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Ontario Securities Commission  
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The following is a response from Optima Capital Canada to a request for comments for the proposed National Instrument 23-103.

Optima Capital Canada was formed in 2008. There are four partners that are actively involved in both the business of the firm and trading. Combined the partners have in excess of 85 years experience in the capital markets. Optima Capital was formed after the partners left BMO Nesbitt Burns, having traded there as a group for many years. The trading at BMO included equity option market making, equity market making, cross border arbitrage, equity based derivative arbitrage (warrants, receipts, rights) and index to future arbitrage. Those trading strategies continue today at Optima Capital.

We make use of a third party trading system that was and continues to be custom designed to our needs. The system does include algorithmic trading based on the criteria that the trader sets out. We have used this system for almost 14 years. The system itself is continuously tested for reliability. Back tests and logs are run to ensure that all pieces of the system are functioning as they should. There are multiple checks that are done real time before orders are put into the market place. All orders are checked against established risk criteria including order size, price (versus the market), and dollar value among other criteria. Additionally the system checks numerous data points in the market for suspected bad data. Instances of crossed or boxed markets in any equity quote, foreign exchange quote or other suspect data automatically shut the models involved off without trader involvement. The day of the flash crash last year our system detected a movement in the Canadian dollar to U.S. dollar quote that was both crossed and had moved too quickly from its previous position. The system automatically shut all models off within 2 seconds of detecting the event. All of our advancements in monitoring the system and the contributing data are designed to reduce risk to us and the market place.

The large bank owned Canadian institutions have been withdrawing from the registered trading, market making and liquidity providing business because the combination of proprietary trading and client orders made compliance with regulations difficult. Providing liquidity to the market place through proprietary trading is better suited to be done away from any firm that has client obligations. Optima does not have any clients. All of the capital of the firm is provided by the partners. Attention to risk management and system monitoring is of paramount importance.

We have operated our business using IIROC Regulation 100 capital requirements for many years including the years trading at BMO. We are concerned that there will be a large minimum capital requirement placed on firms using automated orders systems regardless of their size and the type of trading that they do.

A component of the proposed National Instrument suggests that firms using automated order systems meet the definition of institutional size and by extension the minimum financial obligation of being that size. If the financial obligation to continue to be a market maker and liquidity provider is raised to the level that only institutions are permitted to do it regardless of the incremental risk associated with the strategies involved then the small proprietary firms like Optima Capital will withdraw from that activity and since the large Canadian bank owned firms have stopped doing that work the only participants left will be foreign owned multinational proprietary firms operating outside of Canada. This is essentially what occurred in the Canadian equity option market making area years ago.

Optima is happy to be a market maker and liquidity provider to the Canadian market along with many other small local firms. It is a business model we have chosen as we believe there is value in it for both Optima and for the marketplace in general. In conclusion, Optima would like to assert that the risk to the marketplace of automated order execution is best reduced by placing time and effort into the safeguards placed within each trading system. There is no substitute for diligent and mindful attention to detail when designing and running automated systems.

Yours Sincerely,

Ted Clasper  
Director

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Managing Director

