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Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Department of Justice, Government of Nunavut
Ontario Securities Commission (OSC)
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

c/o Mr. John Stevenson, Secretary
Ontario Securities Commission
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Suite 1900, Box 55
Toronto, Ontario M5H 3S8
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And To :

Madame Anne-Marie Beaudoin
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Dear Sirs and Madams:

Re: TD Securities Comments on Debt Markets Transparency and Proposed Amendments to National Instrument 21-101 – *Marketplace* Operation and National Instrument 23-101 – *Trading Rules* (together the “ATS Rules”) and Companion Policy 23-101CP and Companion Policy 21-101CP (collectively the “Proposed Amendments”)

TD Securities welcomes the opportunity to respond to the Canadian Securities Administrators’ (CSA’s) July 14, 2006 request for comments on proposed amendments to the ATS Rules concerning debt market transparency. TD Securities includes TD

Securities Inc., a registered investment dealer and leading Canadian debt underwriter and the institutional securities business of The Toronto-Dominion Bank which is a primary dealer for the Bank of Canada and a significant dealer in both government and corporate fixed income markets in Canada.

Fixed income markets perform a vital role in the Canadian economy and as a significant market participant, TD Securities fully supports the regulatory objectives of the Proposed Amendments. However, we are concerned that the focus on increasing transparency in fixed income markets may reduce liquidity and increase execution costs for investors. We have had an opportunity to review a draft of the comment letter submitted by the Investment Industry Association of Canada (“IIAC”) and we agree with and support the comments in its well-researched submission. We particularly agree with the view that the CSA should focus on *optimal* transparency rather than *maximum* transparency since complete transparency will likely harm liquidity in fixed income markets. This issue was articulated by commenters responding to the original request for comments published by the CSA in 1999 and 2000. Those commenters included TD Securities, the Bank of Canada, other dealers and institutional money managers and the concerns raised in those submissions remain valid today. As with the earlier proposals, we are concerned that the Proposed Amendments also propose to import inappropriate equity market structures into the fixed income markets. While increased transparency may promote liquidity in equity markets, this does not necessarily follow in fixed income markets which are structured differently and operate differently.

Fixed income markets are principal-based markets where dealers finance bond inventories with capital and make markets in a wide range of fixed income securities in the expectation of capturing a spread that reasonably compensates the dealer for the risks taken. In Canada, bond trading is dominated by the bank-owned full service investment dealers that have the ability to commit the necessary capital to make markets in the vast universe of fixed income securities. Within a full service investment dealer, all businesses including the corporate and government bond trading desks compete for and are allocated capital based on the return that the business provides on the capital employed. While transparency is a laudable goal, our concern as a dealer is that full transparency may reduce spreads to levels that are not sufficient to compensate the dealer for the costs incurred and risks taken while at the same time, increasing the dealer’s risk in taking on or maintaining large bond positions. This can only result in reduced liquidity as dealers shift their capital from fixed income trading to more profitable businesses. As pointed out in the IIAC submission, we believe that liquidity in the high yield market in the U.S. has significantly decreased as a direct result of the TRACE reporting requirements imposed by the NASD and we anticipate that increased transparency in the less liquid Canadian debt markets will similarly decrease liquidity.

Having provided these general comments on the Proposed Amendments, we have attempted to answer the specific requests for comments in the Notice below but have grouped together those questions that raise similar issues.

Question #1: Should there be a mandatory requirement to report and disseminate information related to designated government debt securities? What are the benefits and disadvantages of this and the alternative approaches?

As discussed above, the benefits of increased transparency including improved price discovery and decreased execution costs must be weighed against the disadvantages of

reduced liquidity which may lead to less depth, wider spreads and increased execution costs. We feel that there already is sufficient transparency in government debt markets with pricing information available from multiple sources.

Question #2: Should dealers be subject to order and/or trade transparency requirements for government fixed income securities? If so, should they be required to report order information, trade data or both?

Question #3: What type of pre-trade information should be disseminated? Should it include indications of interest?

Question #6: Should we require pre-trade transparency for corporate fixed income securities? If so, should the requirements be applicable to marketplaces only or should they also apply to dealers?

Pre-trade or order information is a feature of auction-based equity markets that is not relevant in bid and offer fixed income markets. Dealers post bid and offer prices for their customers which are prices at which they are prepared to make a market in the security. As discussed below under Question 9, these prices are already disseminated to investors directly by dealers as well as other channels including ATS's. On request, dealers may provide customers with competitive bids for large trades inside the quoted bid offer prices. Disseminating pre-trade indications of interest between dealers and large investors may tip other market participants as to intentions and enable those participants to use this information to the detriment of dealers and their customers and will deter dealers from providing competitive bids inside quoted prices.

Question #5: Are the volume caps applicable to government fixed income securities set out in the Companion Policy to NI 21-101 adequate? Should there be further tiering of volume caps for the different types of government bond securities?

Disclosure of large fixed income trades to the market can be detrimental to the interests of dealers and/or institutional investors who may then avoid large trades thereby reducing market depth and liquidity. While the proposed volume caps represent an attempt to achieve optimal transparency rather than full transparency in government fixed income securities, we question whether the pricing information would be meaningful without the corresponding volume and suggest that it may actually be misleading to disclose prices with volume caps. Since pricing on large fixed income trades are not generally relevant to smaller investors who cannot expect similar pricing on small trades and large investors have access to multiple competing sources of bond pricing, optimal transparency may be achieved by excluding the reporting of all fixed income trades above certain volume levels.

Question #4: Are the reporting timelines appropriate – i.e., order information in real time and trade information within one hour of the time of the trade?

Question #7: Should the time for reporting the trades be reduced (for example, should all trades be reported and disseminated in real time)?

We are concerned that dissemination of trade information in real time may hinder a dealer's ability to lay off risk when taking on a position. This will deter dealers from taking on large positions thus reducing liquidity for large institutional investors.

Question #8: Has the process for designating benchmark corporate fixed income securities been effective? Please explain your response.

We are not aware of any issues with the process for designating benchmark corporate fixed income securities. However, we also do not believe that corporate bond prices disseminated on CanPX are widely used by market participants as other more relevant sources of bond prices are readily available as described below.

Question #9: Has there been sufficient progress, both regulatory and industry-driven, regarding fixed income transparency to date? For retail investors? For large and small institutional investors?

It is our view that there has been sufficient progress regarding fixed income transparency that has been industry-driven and facilitated by technology and this trend will continue without regulatory intervention. Large institutional investors typically have access to numerous broker screens posting real time bid and offer prices on a wide range of corporate and government fixed income securities and arguably have better pricing information than dealers. The advent of alternative trading systems (ATS) such as CanDeal which posts two-sided best pricing from the leading fixed income dealers in Canada also offers transparency to large and small institutional investors.

For retail investors, the internet has facilitated an enormous increase in transparency in the fixed income market. Major retail brokerage firms post bid and offer prices on a wide range of corporate and government fixed income securities on a real time basis. There are also numerous sources of bond pricing information in the printed media daily as well as on-line that retail investors can readily access.

We thank the CSA for the opportunity to provide our comments on the Proposed Amendments. TD Securities is committed to the further development of liquid and efficient debt markets in Canada and we trust that the CSA will carefully consider the views of all stakeholders before proceeding with regulatory initiatives that may adversely impact the functioning of these markets.

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