RBC Capital Markets

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May 6, 2005

British Columbia Securities Commission
Alberta Securities Commission
Manitoba Securities Commission
Ontario Securities Commission

c/o John Stevenson, Secretary
Ontario Securities Commission
Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8

Re: CONCEPT PAPER 23-402 - *BEST EXECUTION AND SOFT DOLLAR ARRANGEMENTS*

Dear Mr. Stevenson,

RBC Capital Markets is pleased to respond to your request for comments regarding Best Execution and Soft Dollar Arrangements. We are limiting our response to those questions that specifically solicit opinion regarding Best Execution.

In general we applaud the commissions for soliciting comments on this very timely topic and believe that the current regulatory environment inadequately defines and regulates the goal of achieving Best Execution.

We provide answers to your questions below.

Question 1: Are there any changes to current requirements that would be helpful in ensuring best execution? Do you think that clients are aware of their role in best execution or would some form of investor education be helpful?

Current requirements are generally speaking very narrow. For example, the dealers' obligation focuses almost exclusively on price. The advisor faces a definition of best execution in guidelines from the CFA institute that could be interpreted to be at odds with the dealers' price obligation in many instances. It might therefore become difficult for a dealer to execute on an institutional client's instructions when those instructions are based on broadly defined goals for a portfolio of trades. Current requirements view individual trades in isolation (the CFA Institute guidelines notwithstanding). Monitoring and measuring best execution in this context becomes that much more difficult if the idea is to base best execution exclusively upon quantitative measures.

Institutional clients are very aware of their role in achieving best execution. However, they sometimes frame their instructions in a manner that includes broadly defined goals for the execution of a group of securities. This implies that the institution has satisfied their requirement, while the dealer might be left in a position where trades viewed in isolation might be said to not have achieved the best execution goal.

Regarding investor education. In theory this is a laudable goal. In fact an effort to broadly disseminate the ideas behind the best execution ideal would be helpful. As an example the TSX has hosted conferences on this topic in recent years. However, given the current lack of a broadly accepted definition of the concept, care must be taken to ensure that prescriptive client requirements are not articulated.

Question 2: Should there be more prescriptive rules than those which currently exist for best execution or should the methods for meeting the best execution obligation be left to the discretion of registrants?

We are not opposed to more prescriptive rules per se. However, we are concerned that these rules might be too narrowly defined. We would change the proposed description of best execution as follows: " best execution means the best net result for the client, considering relevant elements (<u>these can include</u> price, speed of execution, certainty of execution, total transaction cost and other factors that may be relevant in a particular circumstance) in light of the clients objectives".

Given our proposed change above, it follows that we believe any rules should focus on ensuring that information and processes are in place that can satisfy the need to demonstrate best execution in each particular circumstance.

As well, we believe that the specifics of any processes put in place by registrants should be left to the discretion of the registrant.

Question 3: Do you believe that there are other elements of best execution that should be considered? If so, please describe them.

Risk is another element that could be included (although we have stated above that we don't believe a "laundry list" of elements is appropriate). Risk becomes important when we consider trades in a portfolio context. Executing a trade will change the risk of a portfolio (or portfolio of trades) and therefore can be and often is a consideration in the decision to execute.

Question 4: If audit trail information is not in easily-accessible electronic form, how is the information used to measure execution quality? Is there other information that provides useful measurement?

Information that is not in electronic form is difficult to use to measure execution quality after the fact. Some anecdotal evidence recorded at the time of receipt and execution of the trade(s) might be helpful.

Question 5: Do you believe the suggested description emphasizing the process to seek the best net result for a client is appropriate and provides sufficient clarity and, if not, can you suggest an alternative description?

See response above to Question 2. As well we would like to emphasize that we believe that the focus should be on the process.

Question 6: Do you believe that there are any significant issues impacting the quality of execution for:
(a) Listed equities – whether Canadian-only, inter-listed or foreign-only;
(b) Unlisted equity securities;
(c) Derivatives; or
(d) Debt securities?

No reason to assume that the quality of execution in OTC markets is any "poorer" than that in listed markets. However, the difficulties in measuring best execution due to the lack of transparency is concerning.

Question 7: How should dealers in Canada monitor and measure the quality of executions received from foreign executing brokers?

Whenever possible the same type of electronic information that would be available as part of the process to measure best execution in the domestic markets should be collected when using foreign brokers. In many instances the executing broker might be able to provide this information.

Question 8: Do you think that internalization of orders represents an impediment to obtaining best execution?

In general we believe that internalization of orders enhances the ability to achieve best execution. Client – client matches can be executed more efficiently and at lower cost. In the case of principal - client trades, the enhanced liquidity provided by the dealer community outweighs concerns regarding conflicts of interest in our view.

Question 9: Should there be requirements for dealers and advisers to obtain multiple quotes for OTC securities? Should there be a mark-up rule that would prohibit dealers from selling securities at an excessive mark-up from their acquisition cost (similar to National Association of Securities Dealers, Inc. (NASD) requirements dealing with fair prices)?

We don't believe that there should be a requirement for dealers and advisors to obtain multiple quotes. However, the reasons behind the decision to seek out single or multiple quotes might be documented as part of the process to measure best execution.

Regarding an excessive mark-up, we pose the question how do you quantify excessive? Ultimately, the appropriate size of a mark-up as compensation for assumed risk is dependent upon the particulars of the trade. Therefore there should be no limit to the size of a mark-up.

Yours truly,

John Reilly
Managing Director, Global Head Equity Execution Services
RBC Capital Markets