



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
P.O. Box 3, 31 Adelaide Street East
Toronto, Ontario M5C 2H8

August 16, 2021

Market Regulation Branch Ontario Securities Commission

20 Queen Street West, 22nd Floor

Toronto, ON M5H 3S8

Fax 416 595 8940

Email: marketregulation@osc.gov.on.ca

And:

David Nolan

Chief Compliance Officer

MATCHNow

Equinix TR2, 45 Parliament Street, Suite 13155, c/o CBOE Flex Office #13155

Toronto, Ontario, M5A 0G7 Email: dnolan@cboe.com

Re: TriAct Canada Marketplace LP – Change to the MATCHNow Trading System – Notice of Proposed Change and Request for Comment CBOE LIS Powered by BIDS (the “New Conditionals Offering”)

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 Trading Issues Committee (TIC) 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 TIC appreciates the opportunity to comment on the new BIDS conditionals offering. Generally, the TIC is supportive of conditional order types including the new BIDS Canada conditional offering proposed by MatchNow. By allowing large, non-displayed, buyers and sellers to find each other more easily across multiple order books and multi marketplaces, conditional orders help encourage more

block-sized interactions within the institutional trading community. More block-sized interactions ought to help decrease the need for short-term intermediation and may help reduce some of the information leakage experienced by institutional traders when working large orders. Thus, if the goal of marketplace is to efficiently match buyers and sellers at a fair price, conditional orders may help facilitate such interactions.

Our comments below focus on three aspects of the BIDS conditional offering: the sponsored access user model, fair access concerns and the conditional compliance mechanism.

Sponsored Access User Model

MatchNow is proposing to allow eligible institutional investors also known as buy-side traders access to the BIDS Conditional offering through a sponsored access model. Brokers themselves will be able to participate on BIDS directly as subscribers. In the sponsored access model, brokers will act as gatekeepers, sponsoring the participation of their global affiliates and buy-side clients. Such an approach is consistent with the existing framework already in place for granting buy-side traders direct electronic access to marketplaces and a broker's trading algorithms. We agree with the approach and believe it will cut down on the documentation, compliance burden and operational risk otherwise incurred if a buy-side trader joined a marketplace directly.

Fair Access Concerns

The CSTA TIC believes in the Fair Access requirements of NI 21-101 (see below).

5.1 Access Requirements

(3) A marketplace must not

- (a) permit unreasonable discrimination among clients, issuers and marketplace participants, or
- (b) impose any burden on competition that is not reasonably necessary and appropriate.

The proposal outlines three different types of Conditional interaction in Match Now, two of which would be new with the addition of BIDS Sponsored Access Users. It is unclear as the proposal is written if some degree of order segmentation is permitted within this structure; perhaps allowing Sponsored Users (buy-side traders) the option to filtering out potential transactions with Subscribers (sell-side traders or algos) and effectively only interact with other Sponsored Users (buy-side traders). We would request some clarity in the final proposal on this topic.

There is some precedence for similar segmentation in large, block sized interactions, greater than 50 standard trading units and \$30,000 in notional value or orders larger than \$100,000 in notional value, in existing institutional crossing networks. But we feel it's probably not necessary given the size-priority structure of the proposed BIDS offering.

Specifically, we are supportive of the Price>Broker>Size>time allocation model for matching orders in BIDS. We agree such a priority sequence will facilitate a "one-to-one" matching process rather than a "one-to-many" and such a process ought to help reduce conditional fall-down rates. We recognize smaller orders may be disadvantaged by such a priority sequence, but as proposed, we do not believe such discrimination is unreasonable.

Conditional Compliance Mechanism

MatchNow is also proposing to change its conditional order compliance tracking. Previously, MatchNow would suspend trading privileges for any subscriber with a firm-up rate of less than 70% and who engaged in a minimum of 20 trading interactions per day across the universe of symbols.

As proposed, the tracking will now be done on a per symbol basis. Reducing the applicable universe of symbols from all to one will certainly reduce the rate of non-compliance, but at what cost to the users? We question whether MatchNow is striking the right balance between protecting users and recognizing that some conditional fall-downs are inevitable.

Twenty interactions is too large a sample set to require before applying the 70% firm-up trigger. If MatchNow has data to support their choice of 20 interactions, such data ought to be provided to regulators before the compliance mechanism is approved. Otherwise, the TIC believes one interaction is certainly too small a sample set to apply a reasonable firm-up rate, but 5 interactions per symbol seems much more reasonable than 20.

Equally, it seems reasonable to us that firm-up rates for Subscribers (sellside algos) and Sponsored Access (buyside) might be held to different standards, or at least sample sets. Intuitively, the information leakage to a dark aggregator algorithm across a series of fall-downs would be different from the nature of the leakage to a Sponsored User falling down repeatedly.

The CSTA TIC 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 TIC 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 BIDS conditional offering proposed by MATCHNow, we are supportive of the sponsored access model. We think the proposed fair access concerns are reasonable. We would like the conditional compliance mechanism to be altered from 20 interactions down to something closer to 5 and we believe there is a low probability of unintended consequences or systematic risks imposed on the trading of other marketplaces. Thus, we are mostly supportive of the BIDS conditional offering.

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

Sincerely,



Stephane Ouellette
CSTA Chair



Peggy Bowie
CSTA President