



CANADIAN SECURITY TRADERS ASSOCIATION, INC.

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Market Regulation Branch Ontario Securities Commission

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Re: TriAct Canada Marketplace LP – Change to the MATCHNow Trading System – Notice of Proposed Change 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 members nationwide, and is led by 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 CSTA 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 views and statements provided below do not necessarily reflect those of all CSTA members or of their employers.

The CSTA appreciates the opportunity to comment on the proposed changes allowing firm dark orders in MATCHNow to interact with conditional orders on an opt in basis. We are supportive of MATCHNow's effort to encourage more frequent, block-size, interactions across their order books. By allowing large, non-displayed, buyers and sellers to more easily find each other in a multi order book environment, the proposed functionality reduces search costs/delay costs for traders and may help reduce some of the more excessive intermediation that can otherwise occur in a fragmented marketplace (i.e. the proposal helps address the "ships passing in the night" problem).

We also support MATCHNow's application for exemptive relief from the pre-trade transparency requirements (a.k.a the order display rule within UMIR 7.1(1) of NI 23-101) as we recognize such relief is necessary to facilitate the interaction of firm, dark orders with conditional orders without leaking information surrounding a potential, upcoming block trade. Thus, our comments below focus less on the merits of the proposed conditional interaction and more on the details of how the proposed interaction is implemented and monitored.

As proposed, MATCHNow will allow resting, firm dark orders, the ability to interact with conditional orders on an opt in basis. We agree with an opt-in approach rather than an opt-out approach. Conditional orders have optionality that firm orders do not. The conditional order has the option, but not the obligation to trade. In fast moving markets or during periods of high volatility, the conditional order can even back away from the trade entirely if conditions become unfavourable. Thus, when viewed from the perspective of a firm order, trading against a conditional order has added risk and such risk may not always be desired or compensated simply by trading larger size.

We also agree with the proposed minimum size requirements applied to the firm order/conditional order interaction. As proposed, only orders larger than 50 standard trading units and \$30,000 in notional value or orders larger than \$100,000 in notional value are eligible for the new functionality. The proposed minimum size requirements are consistent with UMIR 6.6 (the rules governing dark price improvement) and apply to both firm orders opting in and conditional orders. We found the example cited on page 4, footnote 7 of the proposal very useful. We agree. Any discrepancy between the minimum size requirements applied to firm orders opting in and the minimum size requirements applied to conditional orders ought to be avoided as it creates opportunities for gaming and information leakage.

We are less supportive of the proposed treatment of resting orders when interacting with conditional orders. As proposed, it appears the resting, firm order would be "locked in" once a conditional interaction is initiated. The locking mechanism would effectively prevent the firm order from interacting with any other coincident liquidity available on MATCHNow while it is engaged with the conditional order. We recognize the intention of the locking mechanism is to ensure a single order is not in two places at once and to prevent an overfill situation. Nonetheless, we suggest allowing firm orders to be cancelable even if they are not tradeable during the lock.

We previously stated interacting with conditional orders carries risk as well as opportunities. Such risks mostly arise because of the embedded optionality within the conditional firm up process. We would encourage MATCHNow to establish a robust process to monitor the conditional firm up rates, particularly when trading against firm orders. The process should include meaningful consequences for unexplainably low firm up rates beyond a simple "time out" for the rest of the trading day. The results should be published periodically and available upon request.

The CSTA believes we all have a collective interest to protect and preserve a Canadian equity market that is fair and efficient for everyone. We are deeply aware that not only is there no single path toward this goal, even if there were it is unlikely that a single group of stakeholders would know the way. Instead, the CSTA believes it is better to create a regime that allows for individual marketplaces to innovate, compete for order flow and if necessary, even fail. Indeed, within reason, the invisible hand ought to dictate what business models succeed and what business models fail. In the case of the proposed changes to the MATCHNow trading system, allowing firm, dark orders to interact with conditional orders, we see little evidence of fair access concerns, systematic risk or other unintended consequences impacting the trading on other marketplaces. Thus, we are generally supportive of the proposed functionality.

We thank you for the opportunity to comment. Please feel free to contact any of the CSTA Trading Issues Committee leads if you have any further questions or wish to continue the discussions.

Trading Issues Committee