October 12, 2006

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

and

Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

RE: NOTICE OF PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 21-101 MARKETPLACE OPERATION AND COMPANION POLICY 21-101CP AND NATIONAL INSTRUMENT 23-101 TRADING RULES AND COMPANION POLICY 23-101CP

Dear Sirs and Mesdames:

The CPP Investment Board is a professional investment management organization based in Toronto. Our purpose is to invest funds received from the Canada Pension Plan with the objective of maximizing returns without undue risk. Income from the money that we invest today will be used by the Canada Pension Plan to help pay the pensions of working Canadians who will begin retiring 17 years from now. We were incorporated as a federal Crown corporation by an Act of Parliament in December 1997 and made our first investment in March 1999.

According to the 21st Actuarial Report of the Canada Pension Plan that was tabled in Parliament on December 8, 2004, the Chief Actuary of Canada expects that our assets will grow to $147 billion by the end of 2010 and $332 billion by the end of 2020, primarily due to sizeable cash inflows that we invest in various markets around the world. We are a major participant in the

Canadian marketplace, and as such, we are interested in assisting in efforts to ensure that the regulatory structure of the Canadian marketplace reflects global best practices.

The mandate of the CPP Investment Board is to invest in ways that continuously improve total portfolio efficiency, having regard to the immediate and long term financial obligations of the CPP. Implicit in this mandate is to achieve best execution when we transact in the financial markets.

We are supporters in principle of more transparency in the fixed income market as we believe that transparency can contribute to the best execution process. However, we do not support transparency at the expense of worse markets. It would be a very unfortunate development if participants had the information to evaluate their execution strategies but were doing their trades in suboptimal market structures, where, for example, there is less liquidity or wider bid-offer spreads, and even the best trades are not as good as in other market structures.

We believe that before changes are made to the Canadian fixed income market that more research must be done into how it operates. We would like to see a comprehensive study of the total Canadian fixed income market before changes are made. We believe that there is time to take this approach. Without doing this we are concerned that regulatory changes may not address real problems or create their own problems, such as decreased liquidity or increased bid-offer spreads.

The report on the Canadian fixed income market should include a quantitative analysis of the impact to liquidity and prices of proposed changes. Our concern is that decreased liquidity or increased bid-offer spreads would have a significant negative impact on our fund's returns. We are particularly concerned with the impact of any changes to the government debt security market.

The report should also include a feasibility study of the technical requirements for any proposed regulatory change. We do not believe in regulatory requirements that can not be reasonably implemented. The original requirements for electronic audit trails are an example of unrealistic regulatory requirements. Since there is very little information on the fixed income market we do not know if it is reasonable to implement the proposed changes, but are cautious because technical issues are usually difficult and time-consuming to address.

We believe that this research is necessary because regulatory changes to Canadian fixed income markets appear to be tied to regulatory changes in the Canadian equity markets. The problem with linking the regulatory requirements is that the two market structures are very different. The most obvious difference being that most equity trading is on exchanges with brokers acting foremost as agents while the fixed income market is a dealer market with trades being done on a principal basis. By undertaking an analysis of the Canadian fixed income market, participants can be assured that changes are specific to it and ensure that it is both efficient and fair.

It appears that the impetus for many of these changes is driven by "issues regarding pricing" in the retail fixed income market. The request for comments, however, does not include details on these "issues", so we cannot make specific comments. We have two observations on this situation. First, the institutional and retail fixed income markets are different. Second, it is our understanding that most retail fixed income trading is not in benchmark government debt securities. This leads to two conclusions. First, the proposed changes will not likely address the "issues", and second, a comprehensive analysis of the total Canadian fixed income market should be able to identify specific problems in both the retail and institutional markets that are not addressed by present requirements and the changes necessary to address them. Our concern, at this time, is that “issues” within the retail fixed income market should not be addressed at the expense of the institutional market.

We believe that solutions can be found to address particular retail problems that do not impact the institutional market. The IDA, for example, has recently implemented Policy 5B, *Retail Debt Market Trading and Supervision*, to address retail pricing. We trust that this policy has a high probability of successfully addressing any problems. Reiterating our above point, we believe that the results of this new policy should be seen before making changes that will impact the institutional market.

Finally, we wonder if some retail fixed income “issues” arise from false expectations. Does the retail fixed income investor know that liquidity is very limited in most bonds? That the fixed income market differs from equities and does not have active secondary markets for most issues? Does the retail fixed income investor know that they will often only get a bid from the dealer that sold them a bond? Liquidity risk and pricing risks are important for all investors to evaluate when making an investment choice. The CSA and others should emphasize the importance of these risks in their investor education programs.

Thank you for providing us with this opportunity to comment.

Respectfully submitted on behalf of the CPP Investment Board,

Dan Chiu

Daniel Chiu
Director – Capital Markets
CPP Investment Board