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Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West 22nd Floor  
Toronto, Ontario M5H 3S8  
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Dear Sirs/Mesdames:

ITG would like to thank the Ontario Securities Commission for this opportunity to comment on the application of the proposed changes to the Nasdaq CX2 market.

ITG has been a long standing participant in the Canadian equity markets, and a strong proponent of innovation and healthy competition. While we welcome the addition of a new dark pool, and any unique value add it may deliver to our marketplace, we do have some questions and concerns around the proposal.

The proposed changes to Nasdaq CX2, appear to in fact be the introduction of an entirely new unique marketplace, that is not connected with CX2, beyond sharing a common ownership. If the new dark pool, CXD, were in fact connected to CX2, it would be subject to various aspects of the Canadian dark trading rules, including having to satisfy lit and iceberg liquidity before fully hidden orders, at a given price within the two markets. This would be similar to the relationship IntraSpread had with Alpha, prior to being shut down. That the two markets are not in fact connected, and CXD will not consider visible liquidity on CX2, does lead us to wonder why the application is presented as a change to an existing market, rather than the introduction of an entirely new market.

As for the actual proposed functioning of the marketplace, we are concerned by the introduction of a sweep order type within a dark book. Dark pools are, by definition, reference priced execution facilities. As such, we find it confusing to read that "NCSO orders will trade with the best priced contra-side orders(s) without consideration of prices on other marketplaces". The notion of a dark market, that executes trades relying only on pricing imbedded in the active order,



without considering quotes from any of the lit venues doesn't offer any obvious advantages. It does, however, introduce real concerns around the fairness of pricing and the potential competitive responses from other markets. At the very minimum, if implemented, we would suggest CXD offer the ability to mark passive orders in a manner that they do not interact with such sweeps.

Finally we would suggest that CXD's proposed trading hours – 8:30 – 5:00 pm – create the need for a discussion around the appropriate reference price post the "market close". Currently the TSX allows for trading at the official market closing price, after 4pm. As such, we will often see bids and offers on the TSX at, or even better than, the official closing price. These bids and offers are tradable. Other bids and offers on that venue, at levels worse than the official closing price, are not tradable. Will CXD, or other dark venues trading after 4PM, be required to consider tradable quotes on the TSX? For such venues to only consider a subset of quotes on a particular venue could prove to be a logistical nightmare. While we have no issue with CXD offering such trading, we do think the regulators need to give some thought to order protection during this time frame, in light of the current mechanisms in place at the TSX.

Thank you for allowing us the opportunity to comment on this proposal. As always, we would be more than happy to answer any questions, or expand upon our thoughts as desired.

Sincerely,

Doug Clark  
Managing Director,  
ITG Canada