October 30, 2006

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland & 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 Officer
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

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

- and -

Anne-Marie Beaudoin
Directrice du secretariat de l'Autorité
Autorité de marchés financiers
Tour de la Bourse
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Montréal, Québec H4Z 1G3

Re: Proposed National Instrument 23-102 – Use of Client Brokerage Commissions as Payment for Order Execution Services or Research ("Soft Dollar" Arrangements)

Perimeter Financial Corp. thanks the Canadian securities regulatory authorities for the opportunity to comment on these proposed amendments.

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Our consolidated operations involve us in a broad range of transactional (dealer) and asset management (advisory) activities. Through our subsidiary, Perimeter Markets Inc., we operate two marketplaces – BlockBook™ for the trading of equities and CBID™ for the trading of fixed income instruments. We also offer premium, business process outsourcing of front-, mid- and back-office administrative services for investment counsel and securities dealers and, through another subsidiary, Perimeter Capital Management Inc., offer investment program design, portfolio construction, and performance evaluation services for institutional plan sponsors and retail program sponsors.

We are supportive of the proposed NI 23-102 as we are of price transparency generally – investment managers are always under an obligation to ensure clients reasonably understand how their assets are being managed. Soft dollar arrangements on the whole tend to obscure, rather than clarify, performance reporting. While some investment managers are leading the industry in either limiting or better disclosing their use of soft dollar arrangements, this way of doing business is so embedded in how the dealer community interacts with the advisory community that reform is unlikely without industry-wide, mandated requirements.

We respond to certain of the CSA's specific questions below.

Specific Requests for Comments

Question 1: Should the application of the Proposed Instrument be restricted to transactions where there is an independent pricing mechanism (e.g., exchange-traded securities) or should it extend to principal trading in OTC markets? If it should be extended, how would the dollar amount for services in addition to order execution be calculated?

There is no reasonable basis to distinguish "order execution services" and "research" based on the type of security or market structure. These types of services are provided for both exchange traded and OTC securities. It is reasonable to assume that the underlying conflicts and concerns around the use of soft dollars should exist in all security types and markets. The current structure of most equity markets merely simplifies the process because it makes it possible to separate the market price of the security from other services provided.

However, a distinction can be made regarding what is reasonably practical given the current differences in market structure. Exchanges provide "independent pricing mechanisms" and price transparency which makes it possible to separate the market price of the good from the additional services provided and charged for independently via commissions or similar means. Currently, there is no similar mechanism in OTC markets which allow separation of the price of the security from the additional services provided. Therefore it's not practical to include OTC securities in the initial implementation of NI 23-102.

Generally, we would support increased transparency in fixed income markets and the application of NI 23-102 standards to fixed income trading. We anticipate improvements in transparency in fixed income markets and would strongly support the extension of these rules and guidelines to other markets.

Question 2: What circumstances, if any, make it difficult for an adviser to determine that the amount of commissions paid is reasonable in relation to the value of goods and services received?

Buy-side and sell-side market participants have vast experience in valuing businesses, assets, products and services. It's inconceivable that this experience and expertise in valuing goods cannot be extended to the valuing goods and services generated or consumed in trading securities or managing investment portfolios.

There also exists a growing body of empirical research, such as that provided by Greenwich Associates, regarding the use and amount of commissions paid by different managers for the use of "order execution services" and "research". This research often distinguishes between commissions for DMA, Algorithmic, Program and traditional single stock trading. For example, quantitative managers typically pay .02/share versus traditional active managers who pay on average .041/share. DMA rates are as low as .005/share to .01/share. It's a simple process to extrapolate the value of different types of "order execution services" and "research" using this data. A general conclusion can be reached that 60-70% of commission dollars are used to pay for "research" or a broader group of non-execution services. As a result, it is both possible and practical to expect participants to ensure that the value the goods and services paid for with client assets is reasonable.

We acknowledge that this would require some investment in both resources and time to implement, but feel the benefits to clients would significantly outweigh the costs.

Question 3: What are the current uses of order management systems? Do they offer functions that could be considered to be order execution services? If so, please describe these functions and explain why they should, or should not, be considered "order execution services".

We do not believe that an OMS qualifies as part of order execution services.

It is important to consider and differentiate the basic functions provided in order management systems from those provided in execution management systems before answering this question. Most order management systems perform 4 basic functions 1) collection of orders for multiple entry points 2) trade bulking of smaller orders 3) basic order routing 4) order allocations. Execution management systems offer some or all of these basic functions 1) pre-trade analytics 2) order execution (DMA, Algo, Program etc.) 3) real-time trade execution analytics 4) post-trade analytics. We acknowledge that some overlap exists in the services provided by OMSs and EMSs. However, we would generally characterize OMSs as primarily providing administrative services and EMSs as primarily providing "order execution services".

Like other technology systems routinely considered fixed cost "overhead" by firms, the primary benefits from the use of an OMS accrue to the investment manager and provide very little demonstrable benefit to the asset owners. Investment managers benefit through improved efficiency in their investment management process, particularly larger firms. The use of these platforms lowers the cost of the investment management process. Traditionally these services have been paid for with hard dollars and used by larger firms.

In response to suggestions that an OMS can improve the quality of execution because of FIX order routing, DMA, embedded algorithms and functions generally captured as electronic trading, it is our belief that these functions are not widely used today. The main trading function of the OMS is order routing to venues, platforms, and sell-side participants which provide order execution. This implies that the functionality that improves the quality of order execution typically resides outside of the OMS.

Question 4: Should post-trade analytics be considered order execution services? If so, why?

No, post-trade analytics should not be included in order execution services. Post-trade analytics should be included in research.

The investment management process is often characterized as a function of alpha generation, portfolio construction and implementation. Post-trade analytics measure the quality of trade implementation and can be used to construct more efficient portfolios in the future. As a result, decisions to buy or sell a security can be based in part on information gleaned from post-trade analytics. Empirical evidence supports this concept and demonstrates that investment managers who manage and minimize trading costs out-perform. In addition, it's consistent with the definition that "research adds value to investment or trading decisions".

Question 6: Should raw market data be considered research under the Proposed Instrument? If so, what characteristics and uses of raw market data would support this conclusion?

Raw market data should not be considered research. There is no value-added from this service and it is readily available.

Question 9: Should mass-marketed or publicly-available information or publications be considered research? If so, what is the rationale?

No, material that is easily obtained offers little value to the investment or trading decision.

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Yours very truly,

"Ian Williams"

Ian Williams
Executive Vice President, *Perimeter Financial Corp.*