



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**

P.O. Box 3, 31 Adelaide Street East  
Toronto, Ontario M5C 2H8

October 30, 2015

Market Regulations Branch  
Ontario Securities Commission  
22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
Fax: (416) 595-8940  
marketregulation@osc.gov.on.ca

and

Leo Drori  
Chief Compliance Officer  
Instinet Canada Cross Limited  
Suite 2200, TD Tower West  
100 Wellington Street West  
Toronto, Ontario M5K 1H1  
leo.drori@instinet.com

**Re: Instinet Canada Cross Limited  
Notice of Proposed Changes: Introduction of Continuous Block Crossing**

The Canadian Security Traders Association, Inc. 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 volunteer 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", "CSTA TIC" 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 one 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 views of the CSTA as a whole. The views and statements provided below do not necessarily reflect those of all CSTA members or of all members of the Trading Issues Committee.

The Canadian Security Traders Association appreciates the opportunity to comment on the proposal by Instinet Canada Cross Limited ("ICX") to introduce a midpoint matched facility ("Continuous Block Cross" or "CBX").

The CSTA supports marketplace innovation and competition. Based on the information that was available to us, it is the opinion of CSTA TIC that CBX does not represent a departure from existing marketplace features available in Canada. Additionally, as an unprotected dark market, we believe that there is limited impact on the broader community from the introduction of this feature. We therefore have no objections to the introduction of a midpoint match facility within ICX.

However, based on our understanding of the planned CBX implementation (and with no added clarity from the Proposal as filed), CBX will allow broker priority for all orders, including those marked as "anonymous" on a post-trade basis. While this is a feature that currently exists on other dark marketplaces in Canada, we believe that the practice of broker preferencing for anonymous orders should be questioned, whether or not the marketplace provides pre-trade transparency.

Broker priority and anonymity were concepts that were introduced and pioneered in Canada subsequent to the Toronto Stock Exchange's move to electronic order matching. To this day, the principle observed in all lit markets supporting broker preferencing is to limit the benefit to those orders willing to attribute their broker code, pre- and post-trade. This represents a trade-off: if a participant wishes to gain the benefits of anonymity, they forego the benefits of attribution. To the extent that the attribution of orders in the market is seen as a benefit to the marketplace as a whole, anonymity takes the benefit away, and therefore participants wishing to be anonymous give up something in return. We believe that this trade-off has fundamentally been viewed as fair by many market participants.

The proposal from ICX contemplates doing away with this trade-off and offering the benefits of anonymity and attribution at once. We note that the benefit of broker priority exists whether or not pre-trade transparency is offered and therefore should be considered more broadly than simply in the context of pre-trade transparency. The "fairness" argument above can apply to all marketplaces, lit and dark.

To the extent that transparency is seen as a public good, we believe that choices made by a participant to limit the transparency offered to others (such as anonymity) should come at some cost (such as giving up broker priority). Based on the above view of the trade-off between broker preferencing and broker attribution, we believe the ICX CBX proposal should be amended to restrict broker priority within the ICX CBX facility to only those orders which will be attributed on a post-trade basis. We also recommend that other Canadian dark markets offering anonymous broker preferencing be required to make corresponding changes.

Thank you for your attention in this matter.

Respectfully,

"Signed by the CSTA Trading Issues Committee"

c.c. to:

**Ontario Securities Commission:**

Mr. Howard Wetston, Chair and CEO  
Ms. Maureen Jensen, Executive Director & CAO  
Ms. Susan Greenglass, Director, Market Regulation  
Ms. Tracey Stern, Manager, Market Regulation

**Alberta Securities Commission:**

Ms. Lynn Tsutsumi, Director, Market Regulation

**Autorité des marchés financiers:**

M<sup>e</sup> Élane Lanouette, Directrice des bourses et des OAR

**British Columbia Securities Commission:**

Ms. Sandra Jakab, Director, Capital Markets Regulation

**IIROC:**

Mr. Andrew Kriegler, President and CEO  
Ms. Victoria Pinnington, Senior Vice President, Market Regulation  
Mr. Kevin McCoy, Acting Vice-President, Market Regulation Policy