RBC Global Asset Management Inc.
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Toronto, Ontario, Canada M5V 3K7

February 7, 2019

VIA EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Government of Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Service NL (Newfoundland and Labrador)
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon

c/o The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8, and

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

Dear Sirs/Mesdames:

Re: CSA Staff Notice and Request for Comment 23-323 *Trading Fee Rebate Pilot Study* (the "Pilot Study")

RBC Global Asset Management Inc. ("RBC GAM" or "we") is a wholly owned subsidiary of Royal Bank of Canada and provides a broad range of investment management services and solutions to investors across Canada, including through a variety of investment funds. As at October 31, 2018, RBC GAM had over $311 billion in assets under management.

RBC GAM strongly supports the Pilot Study and commends the Canadian Securities Administrators (CSA) for its thoughtful and thorough work on the Pilot Study. We applaud the CSA for coordinating with the United States Securities and Exchange Commission (the SEC) on this important initiative and encourage it to continue to collaborate/coordinate, where possible, with US, UK and EU regulators, in whose jurisdictions RBC GAM and other Canadian asset managers also have significant operations or invest.

Policymakers, market participants, academics and other stakeholders continue to raise questions about the impact of marketplace pricing on complexity, instability, capacity and conflicts of interest in equity markets. From RBC GAM's perspective as an institutional investor, marketplace pricing has become unnecessarily complex. We are concerned that the proliferation of exchange pricing variables contribute to a number of incentives that result in negative outcomes for our clients. These outcomes include reduced transparency, increased complexity and heightened conflicts of interest between brokers and clients with regard to routing of client orders. Additionally, marketplace pricing changes, which require technology adjustments by marketplaces and brokers, can elevate operational risks that could cause market "glitches" and other risks to market stability.

A number of variables can impact fees charged or rebates offered by a marketplace for a given order. Some examples of these variables include: the marketplace order type used, the listing venue of the security being traded, whether the order added or removed liquidity, the price of the security, whether the order was hidden or displayed, whether the order was sent to the marketplace's opening or closing auction facility, whether indications of interest (IOIs) were sent, the use of various marketplace routing strategies and whether price improvement was received. Such complexity concerns us as we believe it creates a potential conflict of interest when a broker decides how to route a client order. A decision to route orders which is unduly affected by fee and rebate considerations may conflict with a broker's duty to route orders in a manner that results in the best outcome for its clients.

Capping or eliminating the practice of marketplaces competing on the basis of offering rebates for orders could potentially incentivize marketplace competition on the basis of price transparency, market stability, efficiency and best execution.

Our responses to the questions in Appendix II of the Pilot Study can be found below:

Question 1 - We propose to define a security as medium-liquid if it trades at least 50 times a day on average and more than $50,000 on average per trading day over the past month. Do you believe that this definition is appropriate? If not, please provide an alternative definition and supporting data, if available, to illustrate which securities your definition captures.

Response - We agree with the decision to include in the Pilot Study both "highly liquid" and "medium-liquid" securities.

We agree with the proposed definition of a security as "medium-liquid" if it trades at least 50 times a day on average and more than $50,000 on average per trading day over the past month. We reviewed recent trading statistics of securities listed in Canada and found that the proposed minimum average per trading day volume is sufficient to cover what we consider "medium-liquid" securities.

Question 2 - We propose to introduce the Pilot in two stages, with non-interlisted securities first, followed by interlisted securities. Do you believe that such staggered introduction will cause material problems for the statistical analysis and the results of the Pilot? If so, please describe your concerns in detail.

Response - We also agree with your intent to introduce the Pilot Study in two stages, with non-interlisted securities first, followed by interlisted securities. Having said that, because the second phase of the Pilot Study will be co-ordinated with the Proposed SEC Transaction Fee Pilot Study, and therefore there is less flexibility on when that phase of the Pilot Study will begin, we are concerned whether there will be sufficient time for the non-interlisted securities phase of the Pilot Study to collect useful information. On that basis, we ask the CSA to consider conducting the non-interlisted phase of the study after the interlisted securities phase is complete.

In our view, a pilot of at least one year and no more than two years will ensure that sufficient data is collected over time and that the results are not unduly influenced by unusual market activity and events.

Question 3 -Several Canadian marketplaces offer formal programs that reward market makers with enhanced rebates in return for liquidity provision obligations. On the one hand, such programs may benefit liquidity. One the other hand, one of the primary objectives of the Pilot is to understand if rebates cause excessive intermediation. In your opinion, should exchanges be allowed to continue using rebates or similar arrangements for market making programs during the Pilot? Do you believe any constraints on such programs during the Pilot to be appropriate?

Response - The prohibition on the payment of trading fee rebates by marketplaces with respect to trading in the selected sample securities is an essential feature of the Pilot Study. As the proposal states that its purpose is to, "study the effects of prohibiting rebates, the design relies on only this prohibition", only by having a test group where no rebates are permitted (and where the impact of prohibiting rebates can be isolated) can the Pilot Study gather useful data about the impact of rebates on brokers' order routing decision-marking, segmentation of orders, excessive intermediation and their impacts on the best execution of client orders. We applaud the CSA's decision to conduct this study and agree with the rationale for applying a rebate prohibition to the selected sample securities for the duration of the Pilot Study.

We expect that studying the effect of no-rebates on the test group will produce data and analysis that serve the core purpose of the Pilot Study: to assess the potential conflicts of interest and impact on execution quality associated with marketplaces competing for order flow by offering trading fee rebates and introducing different marketplaces with contrasting rebate models such as "maker-taker" and "taker-maker".

Question 4 - We propose to compute price impacts at the one- and five-second horizons. Do you believe that we should consider other horizons? If so, which ones?

Response - In addition to the one- and five-second horizons being proposed by the Pilot Study, we recommend including 15 second and 30 second horizons as well. We believe that additional data points will provide more granularity in comparing different options.

Question 5 - We propose to compute time-to-execution for limit orders posted at the CBBO prices or improving these prices. Do you believe that we should consider different price levels? If so, which ones? Please provide supporting data and analysis, if available, to demonstrate the empirical importance of order postings at other levels.

Response – We believe that computing time-to-execution for limit orders posted at the CBBO is sufficient.

Question 6 - We propose a number of market quality metrics. Do you believe that we should consider additional metrics? If so, please outline these metrics and provide supporting data and analysis, if available, to demonstrate their empirical importance.

Response - The market quality metrics proposed in the Pilot Study are valid. We especially agree that the following metrics represent a good gauge of market quality: quoted liquidity, price efficiency, intra-day volatility, effective spread and implementation shortfall. We recommend analyzing one other element of the market quality: the level of participation of intermediaries that provide liquidity to the Canadian marketplace. For example, especially in the "highly-liquid" sample securities, whether the absence of rebates reduced the number of intermediaries and whether that had any negative impact on market quality.

Question 7 - As such, in relation to ETP inclusion, we ask that market participants consider the following questions: Given the challenges that ETP matching presents, can the goals of the Pilot be achieved without including ETPs in the sample? If ETP inclusion is important, can you propose a way to construct a matched sample that addresses the concerns identified above?

Response - none

Conclusion of the Pilot Study

Should the Pilot Study conclude with results that show that fees and rebates are adversely affecting order routing, execution quality and market quality, we believe that the CSA should consider a number of reforms including the substantial limitation, if not prohibition of, rebates for more liquid securities where data supports the conclusion that liquidity incentives are no longer necessary.

We request that the audience of the confidential data that in this study (including any detailed conclusions) be strictly limited to the Academics conducting the Pilot Study and regulators, and that market participants or other third parties do not access client trading information that may include their proprietary data pertaining to their trading strategies.

The CSA proposal for a trading fee rebate pilot study is a well thought out, logical and data-driven exercise aimed at making the Canadian market more transparent and efficient. RBC GAM supports the objectives of the Pilot Study, appreciates the opportunity to provide comments and encourages continued progress in finalizing and implementing the Pilot Study. We are available to provide the CSA with additional information on the comments we have submitted as it moves forward.

Sincerely,

RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer