



Challenges of a changing market

November 21, 2013

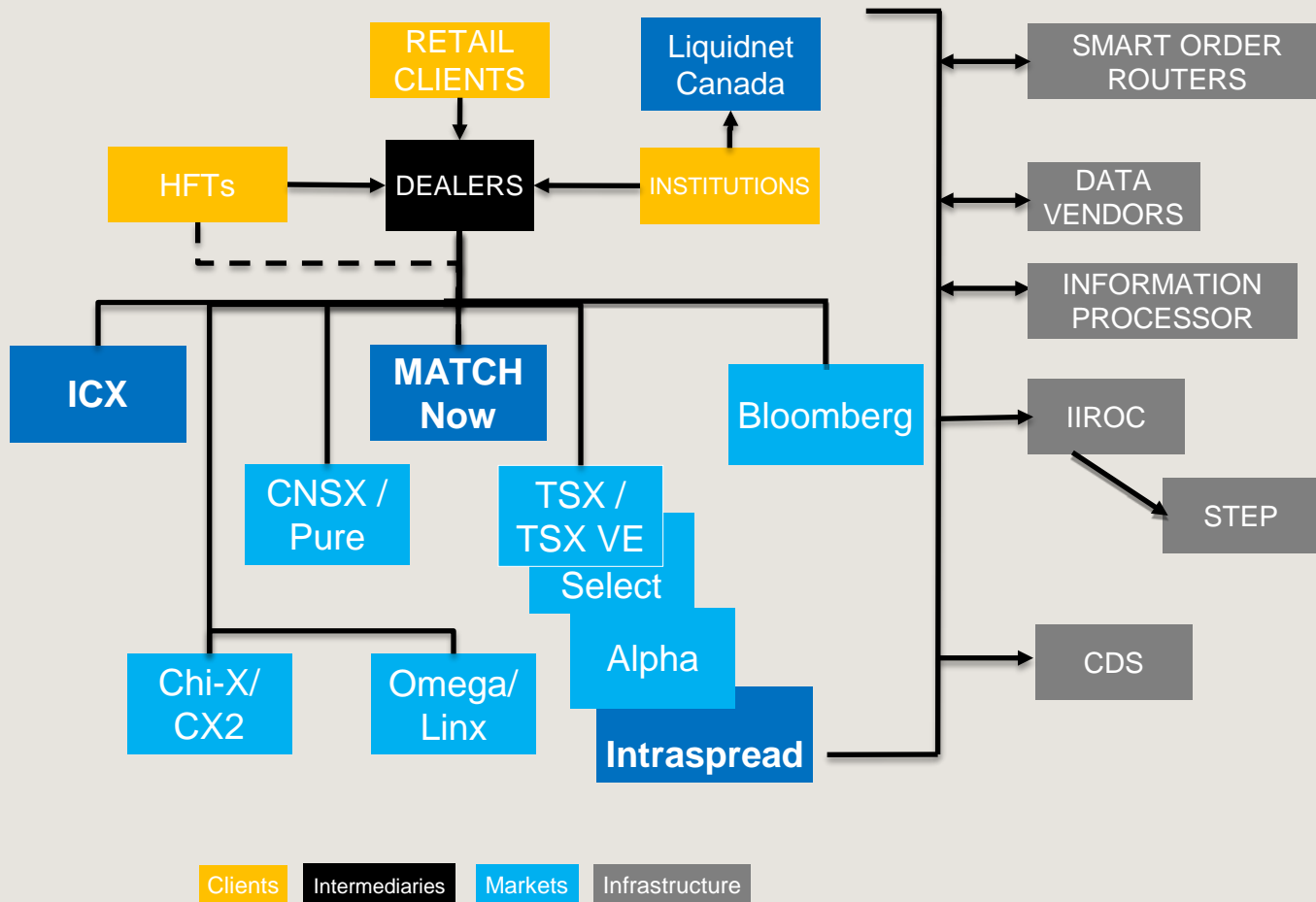
OSC

ONTARIO
SECURITIES
COMMISSION

Agenda

- Changing markets
- Impact on participants, including investors
- What we are doing to address participants' concerns
- Order Protection Rule Review

The Canadian Equity Market – 2013



Clients
Intermediaries
Markets
Infrastructure

Markets are changing

- Rapid change in markets and market structure
 - Increased competition
 - Developments in technology
 - Evolving market structure
 - Changing participants
- Changes have impacted all participants including investors in the market

What are we doing?

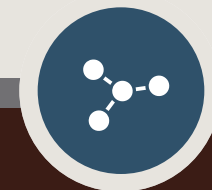
- Need to understand the complexities of market
 - Hire experts
 - Open dialogue with participants
 - Conferring with experts
 - Talking to other regulators

What are we doing?

- Keeping the regulatory framework evergreen
 - Do the requirements manage the risks?
 - ETR review
 - Has the market evolved such that the rule does not achieve its designed outcome?
 - OPR review
 - Are the principles or their application still appropriate in the evolving environment?
 - Does their application or interpretation need to change?
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Applying the principles

- Start with the mandate of the Commission
 - Protection of investors
 - Fair and efficient capital markets
 - Confidence in those markets
 - Consider principles of
 - Fairness
 - Transparency
 - Price Discovery
 - Liquidity
 - Market Integrity
 - Transaction Costs
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Order Protection Rule Review

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Why are we reviewing OPR?

- Mandate is to protect investors, and foster fair and efficient capital markets and confidence in markets
- Indications are that there may have been inefficiencies introduced
 - Need to consider whether the objectives of our mandate are out of balance in the context of OPR

OPR – Objectives and requirements

- Principles underlying OPR
 - Assurance that better-priced visible orders will be filled ahead of inferior-priced orders is essential to maintain investor confidence and fairness
 - Protection important to ensure sufficient incentive to contribute liquidity to the price discovery process
- Effect of requirements is that all best priced displayed orders are to be executed first

Practical implications

- Participants controlling their order flow generally need to have access to quote data and access to trading displayed quotes (direct or indirect) to prevent trade-throughs
- Referred to as the “captive consumer issue”
- May have implications on costs for captive consumers, and could create potential market inefficiencies

Other potential contributing factors

- Multiple marketplace environment presents complexities and costs, despite OPR
- Maker-taker pricing and increased fragmentation may contribute to increased intermediation
 - May contribute to similar cost and efficiency issues, including increased trading and technology costs

Work to date and underway

- Consultation with a range of stakeholders
 - Results suggest prevalent view that principles of OPR are good, but objectives not being achieved
- Data fees work continues but under OPR mandate
- Analysis underway with IIROC data
- Refining a range of options for potential action
 - Loosen the OPR regime
 - Maintain OPR but alleviate cost burden and complexities
 - Some combination of the above two approaches

The challenges of change

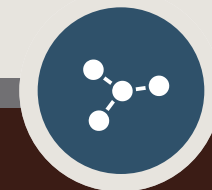
- Amending the regime presents new complexities and issues
 - Impact on/of other rules
 - New potential costs
 - Investor perception
 - Impact on competition
 - Same problems may persist
 - Addressing cost and inefficiencies directly might also have limited or short-lived effect
 - Where change is to be made, objective would be to maximize benefits of OPR while minimizing costs
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Next steps

- Complete data analysis work with IIROC
- Develop and publish paper to be published for comment (early 2014)

Our focus going forward

- Responding to issues raised
- Finding the balance
- Dealing with the complexity
- Asking for your input



Thank you

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