



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**

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**Re: TriAct Canada Marketplace LP Notice of Proposed Changes and Request for Comment –  
Changes to the MATCHNow Trading System**

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 members nationwide, and is led by volunteer Governors from each of four distinct regions (Toronto, Montreal, Prairies 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 (the "Committee", "CSTA TIC" or "we"), a group of 22 appointed members from amongst the CSTA. This committee has an equal proportion 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 Committee was assigned the responsibility of presenting the views of the CSTA. The views and statements provided below do not necessarily reflect those of all CSTA members or of all members of the Trading Issues Committee.

The CSTA Trading Issues Committee appreciates the opportunity to comment on the TriAct Canada Marketplaces LP ("TriAct" also known as "MATCHNow") proposal to enact changes to the MATCHNow trading system (the "Proposal"). MATCHNow has presented six changes within the Proposal; this

comment letter will focus solely on the proposed “Trade Message Fee Marker” which we believe should be denied on the grounds of the information leakage that is created by the proposed implementation.

### **MATCHNow Message Fee Marker**

Through its proposed implementation, MATCHNow intends to provide Subscribers with the option to obtain a notification of their trading fee attached to each execution. While the stated intention of the dissemination of the trading fee is to permit subscribers to monitor their costs in real time, subscribers would now also have access to non-public information when trading non-ETFs due to MATCHNow's trading fee structure.

The following is the non-ETF MATCHNow trading fee schedule (MATCHNow website July 23<sup>rd</sup>, 2017):

#### **Non-ETF traded orders at Midpoint and MPI**

Subscribers pay the following trading fees for **non-ETF traded orders traded at Midpoint and MPI**:

| <b>Stock Price</b>                  | <b>Trade Type</b> | <b>Trading Fee</b>      | <b>Maximum Fee</b> |
|-------------------------------------|-------------------|-------------------------|--------------------|
| \$5.00 and over                     | 2-sided trade     | \$0.0010 / share / side | \$10 / side        |
| \$1.00 to \$4.99                    | 2-sided trade     | \$0.0005 / share / side | \$10 / side        |
| Under \$1.00                        | 2-sided trade     | \$0.0001 / share / side | \$5 / side         |
| Unintentional Cross \$1.00 and over | Cross             | Free                    | N/A                |
| Unintentional Cross under \$1.00    | Cross             | Free                    | N/A                |

Note that unintentional crosses for all price categories are listed as free. As a reminder, unintentional crosses occur when an order from a particular firm is executed against a counterparty at the same firm (not including jitney transactions). The existence of the unintentional cross fee structure creates two sources of non-public counterparty identification when a trade fee message is disseminated in real time: 1) identification of a counterparty that is executing under a jitney arrangement and 2) identification of a counterparty that is executing on a non-attributed basis. We will explain both cases below.

### **Information Leakage**

Currently, a subscriber receiving a fill on MATCHNow would be able to determine their counterparty's firm only through examination of the public market data feed, and therefore attempt to infer whether the particular trade is charged a fee (i.e. if the trade is against the same dealers, the trade would be inferred as free (with the exception of jitney trades)). All participants, including those party to the trade, have access to identical information via the public market data feed.

Under the Proposal, a participant receiving a fill from MATCHNow would be able to infer additional information regarding the trade counterparty by combining fee information with the publicly disseminated broker code. Specifically:

- If the trade is assigned a fee, but the counterparty broker code is publicly disclosed as the same as the subscriber's, then the counterparty is a jitney client of the counterparty's firm;
- If the trade is "free", but the counterparty is anonymous, then the counterparty originates at the same firm as the subscriber.

In both situations, the subscriber is at an information advantage over other participants in the market.

We are concerned that the dissemination of the firm identity of unattributed (anonymous) trades violates the intent and spirit of anonymous marking. Since it is common for large multi-day orders from institutional investors to trade with the same executing dealer, the anonymous trade marker is a useful tool in managing an order information footprint in the market. We believe that the indirect disclosure of firm identity through the disclosure of trading fees is an inappropriate and unacceptable trade-off in this case.

We believe that the MATCHNow proposed trade fee marker should be denied, whether the information is available on drop copy FIX sessions or via the order entry FIX session. End broker clients are already known to directly receive their own drop copy FIX sessions, and thus only disallowing the order entry FIX session would not be sufficient.

### **Dissemination of Trade Fee Information in Real-Time**

Notwithstanding the proposal at hand, the CSTA TIC generally believe that dissemination of trade fees in real time could be useful to facilitate standardized trade fee reporting. In an environment where heightened transparency and information disclosures are required to evaluate trade execution quality, trading fees are becoming a key output in broker to client reporting.

While we are supportive of marketplaces building features that decrease the burden of post-trade information reporting to clients and internal reporting, this benefit cannot be at the cost of creating information leakage. This means that only marketplaces with fee structures that would not lend themselves to creating information leakage should be allowed to disseminate trade fees in real time. Under the same premise, releasing trade fee information when this contains non-publicly accessible information on any time frame should not be deemed acceptable.

### **Trade Fee Schedule Reference vs Direct Cost**

In the Proposal, MATCHNow has decided to send a reference code to their trading fee schedule instead of the actual cost (in dollars, or per share). If MATCHNow were to modify its fee structure to eliminate the potential information leakage as previously defined, or make other changes unrelated to the Proposal, we believe that sending the actual cost would be a more practical implementation for subscribers. The current proposed implementation requires the maintenance of a map of fee codes to fee rates and therefore requires subscribers to adjust internal systems whenever MATCHNow's fee schedule changes. This burden would be eliminated by disseminating trade costs in dollars (or as a rate per share).

## Conclusion

We would respectfully request that the proposed MATCHNow trade fee message marker be denied since its existing fee structure would allow for non-public information leakage and aid in the identification of counterparty types and patterns. In addition, we would request that any future implementation of real time trading fee dissemination be associated with a message containing the actual cost instead of a reference code to a fee structure in order to avoid unnecessary street wide development costs every time there is an update of a trade fee schedule.

Thank you for your attention in this matter.

Respectfully,

“Signed by the CSTA Trading Issues Committee”

c.c. to:

**Ontario Securities Commission:**

Ms. Maureen Jensen, Chair & CEO  
Ms. Susan Greenglass, Director, Market Regulation  
Ms. Tracey Stern, Manager, Market Regulation

**Alberta Securities Commission:**

Ms. Lynn Tsutsumi, Director, Market Regulation

**Autorité des marchés financiers:**

M<sup>e</sup> Éline Lanouette, Directrice des bourses et des OAR

**British Columbia Securities Commission:**

Mr. Mark Wang, Director, Capital Markets Regulation

**IIROC:**

Mr. Andrew Kriegler, President and CEO  
Ms. Victoria Pinnington, Senior Vice President, Market Regulation  
Mr. Kevin McCoy, Vice-President, Market Regulation Policy  
MS. Sonali GuptaBhaya, Director, Market Regulation Policy