



INVESTMENT  
TECHNOLOGY  
GROUP

**ITG Canada Corp.**

The Exchange Tower, 130 King Street West, Suite 1040, Toronto, Ontario M5X 1B1  
Tel. 416.874.0900 www.itg.com

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British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
New Brunswick Securities Office  
Office of the Attorney General, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Nunavut  
Registrar of Securities, Yukon Territory

C/O John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West,  
Suite 1903, Box 55  
Toronto, Ontario M5H 3S8

&

Madame Anne-Marie Beaudoin  
Directrice du secrétariat  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, Tour de la Bourse  
Montréal (Québec) H4Z 1G3

Dear Mr. Stevenson and Mme. Beaudoin:

ITG Canada is pleased to have the opportunity to comment on Proposed Amendments to National Instrument 21-101 Marketplace Operations, Companion Policy 21-101CP, National Instrument 23-101 Trading Rules and Companion Policy 23-101CP.



ITG Canada is a specialized brokerage and technology firm that provides innovative technology solutions spanning the entire investment process. Our sophisticated solutions include pre-trade analytics, advanced trade execution technologies and post-trade evaluation services.

ITG Canada has long been a proponent of electronic trading, serving the institutional investing community by combining deep financial knowledge with technological expertise. Globally, ITG Inc. serves hundreds of institutional investors and is committed to providing technology solutions which enable customers to maximize investment performance through lower transaction costs.

ITG Canada is supportive of the CSA's efforts to create a framework for trading in multiple marketplaces which sets forth requirements for data transparency and market integration and establishes corresponding market rules. We are also supportive of the CSA rule which mandates obligations for electronic recording and reporting related to the establishment of an electronic audit trail for effective market regulation.

ITG Canada believes that improved transparency and integration of marketplaces is important for the Canadian securities industry in order to foster fair and efficient capital markets and to ensure that all investors have confidence in the integrity of those markets.

The following provides ITG Canada's response to the questions posed by the CSA in the Request for Comment on Proposed Amendments to National Instrument 21-101 Marketplace Operations, Companion Policy 21-101CP, National Instrument 23-101 Trading Rules and Companion Policy 23-101CP, dated July 14, 2006.

### **Government Debt and Corporate Debt Securities**

ITG Canada is a specialized institutional brokerage firm, specializing in electronic equity trading and transaction analysis. At this time, ITG Canada does not trade debt securities for clients and therefore does not have specific comments on the detailed questions asked related to transparency for government and corporate debt securities.

However, ITG Canada is very much in support of increased transparency in debt markets and believes that increased transparency will result in improved efficiencies and fairness in debt markets that are in the best interests of all investors, both institutional and retail. We believe that the proposed approach to have phased-in requirements for transparency for govt. debt securities is the preferred approach. We do not believe that an extension of the



exemption would result in achieving the appropriate level of transparency over time. It is unlikely that market participants would voluntarily take the lead in achieving transparency. Equal access to information is a right of investors that should be encouraged and upheld by regulators.

Dealers should be required to report on order and trade data for government securities on a timely basis as suggested in the proposed approach. Dealers should not be required to report on indications of interest since, in a dealer market, indications of interest do not represent orders.

Debt markets in this country represent a significant portion of our capital markets. Yet the standards for fairness, transparency and integrity in these markets are not consistent with the high degree of fairness, transparency and integrity which has been achieved in equity markets. Systems such as the TRACE system<sup>1</sup> in the US disseminate real-time information within 15 minutes after execution. US regulators have encouraged greater transparency in debt markets, believing that more transparent markets will increase efficiency, fairness and the quality of those markets.

The growth of several ATSS for debt securities here in Canada represents a significant advance in the integrity of our fixed income markets and that further efforts to improve transparency are in the over all interest of investors. Systems such as CanDeal and Collective Bid have greatly increased pre-trade transparency and efficient price discovery for trading debt securities in this country. As we have seen in the US equity OTC markets, the influx of efficient electronic trading systems has been able to transform dealer-controlled markets into more efficient, electronic auction markets.

We are in agreement with the statement by Canadian regulators that, “while transparency has increased, issues regarding pricing still exist.”<sup>2</sup> The concept of a level playing field for all market participants is one which we support entirely.

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<sup>1</sup> Trade Reporting and Compliance Engine launched by the NASD

<sup>2</sup> Notice of proposed Amendments to National Instrument 21-101 Marketplace Operations and Companion Policy 21-101CP AND National Instrument 23-101 Trading Rules and Companion Policy 23-101CP, July 14, 2006

### **Electronic Audit Trail Requirements**

ITG Canada is also supportive of the CSA's aims in creating electronic audit trail requirements as outlined in NI 23-101. We believe that establishing these requirements is critical to the effective surveillance and regulation of equity markets in Canada. It is important to note that current retail trading is primarily handled in an electronic fashion from order entry through to the clearing and settlement functions. However, a large portion of institutional trading is still executed using very manual methods, which creates gaps in the ability of dealers to create a true audit trail of events in the life cycle of an institutional order/trade. It is important that institutional orders be captured electronically at origination. If an order is not sent electronically from the asset manager to dealer, then the dealer must immediately capture the order information provided in an electronic system so that the audit trail process is complete and not created later in the cycle.

In order to create an electronic audit trail, dealers will be required to have additional electronic capabilities for order capture and order handling. We believe that these electronic capabilities form the foundation of a dealer's ability to effectively manage and measure the quality of execution provided for their customers. We believe that measurement is a core component of the achievement of Best Execution for all customers. In addition to capturing order details at time of receipt (including corresponding time stamp), dealers must be able to compare market information at receipt of an order against standard industry benchmarks following completion of the order. Without those critical elements of measurement, it is not possible for dealers to know if they are meeting their fiduciary responsibility to achieve Best Execution.

### **Best Execution & Other Obligations in a Multiple Marketplace Environment**

ITG Canada supports the CSA's approach using a principles based model. In the amendments to the ATS rules in 2003, the commission sought to "promote a market-driven solution to consolidation in the equity markets" rather than to implement the overhead of a data consolidator and market integrator. We believe that an open model which supports competition will ultimately find the right balance of providing clients with Best Execution without the requirement for a prescriptive approach by the regulators.



Further, we believe that, in practice, a dealer will need to have access to all marketplaces, either directly or indirectly, to properly provide best execution to their clients. This can be achieved in one of several ways: the dealer could build in-house routing technology and connect to all Marketplaces with their own Order Management System; the dealer could connect only to the primary Exchanges and use other dealers to access other markets; or the dealer could integrate the two approaches with a third party technology solution where orders are automatically routed to the best market. Among others, ITG Canada plans to offer dealers the ability to access new Marketplaces under their own or ITG's dealer number. We believe that the dealer's client will expect that their dealer will seek out the best price for their order, taking into account all markets on which the specific security is traded. This will include the capability to access both exchanges and alternative markets on which a security may trade. The large firms have the resources to access the emerging marketplaces directly while smaller firms may choose to leverage off dealers or vendors for access.

The principle of Best Execution has always included the concept that the dealer has an obligation to take reasonable care to ensure processes and procedures to effect execution of an order at the best price available, taking into account all costs of the trade. This has always applied to the execution of Canadian stocks which are inter-listed with US markets. At no time, has a data consolidator existed to provide easy co-ordination of the application of this principle. Dealers, like ITG, who leverage technology, have already built sophisticated routing technology to route orders to the best markets in Canada and the US, taking into account currency conversion and execution costs.

The proposed rules for best execution should incorporate a reasonableness approach which allows a reasonable time period for dealers and vendors to develop solutions which will connect, monitor and route orders to the best markets. We would recommend that the regulators should take into account that dealers will require time to assess the most cost-effective solutions to connect to new markets and to build or acquire the required solutions.

In the US, free market competition has ultimately driven more efficient technology in the handling of orders to achieve the principals and mandates set forth by the SEC. The US model demonstrates the adaptability of dealers to either connect directly to a Marketplace or use another dealer for execution.

Canadian data vendors will now have the challenge of determining how to present and communicate Market Data and to decide if they will provide a consolidated quote. In the absence of a consolidated data feed, all vendors, dealers and service providers will need



to develop solutions which read, interpret, store and analyse real-time data and make routing decisions. Once again, this is not impossible but will require an investment of time and money.

Yours truly,

Nicholas Thadaney  
Chief Executive Officer  
ITG Canada Corp.  
The Exchange Tower  
130 King Street West  
Suite 1040, P.O. Box 83  
Toronto, ON M5X 1B1

Cc: Tony Huck  
Managing Director  
ITG Inc.

P. Mats Goebels, Esq.  
Managing Director and General Counsel  
ITG Inc.