CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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March 10th, 2014

Kevin McCoy
Director, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
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Toronto, ON M5H 3T9
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Dear Mr. McCoy:

Re: IIROC Notice 13-0298: Proposed Guidance Respecting the Expansion of Single-Stock Circuit Breakers

The Canadian Security Traders Association, Inc. (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 capital markets participants nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee (the "Committee"), a group of 23 appointed members from amongst the CSTA. This committee has an approximately equal proportional number of buy-side and sell-side representatives with various areas of market structure expertise, in addition to 2 independent members. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members or the opinion of all members of the Trading Issues Committee.

General Remarks

The CSTA appreciates the opportunity to comment on the proposed expansion of the Single Stock Circuit Breaker Facility. The CSTA believes that appropriately designed and implemented Single Stock Circuit Breakers (SSCBs) represent an important component to the overall framework of ensuring market integrity. A reliable and well-understood SSCB framework is therefore an important ingredient to the smooth function of Canada's equity markets.

The CSTA is supportive of expanding SSCB coverage to include "actively traded" securities. On balance, we believe that more rather than less securities deserve the protection of SSCBs. While we are sympathetic to the difficulties of implementing protective measures for stocks that have no discernable trading pattern, we believe that sufficiently wide SSCBs for highly illiquid stocks may be appropriate.

In determining the eligibility list for the SSCB program, we respectfully suggest that the inclusion of securities that are "actively quoted" but not necessarily "actively traded" be considered for inclusion. For example, an "actively quoted" inclusion test could measure the volume of quote changes or the volume being quoted, and then choose securities whose measurement falls in the top half of all securities. These new eligibility criteria would serve to capture the intended “active” products without relying on subjective and/or limiting determination (I.e. ETFs with listed underliers). There are numerous examples of ETFs which would not satisfy the “actively traded” test but are nonetheless heavily quoted and see a good degree of price discovery. Additionally, some interlisted securities may trade most of their volume in the US and still be actively quoted in Canada without a significant number of transactions occurring.

Erroneous Trades and Re-pricing

The trigger of a single-stock circuit breaker falls into two broad categories:

1. A security’s market price reacting to the release of material news (either by the issuer, or elsewhere in the market), or moving on the basis of short-term liquidity needs (such as index rebalance events).
2. A security’s price being impacted by unintended or erroneous trading.

We wish to emphasize that in the context of SSCBs triggered by trading errors, the cancellation of “erroneous” trades runs the risk of disadvantaging the counterparties to those trades, who may have hedged their risk elsewhere. We believe that any trades subject to cancellation under the proposed SSCB framework (those priced in excess of 5% beyond the SSCB trigger price) should be reviewed by a market integrity official. If the price movement is deemed to be based on an error, such trades should be re-priced to levels which would remain punitive to the party in error. On the other hand, if the price movement is deemed to be related to either news or liquidity needs, the trades should be allowed to stand. In either situation, we believe that the judgment of a market integrity official is superior to a hard-and-fast rule (such as that proposed) – which would address the case of fundamental movements appropriately, but releases an erroneous party in the event of an error.

Given the recent work done by IIROC to automate SSCBs across all markets, the increasing emphasis on participant-level error controls and the forthcoming proposals regarding marketplace thresholds, we believe that the trigger of SSCBs will become increasingly rare. In this context, a SSCB trigger would be an exceptional event, thus meriting additional involvement and review from market integrity staff.

Answers to Specific Questions

1. **Is it appropriate that SSCBs remain active during the entire regular trading day (i.e. 9:30 a.m. – 4:00 p.m.)?**

2. **Given the importance of the MOC facility in determining closing prices for securities included in various indexes, should SSCBs remain active until 3:50 p.m. if the MOC system is not currently designed to facilitate MOC matches for securities that are in a regulatory halt state at the close of the trading day?**

For the purpose of this discussion, we consider the period immediately after the open, and the period immediately before the close to be distinct.

We believe that the current opening auction process is a generally reliable price discovery event. Therefore, we are of the opinion that the post-open period (9:30 AM – 9:50 AM as indicated in the Proposed Guidance) does not require special treatment from the SSCB mechanism. We recommend that SSCB bands not be widened in this timeframe, and remain at 10% and 20 price increments, resulting in a simple and uniform application throughout the day.

With respect to the Market-on-Close (MOC), we do not believe that the benefits of the trigger of an SSCB near the close are balanced with the risks to market integrity from the failure of the TSX Market-on-Close book. The MOC is critical to end-of-day pricing activity. In particular, on days with significant end-of-day flows, the affected stocks can frequently see significant movements at the end of the day. We believe that a trigger of SSCBs in those circumstances could have disastrous consequences for the affected participants.

Broadly speaking, we do not believe that the current function of the MOC reconciles with the operation of SSCBs in the final 30 minutes of trading. If the implementation of SSCBs to the close is seen as a regulatory priority, we believe it is critical to ensure that the TSX MOC facility is modified appropriately to allow an orderly closing auction. At a minimum, we believe that any SSCB trigger after the publication of the MOC imbalance (3:40 PM) should result in a price movement extension allowing additional orders to be entered into the TSX MOC book. In addition, the MOC facility would need to be enhanced to permit the entry of orders on both sides of the market in those circumstances. Having these measures in place would provide market participants with additional time and flexibility to address a significant price move, alleviating the urgency of decisions around important events.

We ask that any implementation of SSCBs in the final 30 minutes of trading be deferred until such a time that the TSX Market-on-Close facility is appropriately amended.

With respect to the periods between 8:00 AM and 9:30 AM, and between 4:00 PM and 5:00 PM, we believe that some measure of protection should be afforded to listed securities. Based on our experience, we recognize that a significant proportion of erroneous prints in the market today take place on marketplaces operating continuous books after the 4:00 PM closing auction. At minimum, a marketplace threshold framework (consistent across marketplaces) could be warranted outside of traditional market hours. Having said this, we acknowledge that the framework would be challenging since the quality of price discovery is significantly reduced during these periods, but we believe that it should still be considered as a possible addition of protection to the price integrity for listed securities.

3. **In contrast to the Prior Guidance, the Proposed Guidance provides that a SSCB remain active following the resumption of trading after a regulatory halt, including a halt caused by the triggering of an SSCB. Is it appropriate that multiple SSCBs may trigger during the same trading day for the same security?**

4. **Under the Proposed Guidance, the SSCB would be inactive for a period of 30 minutes following the resumption of trading after a trading halt, including a halt caused by the initial triggering of a SSCB. As an alternative, should the reactivation of the SSCB be handled in the same manner as the start of the regular trading day (i.e. 20% price movement and 40 trading increments for a 20-minute period exclusive of the initial trades following the resumption of trading)?**

We believe a 30 minute pause after the invocation of a single-stock circuit breaker is appropriate. As discussed above, we do not believe that a widening of the bands is necessary after the open – and thus would also be unnecessary after the reopening of a stock following a regulatory halt.

5. **Is it appropriate that the percentage price movements to trigger a SSCB are also subject to a minimum trading increment movement?**

Yes, this is an appropriate mechanism.

6. **Should a Market Integrity Official have the ability to widen the threshold of a particular security in response to an extraordinary event that would reasonably be expected to increase the volatility of that security?**

Yes. We believe that market integrity officials need to have the ability to control the system where it is seen as appropriate, though we expect that this is done rarely and only during the most extraordinary of circumstances.

We appreciate the opportunity to comment on this matter.

Respectfully,

"Signed by the CSTA Trading Issues Committee"

c.c. to:

OSC:
Mr. Howard Wetston, Chair and CEO
Ms. Maureen Jensen, Executive Director & CAO
Ms. Susan Greenglass, Director, Market Regulation
Ms. Tracey Stern, Manager, Market Regulation
AMF:
M[e] Anne-Marie Beaudoin, Secrétaire générale
BCSC:
Ms. Sandra Jakab, Director, Capital Markets Regulation
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Ms. Susan Wolburgh Jenah, President and CEO
Ms. Wendy Rudd, SVP, Market Regulation & Policy
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy
Mr. James Twiss, Vice President, Market Regulation Policy
Mr. Mike Prior, Vice President, Surveillance