RAYMOND JAMES®

July 19, 2007

Market Regulation Services Inc.
145 King Street West, Suite 900
Toronto, Ontario
M5H 1J8

Attention: James Twiss, Chief Policy Counsel

Dear Sirs:

RE: MIN 2007-007 – Joint CSA/RS Notice on Trade-Through Protection, Best Execution and Access to Marketplaces

Market Regulation Services Inc. ("RS") has requested comment on numerous proposed amendments to the Universal Market Integrity Rules, in relation to various aspects of marketplace regulation and access in a multiple marketplace environment. Personnel from the Compliance and Equity Capital Markets divisions of Raymond James Ltd. ("RJL") have considered the suggestions set forth in the Market Integrity Notices of April 20, 2007 and wish to provide the opinions and concerns of RJL with respect to these proposed changes to the Canadian trading landscape.

Trade-Through Protection Considerations (General)

1. RJL is not in favour of any obligation placed on Canadian marketplace participants to consider trade execution on foreign markets where Canadian-listed instruments may be inter-listed. As outlined in our previous responses to various requests for comments, RJL believes that arbitrage trading, speed of global execution and information distribution, and other market conditions help to balance any significant differences between Canadian and foreign markets for the same security. With that in mind, it is unnecessary to force participants to bear the significant costs to arrange primary and/or jitney execution arrangements (costs which would have to be passed on to our clients) for foreign marketplaces. Further, it is highly likely that it is not even possible at this stage for Canadian participants to link to foreign markets in a manner that would address best price and best execution issues, given the technology currently available.

2. When conducting a cost-benefit analysis for the trade-through proposal a number of factors should be considered. These include ease of access to the required technology to trade on the Alternative Trading System ("ATS"), access fees to the ATS, settlement and clearing fees, volume of trading being conducted on the ATS, speed and ease of execution on the ATS, and costs of surveillance and monitoring of the trading on each ATS.

3. RJL does not wish to participate in the industry's cost-benefit analysis at this time.

4. We concur that trade-through protection should only be afforded during "regular trading hours", which we define as those which have historically existed for Canadian marketplaces (9:30am to 4:00pm Eastern Time).

5. Given the often thin trading volumes on the various Canadian marketplaces, we believe there is a danger in limiting the consolidated feed to the top of the book only. Ultimately the recognizing regulators need to prevent a situation where a client is being forced to honour an inferior price simply because that price represents a top level quote of a thinly-traded ATS, while a principal or more significant marketplace may actually have a superior quote beneath the "Top 5" levels. We believe the entire book should be consolidated in Canada, to ensure best possible prices for our clients and no situations as outlined above. Without an effective information processor to provide centralized order and trade information from all marketplaces, the entire multiple marketplace environment becomes potentially rife with errors. Only with "one stop shopping" for traders and advisors can we ensure that fills aren't missed (while other marketplaces are checked manually) and further, ensure that proper surveillance of multiple marketplaces can occur for compliance purposes.

6. RJL questions how the regulators will have the legal ability to dictate a limit on the trading fees that may be charged by an individual ATS, but we are certainly in favour of price caps if this is possible. Capping trade-by-trade access and execution costs would level the playing field for all participants and likely bring more memberships to an ATS that might otherwise have few. This would not only improve access to all marketplaces for all clients, but place a limit on the amount of infrastructure and access costs that will ultimately have to be charged back to the clients in the form of higher commission rates.

7. RJL is not in favour of a legislated "threshold" which would require a niche ATS to alter its business practices or strategies to suddenly allow access to all marketplace participants if that trading threshold is crossed. This would place not only the niche ATS, but also participants such as RJL, in the precarious position of requiring potentially new access technologies and start-up costs to be held in "standby mode" in case this hypothetical trading volume was ever reached.

8. As above, we don't believe it is appropriate or necessary to force a specialized marketplace to change its technology or by-laws merely to allow the occasional and otherwise non-qualifying market participant to displace a quote for trade-through purposes. Much like a special terms order under current UMIR provisions, these niche ATS' should be considered outside the norm and market participants such as RJL should be exempt from any obligation to honour displacement on such marketplaces—unless it could be immediately determined that it would be to the advantage of our clients to do so. That should be left as a business decision by each individual member and not a legislated requirement. Having established this point of view, RJL concedes that if the UMIR amendments settle a different way then the only

practical solution is to require the ATS to ensure the technology is in place to access its market. This should not be a cost burdened by individual participants who may otherwise elect never to participate in that particular ATS. We agree that the ATS should conduct a minimum of 5% and more reasonably 10% of the trading volume of a Canadian issuer before any trade-through obligation (and the expense required to honour that obligation) is enforced by the regulators. Further, it should be determined how ATS volume as a percentage of the total trading volume will be calculated—reporting both the buy and sell side of a single 5000 share trade should not count as "10,000 shares" of volume as has been evidenced recently in the US.

9. While we believe that certain order types such as short sales, on-stop and fill-or-kill will be difficult to manage in the proposed environment (especially in the absence of a properly consolidated market display and/or more intelligent "smart" routing technology), we are generally of the opinion that no order type should be traded-through or allowed to trade-through. This policy could be relaxed in cases where significant transactions requiring special handling and immediate execution are involved…such as large block trades for gypsy-swaps, corporate takeover bids, or syndicate allocations.

Trade-Through Protection Considerations (Flickering Quotes)

10. We are unaware of any current technology tools that would allow for monitoring and enforcement of a flickering quote exception.

11. RJL believes that a flickering quote which lasts for less than 5 seconds should not be subject to trade-through protection. Most forms of manual trade execution in today's environment take at least that long to process, and a shorter time period would likely cause significant grief amongst traders who are then forced to displace quotes after the fact simply because they were unable to create two orders fast enough where one order would have sufficed at the beginning of their initial order entry.

Trade-Through Protection Considerations (After Hours Trading & Last Price Order Facility Exception)

12. We reiterate our earlier comments that trade-through protection and considerations should only apply in the historical "normal" Canadian market hours. RJL believes that those participants who wish to trade in the after-hours market, or in the Market-On-Close facility, or in PURE's extended trading session should do so independent of any regulated protection. The participants who choose one late trading session over another do so at their own risk of missing a better priced fill either in the late session or at the following morning's open…but they should not have an obligation to honour another late trading quote on another marketplace given the nature of after-hours trading.

Best Execution Requirements

13. We concur that those best-ex considerations named in the MIN are the most relevant.

14. RJL believes that the present multiple marketplace environment, and broadening the description of best execution, will have a significant impact on small dealers. We believe that profit margins will get smaller while overhead costs increase, ultimately benefiting only the bank-owned firms and largest of independent dealers.

15. We do not believe that portfolio managers (or similar discretionary trading relationships) should be exempt from best execution obligations. Despite a PM having an ultimate obligation to the overall performance of a basket of securities, traders operating for the PM should still always be looking for the best possible execution for individual securities within that portfolio at the time of order entry.

16. RJL believes it is imperative that the regulators enforce standardized and periodic data reporting from every ATS, not make any such reporting a requirement of individual participants. At a minimum these reports should include easy-to-read quarterly statistics showing the trading volume of each symbol on the ATS for that quarter and its percentage relevance to the same trading on the principal marketplace. Only with these statistics can a participant be expected to reasonably consider any dark pool options for best execution; otherwise all orders will simply be sent to the primary marketplace. As discussed in answer #8, we believe that the data being reported by any ATS should be standardized to avoid double-counting and to ensure the reliability and consistency of volume statistics received from every marketplace around the country.

17. In view of RJL's belief that foreign marketplaces should not be considered at this time for best execution/trade-through regulations, and further that dealers should not be responsible for the preparation and dissemination of trade data, the question of dealers reporting their foreign exchange or OTC volume is moot.

18. We are not in favour of any option that delays the implementation of a fully integrated consolidated market display. Requiring dealers to report information about orders that are routed due to trade-through obligations may provide another level of security to the regulators during a period where a consolidated display is lacking, but it also provides more potential delays to that requirement and offloads undue operational and regulatory costs onto participants.

19. Yes, spread-based statistics should be part of the information required of reporting marketplaces. We will require that information when considering best execution for our passive order flow.

20. We believe that the reporting requirements should be met regardless of whether an issuer trades on a single marketplace or several. This will provide a historical set of data which can be used if or when the issuer graduates to a larger market where its securities will be listed on multiple marketplaces.

Direct Market Access Considerations

21. We concur that DMA clients should be subject to the same requirements as subscribers before being permitted access to a marketplace.

22. The training requirements expected of an access person or a subscriber should apply to a DMA participant regardless of the type of security being traded, with the exception of fixed income products. Due to the nature of bond trading in Canada, we do not foresee an environment where a DMA client would be able to circumvent the expertise or involvement of an in-house bond trading desk. As a result the client would not require specialized training to simply direct its order flow to our fixed-income desk.

23. It is our opinion that regulatory jurisdiction is too fragmented at present. RS should be the primary regulatory authority for all levels of market trading infractions and over any party with access to the marketplaces. DMA client traders should not be sanctioned by a Securities Commission (or related SRO) while Participant traders remain subject to sanction by RS. If DMA traders were licensed in the same manner as Participant traders, RS could retain jurisdiction over any individual entering orders and executing trades in a Canadian marketplace, thus ensuring that any individual acting contrary to UMIR would know which regulator he/she was answering to and what type of precedent sanction he/she might expect for rule violations.

24. Our comments on the above notwithstanding, we do agree that over-regulation of DMA clients (in particular) at the dealer level could lead to that niche finding alternative ways to access the markets without the involvement of participant firms. Certain means already exist for those clients such as the "institutional only" ATS like Blockbook, which is regulated by RS. Sending more DMA clients to similar marketplaces will only add to the direct supervisory burden borne by RS and its employees, rather than relying on the UMIR 7.1 obligations of member firms. Canadian regulators need to strike a balance between efficient access to the marketplaces and a level playing field for both employee traders and client traders.

25. We are not in favour at this time of any exemption from the requirements for foreign DMA clients.

26. We do not foresee any advantages (at least not for RJL) for a new category of member that would have direct access to the marketplaces without the involvement of a dealer. This would presumably eliminate, over time, all of our DMA business as well as our northbound business from US retail and institutional clients. As indicated

in answer #24, this also increases the direct supervisory burden on the regulators who will have to presumably monitor these categories (such as Blockbook) without the benefit of a gatekeeper broker-dealer providing supervision, compliance and education.

Raymond James appreciates the opportunity to voice its comments and concerns regarding the upcoming changes to the Canadian securities landscape. We look forward to continuing to work closely with our colleagues and the regulators to nurture this new system into one that is fair, efficient and beneficial to both the Canadian retail and institutional investor.

Sincerely,

Raymond James Ltd.

Brian Pynn
VP Trading Compliance

Spencer MacCosham
Chief Trading Officer

cc. Recognizing Regulators (c/o Cindy Petlock, Ontario Securities Commission)