RBC Global
Asset Management®

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Via E-Mail: comments@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

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Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
Autorité des marché financiers
New Brunswick Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Registrar of Securities, Department of Justice, Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division, Department of Justice, Nunavut
Ontario Securities Commission
Registrar of Securities, Prince Edward Island
Saskatchewan Securities Commission
Registrar of Securities, Government of Yukon Territories

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

and

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

Dear Sirs/ Mesdames:

Re: Proposed Amendments to the Companion Policy to National Instrument 23-101 Trading Rules – Application of the Order Protection Rule to Marketplaces Imposing Systematic Order Processing Delays

We are writing on behalf of RBC Global Asset Management Inc. ("RBC GAM") in response to the above-mentioned proposed amendments published for comment on June 12, 2015. With offices in Canada, the United States, Europe and Asia, RBC GAM provides a comprehensive range of investment solutions and services to both institutional and retail clients. RBC GAM group of companies manage CAD $370.4 billion in assets worldwide (as of April 30, 2015). We appreciate the opportunity to provide our comments on this important initiative.

Question 1: What are your views on whether OPR should apply to marketplaces that impose an order processing delay? If OPR should apply to marketplaces that impose an order processing delay, should it apply to some or all of them? What factors should be considered in determining whether OPR should apply to marketplaces that impose order processing delay.

We stand by the comments in our letter to the CSA on its May 15, 2014 proposal to amend National Instrument 23-101. The OPR should apply to all visible marketplaces whose market share is above a minimum threshold (e.g. 2.5%). Marketplaces, including those that impose an order processing delay, whose market share is below the threshold should remain unprotected until their market share grows. We feel such an amendment to the OPR would allow the rule to continue to achieve its objectives of promoting confidence in Canadian marketplaces while discouraging the introduction of new marketplaces that introduce more fragmentation and seem designed primarily to capture more market data fees for their operators. This version of the OPR would allow for real, meaningful competition and should result in a stronger market. Ultimately, market participants will migrate to where they feel their orders are best represented, while still fostering innovation and, over time, eliminating redundant marketplaces (fragmentation).

Our understanding is that the CSA's latest proposal on the OPR is being made in response to the random speed bump, a form of order processing delay, proposed by Alpha Exchange (Alpha). The CSA is proposing to apply unprotected status to all visible marketplaces that impose an order processing delay on orders that would otherwise be immediately executable against displayed volume. Following Alpha's amendment to its trading policies, such marketplaces would include Alpha and Aequitas NEO Exchange (Aequitas). The trading volumes of these two markets are currently not high and leaving a small portion of the Canadian market unprotected isn't a significant problem. However, we are concerned that further market innovation and possible differences in how marketplaces structure order processing delays may result in a significantly higher portion of displayed orders becoming unprotected. This would create additional confusion among market participants and further increase complexity in the marketplace. We recommend that regulators approve new market practices based on how they fit into the current overall market structure, rather than approve marketplace changes and subsequently change the existing market structure to fit a particular marketplace's operating model, in this case Alpha's.

Rather than a hybrid of protected and unprotected visible marketplaces, we would be more supportive of a long term 'all or nothing' approach: either all visible orders on marketplaces that have significant market share are protected or all visible orders are unprotected and the regulatory obligation to provide best execution falls on broker-dealers.

Question 2: In an environment where not all displayed orders on visible marketplaces are protected under OPR because marketplaces impose an order processing delay, what are your views with respect to the outcomes for protected and unprotected visible marketplaces and for trading on those marketplaces? In responding, please consider impacts on: (a) various market participants including retail and institutional investors and liquidity providers; (b) liquidity on both protected and unprotected visible marketplaces; (c) price discovery; (d) complexities and changes you anticipate from participating in both protected and unprotected visible marketplaces, including costs and effort; and (e) the provision and use of consolidated data.

The random nature of Alpha's proposed speed bump concerns us as its implementation will reduce our ability to obtain liquidity from Alpha or other marketplaces that impose a random speed bump on actionable orders. The imposition of a random speed bump on actionable orders, while allowing resting visible orders to be amended or cancelled without a similar delay will permit liquidity providers on Alpha to avoid interacting with larger orders that institutional investors such as ourselves submit. This in effect allows Alpha to discriminate against certain types of market participants: those that are looking to trade in larger volumes.

We are also concerned about the creation of the Canadian NBBO in the event that a larger portion of displayed orders becomes unprotected. Foreign investors may avoid Canadian marketplaces due to frustrations over certain visible orders being excluded from the NBBO. This would in turn, reduce liquidity in Canada and ultimately have an adverse effect on the price discovery process. This is unfavorable for institutional investors, who are interested in finding natural liquidity and trading in larger quantities. It will be harder for natural participants to capture the passive side of the spread. We understand that there will be two consolidated feeds, with one containing only protected marketplaces' quotes and the other containing all visible marketplace quotes (protected and unprotected). It is not clear which of the two feeds will be used for calculating NBBO and which one dark pools will reference to calculate the mid-point of the quote. We are also concerned that two consolidated feeds will result in higher market data fees for brokers, which will likely result in increased trading costs for investors.

Our proposal that the OPR be applied to all visible marketplaces whose market share exceeds a minimum threshold would eliminate confusion around the determination of the NBBO and mid-point quotes for dark pools and would allow for a single consolidated data feed.

Question 3: A key objective of OPR is to recognize and support the role of retail participation in the market. If the Proposed Amendments are finalized, what changes if any, do you expect will be required for handling retail order flow? What changes if any, do you expect in terms of outcomes for retail clients?

N/A

Question 4: are there any implications that have not been addressed above that should be considered? How do you suggest they be addressed?

We are concerned about the unintended consequences that we believe will result from the proposed changes to the operation of Alpha and the proposed amendments to the OPR. The key implication could be the increased complexity of determining the NBBO from visible orders in the market. It appears that the proposal to designate certain marketplaces displaying visible orders as unprotected will result in further segmentation of the market and further challenge investors' ability to gauge not only the amount of accessible liquidity, but the prices at which such liquidity is accessible. A visible quote on a marketplace that accounts for a significant market share should be accessible to all market participants at the volume quoted. Allowing the introduction of the random speed bump as proposed by Alpha allows participants quoting on Alpha to interact with smaller retail orders while avoiding interacting with larger institutional orders that are routed to multiple marketplaces. This will have a negative impact on liquidity and increase execution costs for institutional investors, particularly in less liquid names. Therefore, we are concerned that the proposed change in the OPR may introduce additional, unnecessary complexity to the Canadian market structure with no attendant benefits for price discovery or market integrity.

Only broker-dealers with no access to a non-protected market should be allowed to lock a quote. Smart order routers' fill rates in the Canadian markets will fall, which will negatively impact traded volumes if more marketplaces introduce random speed bumps similar to the one proposed by Alpha. Excluding institutional order flow from any market segment will result in reduced price discovery overall.
We are uncertain under the CSA's OPR proposal how dark marketplace price improvement and mid-point peg orders will be determined.

Perhaps a better long-term solution would be to abolish the OPR thereby making all markets unprotected and make it dealers' regulatory obligation to obtain best execution for client orders. If this is where we may ultimately be heading, we advocate that the CSA mandate greater transparency and ongoing disclosures by dealers and marketplaces regarding order routing and execution so that clients can better assess and compare the quality of their executions. Dealers should be given a regulatory mandate to be more transparent about their fill rates; disclose how they handle trading rebates and fees on different marketplaces; and the percentage of orders that are executed at the far or the near side of the spread as well as at the mid-point. Such mandated disclosure should extend to include an explanation of a broker's rationale to connect or not connect to any visible but unprotected marketplaces.

Another possible unintended consequence of the CSA's OPR proposal is that lower passive fill rates may cause an increase in active execution rates, which may increase information leakage and increase price impact associated costs for institutional investors. It is hard to see how the increased interaction between retail flow and liquidity providers in the structure proposed by Alpha will improve the regulatory objectives of price discovery, fair access and market integrity. The commercial solution offered by Alpha here would exclude the large, informed order flow from institutional investors whose participation would provide important input into price discovery. As a result, the level of what we view as unnecessary intermediation in visible, protected marketplaces will likely increase.

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We thank the CSA for considering our comments on the proposed amendments. If you have any questions or require further information, please do not hesitate to contact the undersigned.

Sincerely,

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.