

September 29,2000

Howard Wetston
Vice Chair
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8

Dear Mr. Wetston:

Re: National Instrument 21-101 Marketplace Operation with Companion Policy and
National Instrument 23-101 Trading Rules with Companion Policy,

RBC Dominion Securities has examined the above instruments from the point of view of Fixed Income Market Maker, and has several objections to the implementation of these policies and rules.

From a general standpoint, the CSA states “the regulatory objectives of the ATS proposal are as follows: to provide investor choice, improved price discovery and less expensive execution costs.” We would argue that the proposal may improve price discovery for the small investor, but will do little for his execution costs while dramatically increasing the execution costs of institutional investors.

The documents appear to be written to address concerns within the equity markets-much of the terminology is not applicable to the bond market-and the whole model of a centralized market with customer limit orders improving the bid-ask on a security is equity specific. The current structure of the bond market is based upon a market maker system, where dealers remain always willing to bid or offer securities when requested by customers. Most customers request quotes from multiple dealers, ensuring price competition. Most trades occur within the “quoted market” which is posted on IDB screens, owing to the competitive nature of the business. When a customer wishes to buy or sell a very large position, he/she rarely discloses this to more than one market maker-widespread knowledge of a transaction will lower the dealers willingness to take a large principal position due to increased market risk. We believe that increasing transparency to the level of real-time full disclosure of all trades will seriously reduce the liquidity of the market, hence increase the costs of execution for all participants.

The proposal aims to increase transparency and market access for those who lack the market power to command competitive pricing. RBCDS currently publishes quote

data intraday to Reuters, Telerate and Bloomberg, as well as end of day pricing to the Globe and Mail. This data includes data on all Government of Canada benchmark bonds, as well as selected Provincial Government and Corporate bonds. While certainly not all-inclusive, this list of bonds quoted represents the majority of bonds traded by volume most days. Many other dealers provide similar quotes, through the same or different data vendors. We believe that general market pricing is reasonably available to most market participants, and efforts should be focused on consolidating this information before further increasing the burden and cost of providing more detailed trade data .

Part 11 of Companion Policy 21-101CP deals with the recording requirements for orders regarding debt securities. These requirements are unreasonable. Firstly, we believe the market liquidity is reduced if the identity of the seller and buyer are revealed to the market, and price discovery does not depend on this knowledge. Secondly, the definition of an “order” implies that a market maker who, upon request, verbally shows a customer a bid within the quoted market for securities must disclose this bid to the marketplace whether a transaction occurs or not. In fact, any time a market maker quotes a bid or offer which is “inside” the quoted market , it must be reported. This will discourage all dealers from bidding or offering competitively . It will also discourage dealers from accepting customer orders that are within the quoted market due to increased reporting requirements.

We agree that fixed income and equity markets are sufficiently different in structure to warrant separate consideration and implementation of any proposal, and recommend that a special committee be formed, consisting of representatives from the dealer ,issuer ,and investor communities to study the need for transparency and the impact of transparency on the liquidity of the fixed income market.

Yours Sincerely,
RBC DOMINION SECURITIES

Richard N. Van Nest
Managing Director
RBC DS Global Markets
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