



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**  
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June 15, 2018

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**Re: MATCHNow – Proposed changes to the MATCHNow trading system – Conditional Orders**

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 volunteer Governors from each of four distinct regions (Toronto, Montreal, Vancouver and the Prairies). 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 appointed members from amongst the CSTA. With 21 members, this committee seeks an equal proportion of buy-side and sell-side representatives with various areas of market structure expertise. 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 CSTA appreciates the opportunity to comment on the proposal by TriAct Canada Marketplace LP to introduce conditional orders to the MATCHNow marketplace (the "Proposal"). We believe that continued innovation in the marketplace through the introduction of features useful for institutional investors is beneficial to the Canadian trading ecosystem. Conditional order types may offer users latitude in their use of dark markets and generally assist in the management of liquidity fragmentation.

We will offer several comments with respect to the details of the Proposal, intended for consideration by both TriAct and the OSC.

## **Firm-up Compliance**

As discussed in the Proposal, the principal concern around the use of conditional orders is the potential for information leakage leading to an increase in trading costs. Specifically, there are certain participants that may use conditional order types as a means of detecting directional flows by resting conditional orders without the intention of trading them, incurring a high fall down rate. In our view, the behavior of a participant that is systematically using an order type in order to take advantage of information leakage would be against the spirit of just and equitable principles of trade.

We commend MATCHNow for proposing a specific compliance threshold for acceptable fall-down rates. While, we believe this approach is substantially appropriate, we believe that the following modifications should be considered to improve the effectiveness of the order type, decrease the potential for information leakage and provide participants with more confidence in the use thereof.

- 1) **Additional measures should be considered to address users with systematically low firm-up rates.** For example, users whose firm-up rates consistently fails to meet the required threshold over a longer period of time (such as 50% of days in a one month period) could be required to meet a higher standard for access to use of the conditional order. Such standards could include a requirement to demonstrate a prescribed level of activity using conditional-eligible committed orders in the regular MATCHNow liquidity provision book.
- 2) **Incorporate average resting time metrics in the performance evaluation process** for users of conditional orders to help to ensure that potential misuse is detected and assessed.
- 3) **Fall-down rates resulting from quote changes should also be subject to a materiality threshold** (for example a minimum of 5 ticks or 25bps), as it is possible that a participant in the MATCHNow book is able to influence the NBBO. As a result, a participant may be able to trigger an NBBO change which would permit a "no consequence" fall-down, while receiving the information advantage of knowing the direction of flows in the MATCHNow conditionals book.
- 4) Since **conditional order types exist to enable large "block-sized" execution, the use of the typical minimum size requirements** (greater than 50 standard trading unit (STU) or greater than \$100,000 in value) **should be reconsidered.** With roots in the order exposure rule, the 50 STU/\$100k value minimum 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 is a very easy hurdle to be considered a "large" trade." For example, for a stock trading under \$5.00, the minimum 50 STU represents no more than \$25,000 in market value.

We do not believe that the practical threshold is consistent with the spirit of a conditional order type.

- 5) There is **no clear consensus** amongst our group **as to whether the enforcement of the firm up rate would be more appropriate at the Subscriber level** (as Proposed) **or at the Trader ID level** (which has been suggested by some members). While aggregation at the Subscriber level would ensure that brokers are generally incented to ensure their end-customers don't undermine/damage their ability to access conditional orders, this may allow for individual poor performers to "free ride" on other users' high firm-up rates. If enforcement of the firm up rate is at the Trader ID level, it is possible that the same underlying client to use multiple trader IDs, at the same Subscriber and potentially across several Subscribers to avoid restrictions. To the extent that enforcement at a Trader ID level is enacted, we believe that compliance processes should account for the possibility of the same underlying strategy being used by several trader IDs as a means of circumventing a per-Trader-ID compliance mechanism.

The above suggestions are intended to strengthen the compliance mechanism proposed, with the goal of ensuring that the conditional order type has sufficiently strong long-term deterrents to its use as a means of gathering directional information on flows without assuming trading risk.

### **Fair Access**

We strongly believe that Canada's fair access requirements are integral to the health of Canada's equity markets. We acknowledge that the Proposal seeks to strike a balance between fair and restricted access by allowing parties that fail to meet the required daily 70% firm-up threshold to continue trading the next day. We would suggest that having additional fall-down deterring features (minimum resting times and long-term restriction abilities) would be appropriate under fair access requirements, since a conditional-restricted participant still can interact with conditional orders by entering committed conditional-eligible orders in the regular MATCHNow book.

If more stringent restrictions were enacted, those participants that may find themselves with restricted access (short or long-term) would only be limited based on a behavior that they themselves can control, not a categorization upon which they have no control. An example of a similar approach is the TSX Long Life Order, allowing a preferential queue priority based the commitment of resting an order for a minimum amount of time. In the case of long-term restrictions, there would need to be reasonable recourse for a subscriber to petition for review based on providing detail around why they believe there is reason that the drivers of previous patterns of low firm up rates have been remedied.

We recognize that any compliance mechanism which results in a denial of functionality to a user or group of users raises the concern that the fair access requirements under National Instrument 23-101 may be weakened. More generally, fair access rules through the establishment of a precedent may result in marketplaces following the example and "pushing the envelope" to determine the limits of fair access. The establishment of rule by precedent creates a fair access requirement with many carve-outs and a lack of clarity as to permitted behaviors. We would respectfully suggest that, concurrently with any decision with respect to the Proposal, the OSC should publish guidance setting out the acceptable limitations on fair access with respect to conditional orders.

We appreciate the opportunity to discuss this proposal. Thank you for your attention in this matter.

Respectfully,

“Signed by the CSTA Trading Issues Committee”

c.c. to:

**Ontario Securities Commission:**

Ms. Maureen Jensen, Chair & CEO  
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> Éline Lanouette, Directrice principale de l'encadrement des structures de marché

**British Columbia Securities Commission:**

Mr. Mark Wang, Director, Capital Markets Regulation

**IIROC:**

Mr. Andrew Kriegler, President and CEO  
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Mr. Kevin McCoy, Vice-President, Market Regulation Policy  
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