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May 5, 2006

**Via E-Mail**

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland & Labrador
Registrar of Securities, Northwest Territories
Legal Registries Division, Nunavut
Registrar of Securities, Yukon Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
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Toronto, Ontario M5H 3S8
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and

Madame Anne-Marie Beaudoin
Directrice du secrétariat de l'Autorité
Autorité des marchés financiers
800, square Victoria, C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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Dear Mr. Stevenson and Ms. Beaudoin:

**Re: Proposed National Instrument 24-101 Institutional Trade Matching and Settlement**

RBC Financial Group is pleased to have the opportunity to provide its comments on the Canadian Securities Administrators' (the "CSA") proposed National Instrument 24-101 Institutional Trade Matching and Settlement and proposed Companion Policy 24-101CP (collectively, the Proposed Instrument). RBC Financial Group, the master brand name for Royal Bank of Canada and its subsidiaries, is one of North America's leading diversified financial services companies. In Canada, we have strong market positions in all of our businesses including full-service brokerage, corporate and investment banking, mutual

fund provider and self-directed brokerage. RBC Financial Group performs a multitude of roles in the securities marketplace including that of broker/dealer, investment manager and custodian and as such, is well positioned to comment on the Proposed Instrument.

In principle, RBC Financial Group is supportive of the Proposed Instrument as part of the broader initiative in the Canadian securities marketplaces to implement straight-through processing. We provided input to the responses of both the Canadian Capital Markets Association ("CCMA") the Investment Dealers Association ("IDA") and we agree with the spirit of both of there respective responses. RBC Financial Group is committed to continuing to work with the CCMA and SROs on implementing straight-through processing and trade matching initiatives.

## RESPONSES TO SPECIFIC QUESTIONS

*Question 1. Should the definition of "institutional investor" be broader or narrower?*

We have the following concerns on the broker/dealer side with the definition as currently proposed:

i. Under the proposed definition an *individual* investor would be considered an Institutional Investor if their investment assets are held by a custodian instead of a broker/dealer. Examples where this might occur include retail clients who pledge their assets to other financial institutions and employee stock options plans. As a result, a number of retail brokerage clients would become subject to the requirements for policies and procedures to achieve trade matching. In order to facilitate compliance with the proposed rule, we request further guidance be provided on the applicability of the trade matching requirements to retail brokerage clients where no registered adviser is acting for their trades. This guidance is needed to enable us to communicate the expectation for policies and procedures, as well as any operational changes that may be required, to those retail clients who will be expected to take action under the proposed rule.

ii. The definition differs from that used in the IDA's recently enacted Policy 4 "Minimum Standards for Institutional Account Opening, Operation and Supervision". Under IDA Policy 4, an institutional customer is defined as "an acceptable counterparty, acceptable institution or regulated entity (as defined in IDA Form 1), a registrant (other than an individual registrant), or a non-individual with total securities under administration or management exceeding $10,000,000". Therefore, individual accounts, regardless of the value of net investment assets or level of sophistication, are exempted from the scope of IDA Policy 4, whereas the Proposed Instrument extends to retail individual accounts if the individual's investment assets are held by a custodian instead of a broker/dealer. To the extent that definitions can be harmonized across securities regulation, it would be more beneficial for registrants to do so.

iii. The definition also does not appear to consider how other jurisdictions have defined "Institutional Investor". This may result in practical difficulties for registrants who trade on behalf of foreign investors through multiple dealer systems and account types. It is also not clear whether the Proposed Instrument has considered the settlement requirements of such foreign jurisdictions which may differ from those in Canada, in situations where a custodian and CDS participant is not located in Canada.

*Question 2. Does the definition of "trade-matching party" capture all the relevant entities involved in the institutional trade matching process?*

Yes, however, in our role as prime broker, we foresee problems in the ability of prime brokers to match trades in a timely manner since their actions will be largely dependent on the timeliness of the institutional investors' reporting of trades to their custodian. Since an Institutional Investor is not considered a trade-matching party where a registered adviser is acting for them in the trade, it appears that the onus will be on the custodian, the executing broker/dealer and the registered adviser to match the trade. This will represent a challenge for both the custodian and the prime broker when trades are not reported by an Institutional Investor on a timely basis. It should also be noted that the introduction of the Proposed Instrument may result in significant technology requirements for our prime-brokerage clients in order to facilitate timely matching of trades.

*Question 3. The scope of the matching requirements of the Instrument is limited to DAP or RAP trades. Should the requirements be expanded to include other trades executed on behalf of an institutional investor? Should the requirements capture trades executed with or on behalf of an institutional investor settled without the involvement of a custodian?*

We do not see any benefit in expanding the matching requirements to all trades executed on behalf of Institutional Investors, other than DAP or RAP trades. Furthermore, trades in money market securities should have already settled prior to 7:30 pm on the T matching deadline. Given the large volume of money market trades that settle on a daily basis, we propose that these trades be exempted from the matching requirements in order to relieve some of the operational burden on registrants.

We are also of the view that the use of block settlements could significantly help the industry meet the proposed matching targets. A number of industry participants are already using block settlement to their satisfaction and we encourage the regulators to consider mandating the use of block settlement for all trades with or on behalf of Institutional Investors.

*Question 4. Are each of these methods (compliance agreement and signed written statement) equally effective to ensure that the trade-matching parties will match their trades by the end of T? Should trade-matching parties be given a choice of which method to use?*

Each of the two methods appears reasonable and we welcome the choice in achieving compliance. On one hand, the use of signed written statements appear to be an easier way to communicate a participant's readiness to match trades by the prescribed deadline. On the other hand, compliance agreements imply a need for participants to enter into bi-lateral negotiation and commitment and, as a result, may be more binding in nature. Therefore, we would appreciate the CSA's view whether one form of communication would be more binding (or enforceable) on the parties as compared to the other.

We would also welcome if the industry, (e.g. the CCMA in conjunction with the IDA) would consider drafting a Standard Institutional Trading and Settlement Agreement for use by broker/dealers and registered advisers with their clients and the client's appointed custodian in order that the resulting relationships can be established in a uniform manner.

There is further a concern that the Proposed Instrument, if adopted as drafted, would not allow broker/dealers sufficient time to bring their existing institutional accounts into

compliance with the Proposed Instrument. We recommend an implementation period of six months from the effective date of the Instrument to cover existing relationships with compliance agreements, in conjunction with the standard agreements mentioned above, as the negotiation of individual contracts will likely incur significant time and resources from all counterparties.

It should also be noted that imposing these requirements on Canadian broker/dealers could disadvantage them when compared to foreign dealers, considering that a foreign institution can now become a CDS participant.

> *Question 5. Will exception reports enable practical compliance monitoring and assessment of the trade matching requirements?*

Yes, we generally see the value of exception reporting in compliance monitoring and assessment of the trade matching requirements. In addition to broker/dealers, it is our understanding that registered advisers will also be required to provide exception reporting to the regulator, which brings a few questions that need be clarified:

i. In the initial report, each party is required to provide reasons for failing to meet matching percentages. This may result in conflicting claims based on different opinions regarding why a trade has not been matched (e.g., whether the root cause is the fact that the trade was sent to the broker/dealer late in the day or whether the broker/dealer took a longer time to process the trade). How would the regulator be able to determine which party was responsible for late matching in these circumstances?

ii. It is not clear how registered advisers would receive adequate exception reporting on late trade matching. Ideally, those reports would be sorted by the counterparty (e.g., by broker/dealer). We recommend that CDS be asked to develop additional reporting capabilities to be able to report trade matching statistics at the participant level.

We do, however, believe that in most cases trade related parties will cooperate and will be able to draw important conclusions from the exception reporting. This will lead to discussions among trade related parties to identify the root cause of failures in confirming trades on time.

> *Question 6. Is it necessary to require custodians to do exception reporting in order to properly monitor compliance with this instrument?*

In order to properly monitor compliance, we believe that exception reporting by the custodians is recommended as it would provide the following benefits:

i. Increased monitoring and reporting of the extent to which participant confirmation rates are meeting the established thresholds in the industry.

ii. The possibility of providing an ‘independent view’ and further insight into the reasons for failing to meet matching percentages – this may result in fewer conflicting claims based on different opinions among registrants, clearing agencies and matching service utilities regarding why a trade has not been matched.

iii. In the case of smaller registered advisers who may not have sufficient resources or capacity to monitor and produce exception reporting, outsourcing such services to a custodian may be a more feasible alternative.

*Question 7. Is it feasible for trade-matching parties to achieve a 7:30 p.m. on T matching rate of 98% by July 1, 2008, even without the use of a matching service utility in the Canadian Capital Markets?*

We support the view that it is not necessary to mandate the use of a matching service utility. We do not believe achieving a T matching rate of 98% by July 1, 2008 is feasible with or without a matching service utility for the following reasons:

i. Significant changes to both the behaviour of individual participants and level of automation is required before the industry is able to achieve the ultimate goal, 98% matching on T. Examples include the use of real-time trade entry and higher adoption of Financial Information eXchange (FIX) Protocol or similar electronic communication between registered advisers and broker/dealers. These changes would require significant investments in technology and process improvements. However, most companies have likely already completed the 2007 budgeting process which does not leave them much time to prepare for the July 2008 deadline.

ii. There exists a lack of facilities for the repair and resending of unmatched trades within the timeframes proposed. Given the current state of the industry, meeting the deadlines would require extensive increases in FTE's and an extension of hours of operation for most market participants. The Depository Trust Company (DTC) in the U.S. seems to offer a more manageable time line with their 1:30 am T reporting mechanism.

iii. There are no indications that there has been a universally accepted set of trade match criteria that would require sign-off between the various parties. Although there has been some development, templates should be developed that all parties could agree to that would provide a list of matching criteria (e.g., dollar tolerance for discrepancy, identification of important vs. less important matching fields, etc.). The criteria would also have to be broken out by instrument and type of settlement involved.

For these reasons, we encourage the formation of an industry-wide task force or committee led by the CCMA to work towards the development of industry “best practices” for achieving trade date matching. For example, industry participants need to understand the current matching rates by various times of day on T or T+1 in order to identify opportunities for process improvements. This would eventually lead to increased trade matching rates.

*Question 8. Are the transitional percentages outlined in Part 10 of the Instrument practical? Please, provide reasons for your answer.*

We believe that our trade order management systems and operational processes are in line with industry standards and would be in a position to abide by the timelines achieved by the overall industry. However, we wish to point out that any move to timelines of T would be highly dependent on such things as further adoption of industry wide communication standards and protocols, the implementation of real time trade technology, and changes to fund accounting routines (for example, some participants delay sending trades to broker/dealers as they do not post them to their accounting system by T+1).

Currently, participants on the buy side do not receive accurate and regular trade matching statistics with their counterparties nor they know exactly what kind of trade processing

deadlines are required by various custodians and broker/dealers. This information would be very useful for each buy side firm in order to come up with appropriate plans and timelines for meeting the T matching deadline.

The impact of institutional clients residing in foreign jurisdictions on a broker/dealer's ability to achieve timely trade matching also does not appear to have been considered in the Proposed Instrument, especially given the fact that some clients reside in jurisdictions where the time zone differs significantly from that in Canada. As a result, it is possible that in some jurisdictions, trade allocations will not be received in Canada until the following day.

In view of the above and the current state of trade automation in the industry, we do not believe that the transitional percentages outlined in Part 10 of the Proposed Instrument are practical. We recommend that the transitional targets become T +1 targets. A preferable approach might be to implement the first transitional target (70% of trades matched on T+1) and then assess the situation in the industry before introducing further (more realistic) targets.

Lastly, we would like to bring to your attention two additional points that are currently not addressed in the Proposed Instrument:

i. Penalties for Compliance: it is our understanding that it has not yet been determined who will be responsible for monitoring compliance with the proposed requirements. We believe that it is important to ensure that all market participants are held to consistent standards and penalties, regardless of the regulatory body that is assigned to monitor their trade matching activities.

ii. Business Continuity / Disaster Recovery Planning (BC/DR planning): clarification is required as to whether the scope of BC/DR planning extends to trade matching. Our concern is that such requirements would put an undue burden on all parties to remain compliant regardless of whatever emergency/disaster event took place.

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,

*"Bruce Macdonald"*

Bruce Macdonald
President
RBC Dominion Securities Inc.