RBC Asset Management Inc.
Royal Trust Tower, 38th Floor
P.O. Box 121, T.D. Centre
77 King Street West
Toronto, Ontario M5K 1H1

October 27, 2005

Via E-Mail

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
email: jstevenson@osc.gov.on.ca

and

Anne-Marie Beaudoin, Directrice du secretariat
Autorite des marches financiers
email: consultation-en-cours@lautorite.com

Dear Mr. Stevenson and Ms. Beaudoin:

Re: Discussion Paper 23-403 – *MARKET STRUCTURE DEVELOPMENTS AND TRADE THROUGH OBLIGATIONS*

We are responding to the request for comments on the Canadian Securities Administrators' (the "CSA") discussion paper 23-403 – Market Structure Developments and Trade-Through Obligations (the "Concept Paper") on behalf of RBC Asset Management Inc. ("RBC AM"). RBC AM is an indirect, wholly-owned subsidiary of the Royal Bank of Canada. It provides a broad range of investment services to investors through mutual funds, pooled funds and separately managed portfolios and currently has over $50 billion in assets under management.

We have divided our comment letter into two sections. The first section outlines general comments on various issues regarding market structure developments and trade-through obligations, and the second section provides responses to a number of specific questions raised in the Concept Paper.

General Comments

We commend the CSA for undertaking a thorough public consultation in this area. RBC AM endorses the concept of trade-through protection and is pleased that the CSA have provided this forum to further discuss the issues related to a trading market structure framework. We support a market structure that encourages liquidity, transparency and competition.

Market Structure Developments

RBC AM supports a regulatory policy that is market structure neutral, that is, a fair and equitable policy that does not favour one market structure over another. In our view, the main objective in identifying the appropriate structure and requirements for Canada should be to promote a fully integrated national market with fair and equitable access for all market participants. An integrated market would offer deeper pools of liquidity, improved transparency and lower costs of execution. An integrated market can be achieved by imposing a requirement for all marketplaces to be interlinked. The link between marketplaces would permit orders to trade against the best available prices on any marketplace, with no "frictional" costs or access charges by established exchanges for orders originated in an alternative trading system ("ATS") but partially executed on the established exchange. In this way, market participants would not have to maintain access to each marketplace in order to be in a position to immediately access available liquidity pools, while some large investors, such as RBC AM, could choose to use ATS (as well as established brokers and exchanges) in order to limit the market impact costs of larger trades.

While we encourage the development of multiple marketplaces as well as competition between marketplaces in Canada, it is our belief that without integration the Canadian market would become fragmented and, as a result, lack liquidity. The regulatory environment should promote innovation and competition between marketplaces that contributes to more robust and deeper pools of liquidity and trade transparency for Canadian equities. Encouraging greater competition and innovation between marketplaces will result in more specialized solutions to meet differing needs. For example, the recent development of an ATS that trades Canadian-listed securities offers enhanced anonymity through a "black box" trading system, which may be preferred by institutional investors who seek to avoid adverse consequences of disclosing investment intentions to the marketplace. This type of innovation coupled with the introduction of new marketplaces will provide an improved investment infrastructure from which everyone can benefit.

Foreign investors would also, in our view, benefit from the integrated market that offers enhanced liquidity. It is unlikely that many foreign investors would opt for maintaining access to multiple marketplaces within Canada, so fractionalization of the market could be a deterrent to their participation in Canada at all. With interconnected order books between marketplaces, foreign investors, as with all investors, would have the option of maintaining access to one marketplace and, at the same time, be in a position to immediately access all available liquidity pools. In this way, all investors would be treated equally as no participating or qualifying requirements would prevent them from contributing to the liquidity of the market.

In conclusion, RBC AM strongly supports a regulatory policy that is market structure neutral with the ultimate goal of achieving a fully integrated national market that provides maximum depth and breadth of liquidity and broad participation through equitable treatment of all participants.

Trade-Through Obligations

Fundamentally, RBC AM believes that trade-throughs should not be allowed and that all market participants should be treated equally under the same set of rules for all marketplaces. It is our view that the most practical way to extend trade-through protection across all markets would be to impose the trade-through rule on marketplaces through linkages and market integration. To ensure fairness and efficient price discovery, this protection must be provided for the visible portions of the market book.

Seeking best execution of all trades is now widely acknowledged as a fundamental responsibility of investment managers. Without trade-through obligations being imposed at the market level, there is a decreased ability to measure best execution. We believe that best execution is achieved by determining the most advantageous terms available at the time of trade execution. A variety of factors are considered including price, volume, market and instructions provided at the time of order entry. If the order books of the markets are not linked, those seeking best execution would be required to have access to all marketplaces that trade a particular security to ensure that the best price is obtained at all times. Without such access it would be extremely difficult for discretionary investment managers to demonstrate that best execution was achieved for their client portfolios.

Responses to Specific Questions

> ***2. What market structure issues should be considered as part of the discussion on the trade-through obligation?***

Market fragmentation and equal access for all participants are two key issues to consider when reviewing a market structure framework. In our view, a market policy should not support a structure that results in market fragmentation. Instead, the policy should promote equal access to liquidity for all participants, not just those who are members of a specific exchange.

> ***4. Please provide comments on the RS proposal regarding trade-through obligations. Which elements do you agree or disagree with and why?***

RBC AM supports the RS proposal to extend the trade-through protection obligation to both dealers and non-dealers. However, we firmly believe the most efficient method to guarantee this critical obligation is through mandating the obligation on the marketplace.

8. Will the trade-through obligation impact innovation and competition in the Canadian market? How?

We are of the view that the trade-through obligation would not impact innovation and competition more than any other regulation, as long as the specific policies to implement a linked market prohibit established exchanges and members from levying costs, charges or erecting other barriers with respect to the execution of trades originated through an ATS. In fact, it could be argued that trade-through protection would foster the growth of new ATSs and exchanges by directing trades towards the most efficient marketplace.

10. If a trade-through obligation is imposed, should the obligation be imposed on the marketplace participant or the marketplace? Why?

As previously stated, we firmly believe the obligation should be imposed on the marketplace. While we agree that all market participants have a duty to ensure trade-throughs do not occur, only system enforced protection through interconnected markets would provide a cost-effective and efficient solution.

18. If a trade-through obligation is imposed, should it occur at, simultaneously to or immediately after execution of the inferior- priced trade? Should the model accommodate all three solutions?

The trade-through obligations should be met simultaneously as it may be difficult to determine with certainty appropriate fills after execution. Further, not all market participants have the capabilities to establish post-matching obligations, defined in the paper as "duty to satisfy the "better-priced" orders after trade matching occurs". Under our proposal, market participants would rely on the market linkage to satisfy all better-priced orders.

20. If a trade-through obligation is imposed, should exemptions be provided for special terms orders? Which ones and why?

There is a concern that special terms exemptions, if allowed, could be used to avoid a trade-through obligation. We believe that the 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 the Universal Market Integrity Rules.

21. If a trade-through obligation is imposed, should an exemption be provided for orders for which the price or other material terms cannot be determined on order entry?

We believe that orders for which the price or other material terms cannot be determined on order entry play a vital role in a functioning marketplace and should be exempt from the trade-through obligation. This exemption should protect orders where the price is not known when the trade is placed (e.g. Volume Weighted Average Price).

22. If a trade-through obligation is imposed, should it include an exemption for large block trades?

It is essential that a trade-through obligation is extended to block orders, in order to treat all market participants equally. In our view, an exemption for large block trades could also jeopardize the best execution process.

25. If a trade-through obligation is imposed, should it apply to any non-visible portions of a trading book?

A trade-through obligation should apply to all better priced orders, including only visible portions of "iceberg" orders. It is our view that although non-visible orders may contribute to market liquidity, they do not contribute to price discovery.

27. What is the impact of imposing a trade-through obligation on non-dealers?

As stated previously, we believe that a fair and equitable treatment of all market participants necessitates imposing the same trade-through obligation on dealers and non-dealers when trading the same securities.

31. Should the last sale price reflect trading on all marketplaces or should each marketplace have a separate last sale price? Why or why not?

We support a single last sale price across all marketplaces subject to full transparency and regulatory oversight. This would simplify the process of security pricing for valuation of mutual funds.

We would like to thank the CSA for the opportunity to provide these comments on the Concept Paper. Please feel free to contact Dan Chornous at 416-974-4587 if you have questions or would like to discuss further any of the matters raised in this letter.

Yours truly,

"Daniel E. Chornous"

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Asset Management Inc.

Cc: James Twiss, Market Regulation Services Inc.
email: james.twiss@rs.ca