RBC Asset Management

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Via E-Mail

John Stevenson
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Anne-Marie Beaudoin
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Autorité des marchés financiers
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Dear Mr. Stevenson and Ms. Beaudoin,

Re: **Proposed National Instrument 23-102 Use of Client Brokerage Commissions as Payment for Order Execution Services or Research Services and Companion Policy 23-102CP**

We are responding on behalf of RBC Asset Management Inc. ("RBC AM") to the Canadian Securities Administrators' (the "CSA") request for comments on the revised draft of Proposed National Instrument 23-102 Use of Client Brokerage Commissions as Payment for Order Execution Services or Research Services (the "Proposed Instrument") and the related Proposed Companion Policy 23-102CP (the "Proposed Policy"). RBC AM is an indirect, wholly-owned subsidiary of Royal Bank of Canada and provides a broad range of investment services to investors through mutual funds, pooled funds and separately managed portfolios.

At the outset, we would like to thank the CSA for considering our comments made in response to Concept Paper 23-402 in 2005 and the 2006 draft of the Proposed Instrument and for the opportunity to comment on the current versions of the Proposed Instrument and Proposed Policy. As we have indicated in our earlier comment letters, we are fully supportive of the use of "soft dollar" arrangements and of a regulatory framework that encourages the creation of a level playing field as between providers of high quality "bundled" and "unbundled" research services.

Responses to Specific Questions

Question 1: What difficulties might be caused by a temporal standard for order execution services that might differ from the standard applied by the SEC, especially in the absence of any detailed disclosure requirements in the U.S.? In the event difficulties might result, do these outweigh any

benefit from having a temporal standard that results in consistent classification of goods and services based on use?

We think the proposed revised temporal standard for order execution is better aligned with a trade order's life cycle than the standard articulated by the SEC and would permit a broader range of goods and services to be purchased with clients' commission dollars. However, we also expect that the differences between the Canadian and U.S. temporal standards will prove to be of little practical benefit to Canadian advisers (and their clients) who obtain goods and services from both Canadian and U.S. brokers and third party service providers.

First, we expect that U.S. brokers and service providers will be familiar only with the SEC standards and, accordingly, will not be willing to provide to Canadian advisers the additional goods and services that would be permitted under Canadian rules. Second, there may be a tendency among Canadian advisers who transact with brokers on both sides of the border to draft internal policies and procedures which adhere to the more restrictive U.S. standards since a single internal standard will be easier to convey to staff and to monitor. The result may be an unlevel playing field as between advisers who use only Canadian brokers (and who may, therefore, purchase a broader range of goods and services on behalf of clients) and those who use both Canadian and U.S. brokers.

We believe that Canadian advisers and investors should be subject to the same regulatory obligations and restrictions and, accordingly, would urge the CSA to adopt the temporal standard employed in the U.S.

Question 2: What difficulties might be encountered by requiring the estimate of the aggregated commissions to be split between order execution and goods and services other than order execution? What difficulties might be encountered if instead the requirement was for the aggregate commissions to be split between research services and order execution services?

Although it has not been our experience that investors are anxious to receive the kind of split disclosure contemplated in the Proposed Instrument, we generally support the CSA's objective of increasing transparency and accountability with respect to the use of brokerage commissions. We believe, however, that the two suggested methods of presentation would both be problematic.

In each of our two previous comment letters we indicated, and we remain of the view, that advisers are not currently in a position to unbundle commissions with an appropriate degree of accuracy or fairness. While we agree that advisers have an obligation to ensure that investors are receiving value for their commission dollars, dealers are not currently required to provide advisers with any indication of the cost of either execution or research services and unless they are required to do so, advisers are only able, at best, to estimate the costs of execution, research and goods and services other than execution or research.

In our comment letter of October 16, 2006, we described methods by which we believe an adviser might be able to arrive at an estimate for any of these amounts, although we do not believe that the process would result in helpful or meaningful disclosure to investors, including sophisticated investors. We have also recently become aware of new practices emerging in the U.K. under which client commission dollars are split between two dealers, one of which provides execution services and one of which provides research. These arrangements result in advisers making two separate payments which may ultimately provide a basis on which they can assign a meaningful value to other bundled research and execution services. We will continue to monitor the extent to which these practices are adopted internationally and the usefulness of the information they may generate.

Accordingly, we suggest that commission costs should only be reported to clients on an aggregated basis until methods emerge which enable advisers to generate more meaningful information.

Question 3: As order execution services and research services are increasingly offered in a cross-border environment, should the Proposed Instrument allow an adviser the flexibility to follow the

disclosure requirements of another regulatory jurisdiction in place of the proposed disclosure requirements, so long as the adviser can demonstrate that the requirements in that other jurisdiction are, at a minimum, similar to the requirements in the Proposed Instrument? If so, should this flexibility be solely limited to quantitative disclosure given that the issues associated with differences in quantitative disclosure requirements between regulatory jurisdictions are likely greater than the problems associated with differences in narrative disclosure requirements? In addition, should there be limitations on which regulatory jurisdictions an adviser may look to for purposes of identifying suitable alternative disclosure requirements and, if so, which jurisdictions should be considered eligible and why?

We strongly believe in the application of a uniform standard and a level playing-field for all participants in the Canadian market. To the extent that the proposed quantitative disclosure requirements are of any benefit to clients, that benefit will depend on clients' ability to obtain and compare disclosure data when selecting investment managers. It seems relatively clear to us that the U.S. soft dollar disclosure regime would not be "similar" to the proposed Canadian regime given that it contains no quantitative component. However, we believe there could be significant (and unproductive) disagreement between the CSA and advisers or between advisers as to whether other foreign disclosure regimes are "similar" to Canada's or not.

Accordingly, we do not believe advisers should be able to choose the soft dollar disclosure regime to which they will be subject.

Question 4: Should a separate and longer transition period be applied to the disclosure requirements to allow time for implementation and consideration of any future developments in the U.S.? If so, how long should this separate transition period be?

The length of any transition period should be determined based on (a) whether the CSA decides to proceed with the proposed form of quantitative disclosure, including the split between various elements of commission costs and (b) the accuracy the CSA expects advisers to achieve in preparing that disclosure. Since we are not aware that the SEC has announced any intention to further refine its interpretive release of July 18, 2006, we do not believe this should be a factor in determining the length of the transition period.

If the CSA abandons the proposed form of quantitative disclosure in favour of simply aggregated commission disclosure, we expect that most firms would be able to comply with a relatively short transition. Similarly, if the CSA does not expect advisers to take extraordinary efforts in preparing their estimates of the split between execution and research costs, again, we expect that most firms could comply with a relatively short transition. However, if the CSA proceeds with the quantitative disclosure regime as proposed, we believe many firms will find the currently proposed six month transition period to be too short.

Additional Comments

We note that section 5.1 of the Proposed Policy suggests that advisers who also act as fund managers should consider making the proposed quantitative disclosure to the independent review committee ("IRC") for their investment funds. We disagree with this suggestion.

We understand and agree with the CSA's view that the use of soft dollar arrangements may give rise to conflicts of interest to the extent that clients' commission dollars could be used to purchase goods or services that are of greater benefit to the adviser than to its clients. Accordingly, we agree that an adviser must adopt policies and procedures in respect of its soft dollar arrangements, obtain input from the IRC with respect to those policies and procedures and obtain a positive "recommendation" that the manager's proposed actions in respect of soft dollar transactions "achieve a fair and reasonable result" for the funds it manages. However, we do not believe that the split between the cost of execution and research represents a separate conflict of interest matter that requires IRC consideration.

In our view, providing the proposed form of quantitative disclosure to an IRC would suggest that it should consider whether the amounts paid for execution and research achieve "a fair and reasonable result" for the funds. We believe this would require IRC members to assess an adviser/manager's business judgment in agreeing to make certain soft dollar payments, an assessment we do not believe that IRC members should be expected to make. Furthermore, we believe that any such requirement would be inconsistent with the commentary following section 5.1 of National Instrument 81-107 which indicates that "the CSA do not consider it the role of the IRC to second-guess the investment or business decisions of a manager...".

We therefore suggest that section 5.1 of the Companion Policy be amended accordingly.

Thank you again 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,

Daniel E. Chornous, CFA
Chief Investment Officer

Frank Lippa, C.A.
Chief Financial Officer and
Chief Operating Officer

cc. c/o John Stevenson, Secretary
Ontario Securities Commission

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory