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Market Regulation Branch
Ontario Securities Commission
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and

Mark Faulkner
Vice President, Listings and Regulation
CNSX Markets Inc and the Canadian Stock Exchange
220 Bay Street, 9th Floor
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Re: Proposed CSE order types and functionality

ITG Canada Corp. ("ITG") would like to thank the Ontario Securities Commission ("OSC") for this opportunity to comment on the latest set of proposed order types and options from the Canadian Stock Exchange ("CSE").

ITG's thoughts on these proposals, and all market structure matters, are largely influenced by the over-arching principle of whether any proposal benefits natural customers and fosters a fair, competitive and healthy market, and supports a positive, dynamic market structure. Over the past few years ITG has advocated in numerous comment letters and public forums against increased segmentation of equity markets in Canada. The ability for market makers to trade exclusively against the smallest, most short-term uninformed orders is detrimental to capital markets. While we have the same concerns with this most recent proposal, in the interest of time and efficiency we will limit our comments to those features that are unique to the CSE proposals.

Before detailing our concerns with the CSE proposal, and specifically the Max Qty option, we would like to note our apprehension of the overall lack of detail and examples exhibited in the proposals. In all, the CSE is putting forth five unique recommendations, in a document that runs less than 1200 words. Not a single example is included to demonstrate how the matching allocations will work. For participants to understand and comment on a proposal, at least one example per proposal should be provided for clarity.

Let us highlight this concern with an example of our own. The CSE has proposed a Maximum Quantity ("Max Qty") option on pegged order types. In the document the CSE notes that "On receipt, (while acting as an active order) Max Qty orders will interact with existing tradeable contra dark orders in the book regardless of volume". There are no clear examples of how this order interacts with passive flow. Beyond this, the notice states that Max Qty is available in combination with the Post Only order type, but offers no further explanation of how the combination of features impacts priority or allocation. The existing order type manual, found on the CSE website, does not give great clarity around how using post only impacts priority. In some Canadian markets, the passive side changes depending on the direction of the last quote change. While we don't believe this is the case for CSE, we believe the order type proposals, and exchange rule books need to make such matters clear for all users. Consequently, without clarity on how this operates, it is difficult to provide complete commentary on this proposal.

Notwithstanding the incompleteness of the proposal, ITG does not support this proposal because Max Qty seems to be designed to allow opportunistic traders to interact with smaller, more vulnerable orders, all while avoiding the risk of trading against larger orders that need liquidity. The advantages to the liquidity provider are obvious: fills with less risk, but without affecting their queue priority. The small active side of the order receives a fill, with likely no impact, either positive or negative. The harm is to the larger orders, which stem from investors trying to build or unwind real longer-term investment positions. These natural participants will have a more difficult task trying to source liquidity on the passive side of the quote. The Canadian marketplace should want to encourage more large, natural liquidity, not to erect more hurdles for them. Canada is already a small market by size, but extremely complex to trade. We must be mindful of not making it unreasonably difficult for real investors, who are trying to express an investment hypothesis in the market, to trade Canadian securities. Canada needs to encourage more interaction between natural investors, not invent better ways for intermediaries to capture the most benign flow. This proposal in counterproductive in that pursuit.

We also believe that the feature will result in market makers shredding orders into smaller child-sized orders, to be able to further reduce the Max Qty with which they interact. Such shredding increases message traffic, that is consumed by all. It also results in smaller average trade sizes, which increases the clearing cost of all other market place participants. This would be similar in nature to the tape shredding witnessed in the US markets, shortly after the introduction of SIP data fee sharing. We believe that incentivizing smaller orders would be detrimental to market quality and trader efficiencies.

We appreciate that the CSE wants to compete with other lit venues, most of which have implemented or proposed their own mechanisms to deliver small benign flow to liquidity providers. However, several wrongs do not make a right. Starting with retail only active orders on Alpha IntraSpread, through the Alpha Speed bump, AEF, GEF, GMF, dual market makers on the TSX, the proliferation of such devices has made the Canadian market more complex and costly, while challenging investor's confidence. Thus, we strongly encourage the OSC to both disallow this proposal and reconsider the current plethora of market segmentation devices offered on other marketplaces in Canada.

We appreciate the opportunity to respond to the CSE proposal, and offer our continued assistance to regulators on all market structure related matters.

Profoundly,

Doug Clark
Managing Director
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ITG