



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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Market Regulation Branch
Ontario Securities Commission
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and

Torstein Braaten
Chief Executive Officer and Chief Compliance Officer
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Re: TriAct Canada Marketplace LP – Notice of Proposed Changes and Request for Comment

The Canadian Security Traders Association, Inc. (CSTA), is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 traders nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee: a group of 20 appointed members from amongst the CSTA. This committee has an equal proportional number of buy-side and sell-side representatives with various areas of market structure expertise. It is important to note that there was no survey sent to our members to determine popular opinion; the Trading Issues Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members or the opinion of all members of the CSTA Trading Issues Committee.

The CSTA appreciates the opportunity to comment on the proposal by TriAct Canada Marketplace LP ("TriAct") to extend the functionality of its MATCH Now dark pool in response to customer feedback and

requests. As the proposal consists of four distinct feature enhancements, we will comment on each of the proposed features in turn.

Minimal Price Improvement

MATCH Now's proposed ability to specify a "one tick" price improvement level for stocks quoted at price increments wider than two trading increments represents a departure from the current midpoint model, as well as the prior "80/20" model. We appreciate the rationale for the proposed change and believe that it is a response to customer feedback. However, the fact that the price improvement feature is limited to "one tick" versus being able to improve by any increment that is over "one tick" does seem to favor one class of participants and does not necessarily provide as much flexibility as would have been appreciated by our members.

While offering a "one tick" price improvement is appropriate in many situations, we believe that it is important to consider the information that could be disclosed in the use of these order types. When using the "one tick" price improvement, partial trades that occur outside of the midpoint on a wide quote necessarily reveal the side of resting liquidity in the MATCH Now book, thus potentially disadvantaging a larger order. We also caution that a "minimal price improvement" combined with a small passive order quantity could be used as a means of gathering information on the direction of active flows in the market. Finally, when a traders' final intention is to take liquidity from the lit markets, sending an order directly to a dark market/order type before sending the balance of the order to the lit markets may introduce a degree of latency to the overall execution. This may be acceptable when there is a relatively significant size available in the dark market or via the dark order type. However, if an order interacts with small contra-side liquidity in a dark market, it may result in signaling, which in turn may cause orders on the lit markets to "disappear."

The above issues are not specifically introduced by the current MATCH Now proposal, nor are they limited to MATCH Now. Rather, they are present-day concerns that exist for any dark market or lit market offering dark orders. The above discussion is intended to illustrate the complexities that practitioners are faced with within our marketplace and to encourage greater discussions of these trade-offs at the regulatory level.

Trading at the Quote for listed Exchange Traded Funds (ETFs)

MATCH Now is proposing to allow at-the-touch trading in Exchange Traded Funds (ETFs) for orders that exceed 50 board lots or \$100,000 in value ("large orders"). Additionally, to provide liquidity to large orders in ETFs, the passive order must also exceed 50 board lots or \$100,000 in value. We believe that the proposal attempts to address an exemption specifically granted in UMIR Rule 6.6 *Provision of Price Improvement by a Dark Order* in a segment of the market (ETFs) where any potentially damaging effect on the lit market may be minimized.

In the context of ETFs only, we believe that the proposal will extend the heavy intermediation activity that exists in the lit market for ETFs to the dark. In our view, the most likely outcome is for the existing participants in the ETF market to extend their market making to encompass MATCH Now at the same prices that are already represented in the lit markets. If this is the case, then the nature of the transactions between an active participant and an intermediary will be the same, whether the trade takes place in MATCH Now, or a lit marketplace. More importantly, we would not expect that

intermediaries currently quoting in the lit market will meaningfully reduce their quoting behavior in lit marketplaces on the basis of being able to provide liquidity via MATCH Now.

Trading at the Quote for Common Equities

We applaud Match Now for not proposing to allow at-the-touch trading for common equities. While allowing at-the-touch trading in ETFs may be deemed acceptable for ETFs due to the nature and degree of intermediation involved, the same may not be true when dealing with common equities. Although out of the scope of the current proposal, we feel that it is still important to present our general views on the broader issue of at-the-touch trading for common equities.

We believe that the 50 board lot or \$100,000 value threshold, with roots in the Order Exposure Rule, represents far too low a barrier for a “block” in many low-priced Canadian equities. Of the two components of the threshold, the board lot limit, in particular, is a very easy hurdle for a “block.” For a stock trading under \$5.00 this represents no more than \$25,000 in market value. We do not believe that the practical threshold is consistent with the spirit of the dark rules, which reflect the need to allow larger trades (such as pre-negotiated “blocks”) to transact at-the-touch.

If an at-the-touch facility were extended to all equities at the same thresholds, this would create further disincentives to resting orders in the lit market, in particular for low-priced stocks. This is contrary to the stated objectives behind UMIR Rule 6.6 *Provision of Price Improvement by a Dark Order*.

To provide context, below are simple summary statistics for two groups of stocks: those that are members of the S&P/TSX Composite Index, and those that are members of the S&P/TSX Small Cap Index. (Note: Some members will overlap)

| S&P/TSX Composite Index | | | |
|------------------------------------|--------------------------|-----------------------|--------------------------|
| | # of Constituents | % of Index ADV | % of Value Traded |
| Below \$1.00 | 0 | 0% | 0% |
| Between \$1.00 and \$5.00 | 36 | 25% | 4% |
| Between \$5.00 and \$10.00 | 32 | 14% | 5% |
| Between \$10.00 and \$20.00 | 43 | 24% | 17% |
| Above \$20.00 | 127 | 37% | 74% |

Source: Bloomberg

| S&P/TSX Small Cap Index | | | |
|------------------------------------|--------------------------|-----------------------|--------------------------|
| | # of Constituents | % of Index ADV | % of Value Traded |
| Below \$1.00 | 10 | 4% | 1% |
| Between \$1.00 and \$5.00 | 85 | 65% | 31% |
| Between \$5.00 and \$10.00 | 58 | 22% | 34% |
| Between \$10.00 and \$20.00 | 41 | 6% | 17% |
| Above \$20.00 | 29 | 3% | 17% |

Source: Bloomberg

We view the \$20.00 price threshold as critical, as it represents the indifference point between the two definitions of a “large” order – 50 board lots, or \$100,000 in value. We wish to highlight that fully 63% of the S&P/TSX Composite Index volume and 93% of the S&P/TSX Small Cap Index volume trades below that threshold. In particular, the \$1.00-\$5.00 price range for Canada’s small cap stocks stand out,

representing 65% of average daily volume. We believe that the case of low-priced stocks and their unique trading issues deserves particular merit.

In our opinion, if the ability to trade at-the-touch were to be extended to common equities, it would be appropriate to introduce more stringent criteria around what constitutes a “block”, particularly for low-priced equities. A more appropriate definition could reflect a sliding scale that takes into account both the stock’s price point (value per share), and the stock’s relative liquidity.

Minimum Tradelet Size

MATCH Now’s proposal to specify a “minimum partial fill size” on pro-rata allocated fills introduces an additional means for traders to control the information content of their orders. This functionality will be useful to some participants both in terms of controlling clearing costs and in encouraging larger orders to rest in MATCH Now. Managing information leakage when trading in the dark is very important and we reiterate our view that TriAct should actively seek to educate participants to the benefits of utilizing minimum sizes when trading in the dark. We are supportive of this feature.

Better Than Limit

MATCH Now’s proposal to allow trades to execute at prices strictly better than the specified limit appears to be targeting the practical limitations of order entry for participants wishing to trade at midpoint, but being subject to adverse fills in the event of a widening quote. We believe this feature will allow users to specifically indicate their true intention of trading at a midpoint level, while being forced to specify a contra-side limit. This addresses a practical limitation of MATCH Now. We are supportive of this feature.

We appreciate the opportunity to comment on this matter.

Respectfully,

“Signed by the CSTA Trading Issues Committee”

c.c. to:

OSC:

Mr. Howard Wetston, Chair and CEO
Ms. Maureen Jensen, Executive Director & CAO
Ms. Susan Greenglass, Director, Market Regulation
Ms. Tracey Stern, Manager, Market Regulation

IIROC:

Ms. Susan Wolburgh Jenah, President and CEO
Ms. Wendy Rudd, SVP, Market Regulation & Policy
Mr. James Twiss, Vice President, Market Regulation Policy
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy
Mr. Mike Prior, Vice President, Surveillance