly innovate and develop products and services that add value for their clients. RBC DS believes that the proposed definition of “marketplace” would significantly limit the ability of dealers to innovate, develop and enhance routing and trading products and services for its clients.

The objective of an overly-broad definition of “marketplace” is clear – to eliminate the prospect of dealer “internalization”. The term “internalization” has come to mean a variety of different things to different people, however no regulatory definition has ever been discussed, much less proposed. In the view of RBC DS, if the definition of “marketplace” is adopted as proposed, it will stifle dealer innovation related to order handling and best execution, and will significantly impact the ability of dealers to compete for client order flow on factors other than price. We are of the view that a “race to the bottom” (by dealers) on fees alone is not a hallmark of a robust marketplace environment. We are of the further view that dealers and marketplaces should be equally incented to react creatively to local and global business and marketplace structure changes and trends to ensure that Canadian dealers continue to remain competitive globally.

Global changes in markets and trading increasingly incorporate aspects of “internalization”. In the view of RBC DS, the CSA should solicit additional input and commentary from industry stakeholders on the issue of “internalization” prior to adopting the proposed “marketplace” definition. As part of this consultation, we believe that a manageable and appropriate definition of “internalization” should be developed to ensure that the definition covers off only those specific issues that the CSA would like to see addressed, and that any unintentional implications are identified and addressed.

Record Retention “Directed Action Orders”

The Proposed Amendments would include a requirement that both dealers and marketplaces retain electronic records of “directed action orders” sent to a marketplace. While we are not opposed to the obligation from a dealer perspective, the requirement would appear to be duplicative in nature.

Marketplace Disclosure – Operations

RBC DS is highly supportive of the requirement in the Proposed Amendments that would require a marketplace to make publicly available all information related to its operation, including, among other things, data, trading and routing fees charged by the marketplace. While some marketplaces have been better than others in providing this information historically,

we commend the CSA for making this requirement explicit in the Proposed Amendments.

Minimum “Dark” Order Size

In previous comment letters, RBC DS has supported the concept of a minimum order size for “dark” orders. We continue to support this view, however would like to take this opportunity to commend the CSA and IIROC for their thoughtful and measured approach related to the establishment and implementation of an appropriate order size (i.e. setting the minimum volume at “nil” pending additional study of what is an appropriate “minimum volume”). To the extent that a minimum volume is implemented we support a “minimum volume” of 50 Standard Trading Units (as that term is defined under UMIR).

Based on the breadth of the changes set out the Proposed Amendments, it is clear that Canadian trading and marketplace structure has undergone significant change in recent years. We expect that the evolution of the markets will continue with the CSA re-evaluating these changes as necessary. That said, RBC DS would like to take this opportunity to bring to the CSA’s attention the circumstances surrounding the recent launch of TMX Select (“TMX”).

On June 3, 2011, IIROC issued Marketplace Notice 11-0174 announcing that TMX would commence trading on July 11, 2011. As a “protected” marketplace, dealers that currently subscribe to a marketplace are required to access orders and quotes on the TMX effective July 11, 2011. It has recently come to our attention that a number of key vendors that provide connectivity to RBC DS and other dealers will be challenged to provide direct connectivity to TMX at launch.

RBC DS strongly urges the CSA to review the current “grace period” that is afforded dealers to connect to a marketplace. Historically IIROC had provided for a minimum of 90 days from the date of the “launch notice”, however it is our understanding that the guidance that provided for the 90 day period was part of the group of notices that were repealed concurrently with the removal of “best price” rule under UMIR.

In closing, we thank the CSA and the individual securities regulatory authorities that comprise the CSA for the opportunity to comment on the Proposed Amendments and welcome the opportunity to discuss the foregoing with you in further detail. If you have any questions or require further information, please do not hesitate to contact the undersigned.

Sincerely,

“Greg Mills”

Greg Mills
Managing Director, RBC Capital Markets
RBC Dominion Securities Inc.