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-and-

Matt Thompson
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June 22, 2020

Re: Nasdaq CXC Limited – Notice of Proposed Changes and Request for Comment

Dear Sirs and Mesdames:

TD Securities Inc. welcomes the opportunity to comment on Nasdaq Canada's Notice of Proposed Changes dated April 23, 2020.

TD Securities Inc. is a leading securities dealer in Canada and a top-ranked block trader in Canadian equities and options based on both dollar value and shares/contracts traded. TD Securities Inc. also acts as the executing dealer for TD Waterhouse, the second largest brokerage firm in Canada.

TD Securities Inc. supports the proposed changes.

We are in support of the proposed changes Nasdaq Canada plans to introduce to its CXD Trading Book and hope all proposed changes are approved and implemented.

We agree with Nasdaq Canada that the proposed changes will provide additional liquidity and price improvement opportunities than would otherwise be unavailable for eligible orders and will benefit both retail and institutional investors.

Like all non-displayed markets Nasdaq Canada's CXD Trading Book currently allows market participants to enter conditional Minimum Size Orders enabling market participants to restrict which orders can be matched with their orders. Only offsetting orders that meet or exceed the Minimum Size Order's minimum size constraint can be matched with the Minimum Size Order.

Institutional investors use Minimum Size Orders to protect themselves from predatory market participants who use small orders to fish for large orders and then trade ahead of them.

While Minimum Size Orders reduce gaming, they are a crude tool. They presume that all other market participants are predatory and restrict all orders that do not meet the minimum size constraint from being matched with the Minimum Size Order including benign small client orders; a loss to the market participant and legitimate retail and institutional investors.

The proposed changes give market participants options which allow them to relax the restrictions on their Minimum Size Orders making them less restrictive and more accessible to small orders from trustworthy market participants.

The first option allows investors submitting Minimum Size Orders to permit all retail orders that do not meet their minimum size parameter to trade with their Minimum Size Order regardless of the retail order's size. This option will provide institutional investors with more opportunities to trade and provide price improvement to active retail orders while still allowing institutional investors to protect themselves from predatory market participants.

The second option allows investors to permit retail orders from the same member that do not meet the minimum size parameter to trade with their order. This option is being introduced to provide investors another choice, particularly to address any concerns an investor may have about the toxicity of retail order flow handled by other members.

Option three allows investors to permit all orders from the same member to be eligible to trade. As clients are aware of the type of order flow their broker handles, they can reasonably assess the risk of adverse selection of their broker's non-retail order flow.

The proposed changes benefit retail and institutional investors.

Retail and institutional investors should welcome these proposed changes as they benefit both materially. In fact, the proposed changes are a rare example of an equitable win-win for both retail and institutional investors.

Retail investors benefit by being able to interact with more institutional orders/liquidity at the midpoint than they do currently. The main benefit for retail investors is price improvement.

Currently, the average bid-ask spread of S&P/TSX Composite Index member securities is 8.66 cents and the average bid-ask spread of S&P/TSX 60 Index member securities is 15.63 cents so the price improvement benefit of being able to trade at the midpoint versus the far touch is substantial; a minimum of ½ cent and more than 4 to 7 cents on average in the case of S&P/TSX Composite Index and S&P/TSX 60 Index member securities respectively.[1]

Institutional investors benefit by being able to interact with more orders at the midpoint while still being able to protect themselves from predatory market participants. The main benefits for institutional investors are: more liquidity, less market impact, less adverse selection.

The proposed changes are fair and equitable.

The new features will be available to all market participants equally. All market participants will have equal access to the same features and the same rules will apply to all orders and market participants equally.

Use of the new features is entirely optional and completely voluntary. Nothing is being imposed on market participants. If a market participant does not want to use the new features they do not have to – it's entirely the market participant's choice. If a market participant chooses not to apply any of the new options to their Minimum Size Order, their Minimum Size Order will be filled exactly as it is today.

None of the rules of order priority are being changed. <u>All orders will continue to be filled according to the same rules of priority as exist today.</u> <u>No market participant will lose a fill to another market participant whose order did not already have priority ahead of theirs</u>.

[1] Trailing 3-month weighted-average bid-ask spread March 11, 2020 to June 11, 2020.

The proposed changes reduce market fragmentation and enhance liquidity and price discovery in Canada.

No new markets, execution venues or market segments are being created.

The proposed changes enhance liquidity, price discovery and best execution by allowing more orders to interact with each other within the existing execution venue/market framework and prevailing NBBO price level and allow both resting and active orders that would otherwise be bypassed or go unfilled to be filled at better prices.

The proposed changes will make CXD a more compelling execution venue for both retail and institutional investors and clearly differentiate it from non-displayed markets in the US which typically have little retail participation. This will attract more order flow to Canada, specifically institutional order flow currently going to US dark pools, further enhancing liquidity and price discovery in Canada and helping to reverse the decade-long trend of order flow in inter-listed Canadian shares gravitating to the US and US execution venues/market makers. This is good for Canada, Canadian equity markets and Canadian investors.

The proposed changes reduce market segmentation.

One of the biggest benefits of the proposed changes is it will reduce market segmentation.

Currently, most retail (small) and institutional (large) orders are executed at different execution venues. Institutional investors' orders are executed primarily at non-displayed venues at the midpoint and at make/take lit venues. Active retail orders on the other hand are frequently executed at inverted venues. The result is a highly segmented market.

Part of the reason retail (small) orders are not executed at non-displayed venues is because they typically do not meet the minimum size condition most institutional investors put on their non-displayed orders.

The proposed changes create a mechanism for small retail orders to interact with large institutional orders at the same venue without compromising either market participant. This will result in more retail orders being routed to CXD and more direct transactions between retail and institutional orders.

The proposed changes are in accord with UMIR.

The proposed changes are in accord with all Universal Market Integrity Rules (UMIR) including all Client Priority, Client Order Exposure and Best Execution rules. In fact, the proposed changes will help members more effectively discharge their best execution obligations by greatly increasing the reasonable likelihood that small client orders may be filled at CXD.

The proposed changes do not impose any new burdens or costs on market participants.

The proposed changes do not disrupt the current market structure, nor do they impose any new burdens or costs on market participants or the industry. Use of the new features is entirely optional. For those market participants who want to use the new features they are straightforward and inexpensive for all market participants to integrate into their trading systems. No new market data services, communication lines, or new technology of any kind is required. No changes to pre-trade, trade, post-trade, supervisory, risk management, settlement or regulatory reporting processes are required.

We thank the Ontario Securities Commission and Nasdaq Canada for the opportunity to comment on this proposal and encourage both to reach out to us if they have any questions about our response or support for the proposed changes.

Regards,

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