



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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July 19, 2007

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
Registrar of Securities, Government of Yukon

c/o John Stevenson, Secretary
Ontario Securities Commission
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Toronto, Ontario M5H 3S8
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James E. Twiss
Market Regulation Services Inc.
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Dear Sirs:

Re: **Provisions Respecting "Trade-Through Protection" and Proposed Amendments to National Instrument 21-101 and National Instrument 23-101**

The Canadian Security Traders Association, Inc., (CSTA) is pleased to have this opportunity to respond to the request by the Canadian Securities Administrators and Market Regulation Services for comments on the provisions in Market Integrity Notice No. 2007-007.

The 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 traders nationwide in Canada, and is led by governors from each of three distinct regions. The organization was founded in 2002 to serve as a national voice for our affiliate organizations. The CSTA is affiliated with the Securities Traders Association (U.S.A.), which has 6,000 members globally, making it the largest organization of its kind in the world.

Our association often comments on industry developments and form opinions on trading issues based on input from our membership.

A. Trade-Through Protection

Question 1 : The introduction of a Foreign Exchange (FX) component in considering whether an order is better priced introduces another level of complexity in assessing if a potential trade-through might occur. The joint submission suggests that trade-through protection would apply to "protected orders". We believe that the fact that FX rates are continually changing and the fact that there is no assurance that a favorable FX trade could be executed, such that a trade on a foreign exchange is in fact at a "better" price, implies that orders on a foreign exchange do not necessarily meet the definition of "protected order". The fact that the condition exists that a favourable foreign exchange trade must take place, implies that trades on foreign exchanges are "excluded orders".

We believe that if this proposal is implemented that Canada would likely be the only jurisdiction to mandate this obligation. Do foreign marketplaces, that have inter-listed Canadian securities, have rules in place that make it mandatory for local participants to cover Canadian marketplaces to ensure best trade execution?

Question 2 : We believe that multiple marketplaces should have been in operation for a year before a cost-benefit analysis study is considered to ensure the total costs for trade-through obligations are investigated.

Some of the factors that should be considered in developing a cost benefit analysis of the trade-through proposal include:

- i) total cost to the marketplace of imposing trade-through obligation on various marketplace participants. For example, would the total cost to the market be minimized if marketplaces were required to implement solutions (linkages) that ensured that trade-throughs did not occur? How would the cost compare to the total cost if the dealer community is forced to implement such technological solutions?
- ii) although difficult, there should be an attempt made to measure the specific benefits that adherents to the theory that strict trade-through protection should be maintained. For example, it is assumed that if protected orders are traded through, then the market participants lose their incentive to expose their orders, thus harming the price discovery process.

Question 3 : See above

Question 4 : With multiple marketplaces, we believe "regular hours" should be maintained as they are currently, 9:30 am ET to 4 pm ET.

Question 5 : We believe the trade-through obligation should extend the whole depth of the book. An information consolidator is a must, without such a processor it makes it very difficult to manually ensure that trade throughs do not occur if the transparency of the whole book is not available.

Question 6 : We believe that rather than limiting fees, fees should be considered as part of the price when assessing if a trade-through would occur. We also believe that marketplaces should be required to make such fees transparent in the quotation of each security.

Question 7 : We believe there is no need for a threshold in membership of an ATS.

Question 8 : No. We believe that marketplaces that limit membership contain, by definition, orders that are not immediately accessible, visible limit orders (by virtue of the fact that excluded members cannot see or execute against orders in this type of Marketplace). Therefore these orders should be deemed as "excluded orders". However, the member only marketplace has a duty to the market in general (as do the members) to ensure that trade-throughs of protected orders in other marketplaces do not occur.

- i) No. See above.
- ii) See above
- iii) See above.

Question 9 : No.

Question 10 : Our association has no expertise in this area, although we believe an "intermarket sweep order" could address this issue as it could execute or not against a flickering quote.

Question 11 : In the absence of a consolidated data processor, it is unrealistic to enforce strict time frames.

Question 12 : Generally speaking this type of trade would occur on a specific marketplace because a benchmark of some sort has theoretically executed a "trade" at the price on that marketplace. The exemption is therefore reasonable. It would be very difficult to limit the exemption to those orders that are required to trade at a specific marketplace's closing price and we believe it is not necessary to do so since "closing price orders" tend to be executed by those that required to execute at that price.

Question 13 : We believe there should be no exceptions.

Question 14 : Yes, we believe that there should be exemptions from trade-through obligations. i.e. special settlements/terms, VWAP, MOC, and derivative-related trades are examples of exempted trades but must be clearly designated as such.

B. Best Execution Requirements

Question 15 : We believe that anonymity is another relevant element for best execution.

Question 16 : We believe that a multiple marketplace environment will prove to be very onerous for smaller dealers. In order to ensure that they are meeting their best price obligations, participants will require the necessary technology in completing pre-trade analysis, trade execution and post trade data collection. It will be very costly to smaller dealers, on a relevant basis, to make the investment in technology that can simplify the process of meeting best price requirements. As well, dealers will need to expand compliance and administration operations to deal with a multiple marketplace environment which also will be costly for smaller participants, on a relevant basis.

Question 17 : We believe there should be no difference in best price obligation for an advisor who retains control over trading decisions.

Question 18 : Not at this time.

Question 19 : We believe that the proposed reporting requirements for marketplaces and dealers and the information that would be provided would only be useful for participants that have been in operation for a certain period of time, which we believe should be one year.

Question 20 : No...see above

Question 21 : No...see above

Question 22 : No...see above

Question 23 : No...see above

C. Direct Market Access

Question 24 : We believe that all DMA clients should have the same requirements as all other participants.

Question 25 : We believe the requirements should only apply to security classes listed on an exchange.

Question 26 : We believe that all participants should be subject to the same regulations by the same regulators.

Question 27 : We believe that over-regulation of DMA clients may force them to circumvent dealers and find alternate liquidity sources. Canadian regulators need to balance efficient access to marketplaces with a level playing field for all participants.

Question 28 : We do not believe there should be any exemptions for the requirements of foreign clients.

Question 29 : We do not support a new category of a member of an exchange. We believe it could involve inherent risks. i.e. how do we ensure effective oversight for these clients? How would they be administered? Gatekeeper responsibilities would have to shift from dealer to regulators or marketplace.

In closing, the CSTA appreciates the opportunity to submit our views on the proposed amendments to National Instruments 23-101 and 23-101 and our association looks forward to working closely with regulators on future issues.

Best regards,

Colin Fraser
Chair, Trading Issues Committee
Canadian Security Traders Association, Inc.