



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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October 1st, 2014

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And

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Re: TriAct Canada Marketplace LP – Notice of Proposed Changes and Request for Comment

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 members 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” or “we”), a group of 21 appointed members from amongst the CSTA. This committee has an approximately equal proportion of buy-side and sell-side representatives with various areas of market structure expertise, in addition to 1 independent member. 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.

The CSTA appreciates the opportunity to comment on the proposal by TriAct Canada Marketplace LP (“TriAct”) to modify functionality within the MATCH Now Trading System. While the proposal addresses four distinct modifications, we will only be addressing the proposed expansion to the list of securities that can trade at the Canadian Best Bid Offer (CBBO).

TriAct Canada introduced trading at the CBBO in Exchange Traded Funds (ETFs) for orders that exceed 50 board lots or \$100,000 in value in 2013. At the time, we were supportive of this initiative due to the nature and degree of intermediation that is prevalent and necessary in the trading of ETFs. We did not expect that intermediaries currently quoting in the lit market would meaningfully reduce their quoting behavior in the lit marketplaces on the basis of being able to provide ETF liquidity via MATCH Now. While an exemption to trade orders that exceed 50 board lots or \$100,000 in value may be acceptable in the ETF segment of the market, we believe that enabling the functionality as proposed in all common equities could have a potentially damaging effect on the lit market.

If trading at the CBBO is extended to all equities at the same prerequisite size thresholds, it would create further disincentives to resting orders in the lit market, which would be particularly emphasized for securities with low prices. The spirit behind the “large” trade exemption in UMIR Rule 6.6 *Provision of Price Improvement by a Dark Order* is to protect the integrity of the lit market and promote size discovery. We do not believe that TriAct’s proposal falls within the spirit of the rule since trades of relatively small value will be allowed to trade at the CBBO (due to the minimum 50 board lot requirement which may be applied to low-priced stocks). We believe that it is paramount to avoid any mechanism that would further erode visible passive lit liquidity for small securities.

While we applaud TriAct for proposing to run a pilot of the proposed functionality, we note that there has been no proposed framework to assess the impact on market quality. Our primary concern with this proposal is that the 50 board lot or \$100,000 value threshold, with roots in the Order Exposure Rule, represents far too low a barrier to be deemed a “large” trade or a “block” in many low-priced Canadian equities. Of the two components of the threshold, the board lot limit, in particular, is a very easy hurdle to be considered a “large” trade.” For a stock trading under \$5.00, this represents no more than \$25,000 in market value. We do not believe that the practical threshold is consistent with the spirit of the dark rules, which reflect the need to allow larger trades (such as pre-negotiated “blocks”) to transact at the CBBO.

Below are simple summary statistics for two groups of stocks: those that are members of the S&P/TSX Composite Index, and those that are members of the S&P/TSX Small Cap Index. (Note: Some members will overlap)

S&P/TSX Composite Index			
	# of Constituents	% of Index ADV	% of Index Value Traded
Below \$1.00	0	0%	0%
Between \$1.00 and \$5.00	20	17%	2%
Between \$5.00 and \$10.00	38	23%	7%
Between \$10.00 and \$20.00	51	15%	9%
Above \$20.00	143	45%	82%

Source: Bloomberg, Based on 90-day Average Volume and Close Prices on 09/24/2014

S&P/TSX Small Cap Index			
	# of Constituents	% of Index ADV	% of Index Value Traded
Below \$1.00	4	2%	0%
Between \$1.00 and \$5.00	79	66%	32%
Between \$5.00 and \$10.00	56	19%	27%
Between \$10.00 and \$20.00	61	10%	27%
Above \$20.00	29	3%	15%

Source: Bloomberg, Based on 90-day Average Volume and Close Prices on 09/24/2014

We view the \$20.00 price threshold as critical, as it represents the indifference point between the two definitions of a “large” order – 50 board lots, or \$100,000 in value. We wish to highlight that in the last 90 days, fully 55% of the S&P/TSX Composite Index volume and 86% of the S&P/TSX Small Cap Index volume trades below that threshold. In particular, the \$1.00-\$5.00 price range for Canada’s small capitalization securities stand out, representing 66% of average daily volume. We believe that the particular case of low-priced stocks and their unique trading issues deserves particular merit.

In our opinion, if the ability for MATCH Now to trade at the CBBO were to be extended to common equities, it would be appropriate to introduce more stringent criteria around what constitutes a “large” trade, particularly for low-priced equities. One potential solution could be a sliding scale that takes into account both the stock’s price point (value per share), and the stock’s relative liquidity. If simplicity is desired, a “large” trade could simply be a trade for which the value at least \$100,000, disregarding the share amount.

We acknowledge that Alpha Intraspread currently allows for “large” trades to transact at the CBBO. However, the structure of IntraSpread reduces the effectiveness dramatically, since all lit orders on Alpha ATS must be filled before IntraSpread may trade at the CBBO. The priority of lit over dark hinders the penetration of "large" trades on IntraSpread, but will not apply to MATCH Now, since MATCH Now is a separate ATS.

Regardless of precedent, we would respectfully suggest that the concept of a “large” order in UMIR Rule 6.6 *Provision of Price Improvement by a Dark Order* be reviewed to ensure that the spirit of the rule is being preserved and is promoting visible passive liquidity in low-priced securities.

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

IIROC:

Ms. Susan Wolburgh Jenah, President and CEO
Ms. Wendy Rudd, SVP, Market Regulation and Policy
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy
Mr. Mike Prior, Vice President, Surveillance