

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 Triact Canada Marketplace LP – Notice of Commission Approval of Proposed Changes

TRIACT CANADA MARKETPLACE LP NOTICE OF COMMISSION APPROVAL OF PROPOSED CHANGES

On June 17, 2013, changes to the Form 21-101F2 of TriAct Canada Marketplace LP (TriAct) were approved that are intended to:

- allow liquidity providers to offer minimum price improvement in addition to the current mid-point pricing; and
- allow “large” ETF marketflow orders to trade with passive liquidity providers at the National Best Bid or Offer (NBBO).

In accordance with the OSC’s “Process for the Review and Approval of the Information Contained in Form 21-101F2 and the Exhibits Thereto”, a notice outlining and requesting feedback on these proposed changes was published in the OSC Bulletin on March 28, 2013 at (2013) 36 OSCB 3401 (March notice). One comment letter was received. A summary of the comments received and TriAct’s response is published at Appendix A to this notice.

TriAct Canada is expected to publish a notice indicating the intended implementation date of the approved changes. Other significant changes included in the March notice (TriAct’s proposed “better than limit” and “minimum tradelet size” functionality) continue to be under review by OSC staff.

APPENDIX A

**SUMMARY OF COMMENTS AND RESPONSES
PREPARED BY TRIACT CANADA MARKETPLACE LP
TRIACT CANADA MARKETPLACE LP NOTICE
SUMMARY OF COMMENTS FOR NEW MATCH NOW FEATURES**

Background

The Ontario Securities Commission (OSC) published on March 28, 2013 a notice regarding TriAct Canada Marketplace LP (TriAct) proposed new features. The four new features were designed to provide subscribers more price improvement options when entering dark liquidity providing orders and more control over when orders would be included in a match. The four new features were 1) Minimal Price Improvement 2) Trading at the quote for listed Exchange Traded Funds (ETFs) 3) Minimum Tradelet Size and 4) Better Than Limit. TriAct only received one comment letter from the Canadian Securities traders Association, Trading Issues Committee (CSTA TIC).

TriAct would like to thank the CSTA for their submission. This document will summarize the key issues raised by the CSTA and TriAct's response. TriAct notes that the CSTA itself acknowledges in their comment on Minimal Price Improvement feature that their issues raised "are not specially introduced by the current MATCH Now proposal, nor are they limited to MATCH Now." TriAct would also note that from the issues raised in the CSTA comments on Trading at the quote for listed Exchange Traded Funds (ETFs), they are supportive of restricting this feature to listed ETFs while their issues would only arise if this feature was extended to all listed securities.

Comments on Minimal Price Improvement

The CSTA raised concerns that the feature only allowed the offer of "one tick" price improvement and that there was no flexibility in setting a variable amount of price improvement. The CSTA was also concerned that users of this product would be disclosing the direction of their trading interest and others could take advantage of this knowledge.

TriAct's Response

When TriAct made the decision to make all matches execute at the mid-point after the October 15, 2012 dark rule changes, a number of TriAct subscriber's suggested that they would no longer enter liquidity providing orders for stocks with wide spreads since mid-point would result more price improvement than they were willing to give. TriAct waited three month's to evaluate the impact and noted that there was a significant decrease in liquidity being posted for stocks with wide spreads (greater than three ticks wide). In consultation with the TriAct User Advisory Group, TriAct proposed that it would offer a new price improvement tier that provided a meaningful amount of price improvement as required by the Provisions for Dark Liquidity but did not want to start with a feature that required an order by order evaluation of the spread by the trader when the order was entered or executed. The decision to set the feature at the minimal amount of price improvement would allow those users who want to be rewarded for providing liquidity in wider spread stocks as long as they are comfortable knowing that post trade reporting could disclose the direction of their trades that were executed and any unfilled orders. Based on the success of the "80/20" model that was in place before the dark rule changes we believe that this concern is borne by a few, and those users that are concerned with disclosing the direction of their orders can continue to provide mid-point price improvement to protect that information.

Comments on Trading at the quote for listed Exchange Traded Funds (ETFs)

The CSTA acknowledges that there is "heavy intermediation" in the trading of ETFs on the lit markets and that allowing for large ETF orders to trade at the quote in the dark would not have a negative impact on price discovery in the lit markets for ETFs. The CSTA does however raise concerns that if this feature was extended to trading in common equities, that it would be appropriate for more stringent criteria around what the minimum size should be, especially for low-price equities (i.e. a sliding scale that takes into account the value and liquidity of the stock).

TriAct's Response

The decision to restrict trading at the quote for ETFs and the setting of a minimum size for the liquidity providing order was based on consultations with subscribers and the TriAct User Advisory Committee. TriAct acknowledges that there needs to be more discussion between the industry and regulators to determine the appropriate criteria for this feature to be extended to all securities. TriAct however points out that it is very possible for dark orders to trade at the quote (buys at the National Best Offer and sells at the National Best Bid on a lit market today). We believe that the CSTA comments are really stating a concern that they already have with dark orders that trade on lit markets. We encourage the CSTA to address this with the CSA and IIROC. TriAct has also raised concerns about the potential for dark orders on lit markets trading through the NBBO in its comment letter¹ to the IIROC Provisions Respecting the Execution and Reporting of Certain "Off-Marketplace" Trades dated July 17, 2012.

¹ http://www.iiroc.ca/Documents/2012/751b9014-0ccc-4309-bc90-b9cec80d0094_en.pdf

Comments on Minimum Tradelet Size and Better than Limit Features

The CSTA was supportive on both of these features.

TriAct's Response

We acknowledge the CSTA support and appreciate it.

Conclusion

In summary, TriAct believes that based on the comments provided and taking into context the responses from TriAct, the CSTA is generally supportive of TriAct launching the four new features in the manner that they were proposed. It has been noted that any changes to the Minimal Price Improvement and Trading at the Quote features will require further discussion with the Industry and Regulators. TriAct plans to implement the four features in a manner that gives the industry the option to take advantage of them or to continue with the current MATCH Now mid-point pricing for their dark trading.