



Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
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November 1, 2006

**Re: Proposed National Instrument 23-102 and Companion Policy 23-102 CP
– Use of Client Brokerage Commissions as Payment for Order Execution
Services or Research (“Soft Dollar” Arrangements)**

Dear Mr. Stevenson:

I. Introduction

Reuters Canada Limited (“Reuters”) is pleased to offer its views on the above-captioned Proposed National Instrument and Companion Policy guidance issued by the Canadian Securities Administrators (the “CSA”). Reuters is a subsidiary of Reuters Group PLC. Although best known as the world’s largest news agency, more than 90% of Reuters Group revenue derives from our financial services business. Professionals in the equities, fixed income, foreign exchange, money, commodities and energy markets use Reuters products. Our open technology, based on industry standards, enables our customers to integrate our information with content from other sources. We provide financial institutions with specially designed tools to help them reduce risk and distribute and manage the ever-increasing volumes of market data.

As the world’s leading provider of market data, Reuters has a unique perspective. Reuters knows that timely and reliable quote and price information is of crucial importance to market participants. Professional asset managers and retail investors alike rely on this information to make investment decisions and evaluate the quality of the executions they receive. Broad dissemination of information improves the efficiency of markets and increases investor confidence, leading ultimately to greater liquidity.

As described in greater detail below, Reuters supports the proposal by the CSA to continue to allow asset managers to use client commission dollars to obtain research services. Reuters advocates that raw data, including market, financial, economic, and similar data, be considered within the definition of “research.” Finally, Reuters explains that its service is characterized by analysis and manipulation of data, “so as to contain original thought or the expression of reasoning or knowledge” under the Proposed National Instrument.

II. Soft Dollar Arrangements Increase Competition

The proposed Instrument would restrict an adviser from entering into any arrangements to use any portion of brokerage commissions for purposes other than as payment for order execution services or research, as defined in the Instrument. Reuters believes that order execution and research are two examples of costs incurred by asset managers in order to serve, and for the benefit of, their clients. It is therefore appropriate to continue to allow advisers to use brokerage commissions to pay for these services. As the CSA notes, Section 28(e) of the U.S. Securities

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Exchange Act of 1934¹ (the "Exchange Act") permits asset managers to obtain research and related services together with trade execution services and to pay for both with client commission dollars.

In addition to promoting the interests of an individual adviser's clients, Reuters believes soft dollar arrangements promote competition in the financial services industry. They therefore help reduce costs and increase returns for investors. Smaller investment advisers may have worthwhile investment strategies while lacking the economies of scale to afford in-house research departments. Soft dollar arrangements allow such advisers to use independent research to compete with larger advisory firms.

Similarly, smaller brokerage firms, regional brokers and execution-only brokers typically do not have the resources to provide the full range of services offered by diversified firms. They may deliver best execution of customers' orders without offering proprietary research products. These smaller firms typically "team up" with independent research providers and information providers to compete with their larger, full service competitors. By supplying customers with independent research through soft dollar arrangements, these firms can ensure that institutional trades are not directed to large, multi-service firms purely based on the availability of proprietary research.

Finally, soft dollar arrangements are an important distribution mechanism for independent research. They allow providers of independent research to join with brokerage firms to distribute their products. This is important, given that diversified brokerage firms can "bundle" their proprietary research services with their trade execution services. The ability to use client commissions to pay for independent research is essential to providing a competitive marketplace for research and to reducing the reliance on proprietary research.

Asset managers would continue to enjoy flexibility under the proposed Instrument with regard to their use of client commission dollars. Fund managers may purchase brokerage and research services individually, at separately negotiated rates. Asset managers may also purchase them in packages at a combined rate. Reuters believes this allows for a more competitive marketplace, to the benefit of investors.

Reuters supports the CSA's proposed exclusion of computer equipment from the scope of "research" under Section 3.5 of the proposed Companion Policy. Market data vendors increasingly provide their services by integrating them into end users' broader information systems, rather than through discrete delivery channels such as single-purpose terminals. Computer equipment seems more akin to an asset manager's operational overhead. Guidance that places computer equipment outside the scope of "research" seems unlikely to reduce the flow of "reasoning or knowledge" to asset managers to the detriment of investors.

III. Comments on Market Data

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?

Reuters agrees that it is appropriate for the CSA to review the scope of "order execution services and research." As the CSA notes, investors' inability to monitor effectively how the

¹ 15 U.S.C. Sec. 78bb(e).

adviser uses brokerage commissions creates a conflict of interest on the part of the adviser. This conflict can be mitigated by strict boundaries to the definition of “research” that ensure that research inures to the benefit of the clients rather than the adviser. In general, Reuters believes that the guidance embodied in the proposed Policy will benefit investors by discouraging significant conflicts of interest on the part of asset managers using client commissions while encouraging the use of research in managing client accounts.

Reuters urges the CSA to include all market data and economic data within the scope of “research.” Market data and economic data are forms of information that provide an asset manager with appropriate assistance in making investment decisions on behalf of clients. Market data keeps investment professional informed of market developments and allows for a legitimate research function, namely the pricing of securities for investment. As the CSA notes, the U.S. Securities and Exchange Commission recently concluded that “market data, such as stock quotes, last sale prices and trading volumes, contain substantive content” regarding securities and “thus are eligible as ‘research services’” under Section 28(e) of the Exchange Act.² The SEC went on to state

Other data are eligible under the safe harbor if they reflect substantive content – that is, the expression of reasoning or knowledge – related to the subject matter identified in the statute. For example, we believe that company financial data and economic data (such as unemployment and inflation rates or gross domestic product figures) are eligible as research under Section 28(e).³

The policy articulated by the SEC in interpreting Section 28(e) should guide the CSA as well: because market data, corporate financial data and economic data help asset managers formulate investment strategies, they should be eligible for purchase with client commission dollars.

IV. Nature of Reuters Service

In contrast to raw market data, the Reuters service is a dynamic research device. It enhances the performance of investment professionals through the provision of traditional research products as well as various types of data and analysis. Reuters enhances the market data that it provides to investment professionals in terms of functionality, information parameters, and aggregation across asset classes. Reuters market data services are carefully designed and controlled to interface with clients’ information technology systems. In short, it is “market data that has been analyzed or manipulated to arrive at meaningful conclusions,” as called for by the proposed Companion Policy at Section 3.3(2).

Reuters also offers services specifically tailored for portfolio managers and for portfolio manager/traders. Reuters combines market data with pricing data, fundamental data, and company data. Finally, this data is accompanied by analysis, news, graphs, charts – all examples of “original thought or the expression of reasoning or knowledge” under the Proposed National Instrument. Taken together, the elements of the Reuters service all help an asset manager formulate overall investment strategies and decide whether to engage in specific securities transactions.

² Commission Guidance Regarding Client Commission Practices Under Section 28(3) of the Securities Exchange Act of 1934, Release No. 34-54165 (July 18, 2006), at 35-36.

³ Id. at 36.

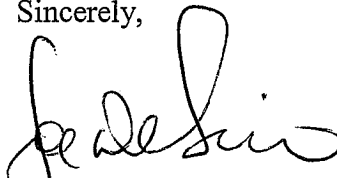
As the SEC has noted, allowing vendor market data services to be paid for with client commission dollars "is generally consistent with" the rules adopted by the United Kingdom Financial Services Authority ("FSA") earlier this year regarding client commissions.⁴ Market data services supplied by vendors typically reflect parameters such as message size, message update frequency, and source of information set by vendors and customers. Therefore, they can be paid for with client commissions under the FSA rules provided an asset manager reasonably determines that the service constitutes a "research service." Reuters urges the CSA similarly to conclude that Reuters service constitutes "research" eligible for payment with client commissions under the Proposed National Instrument.

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The marketplace currently is characterized by uncertainty regarding whether various products and services may be paid for with client commission dollars. Reuters is concerned that the uncertainty may cause asset managers to forego permissible services that would help them deliver enhanced returns to their clients. Reuters therefore commends the CSA for publishing the proposed guidance and supports its early adoption to bring certainty to this issue. As explained above, Reuters believes that the CSA should follow the lead of the SEC in treating market data as "research," as it helps asset managers better serve their clients. Finally, Reuters believes that its tailored information services constitute "research" as information that has been analyzed or manipulated so as to reflect original thought and the expression of reasoning and knowledge.

Attached please find an appendix that lists Reuters' responses to some of the additional specific questions posed in the Notice of Proposed National Instrument. Please feel free to call me at (416) 941-8051 with any questions regarding this submission.]

Sincerely,



Joe DeSario
Managing Director

⁴ Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934, Release No. 34-52635 (October 19, 2005), at 20; see U.K. Financial Services Authority "Feedback on CP 05/5 and Final Rules" (July 2005).

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

Reuters believes the Commission should continue to allow asset managers to purchase trade analytical software and services using client commissions. Post-trade execution quality analytics help asset managers compare the execution services provided by different brokers and determine whether a broker is in fact providing “best execution.” In Reuters view, these services relate to trade execution and are of benefit to investors. For that reason, it is appropriate that they be deemed a “research” or “brokerage” service and paid for with investors’ commission dollars.

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

Reuters believes that there appears to be no reason to treat mass-marketed publications differently from other forms of research, provided the same conditions are met as apply to other goods and services. An adviser would be required to determine first that a mass-marketed publication is an eligible product or service, that is, [that it constitutes “advice,” “analyses,” or “reports” within the meaning of Section 28(e).] Second, the manager must determine that the publication “actually provides lawful and appropriate assistance in the performance of his investment decision-making responsibilities.” Finally, the manager must determine that the amount of client commissions paid is reasonable.