



June 22<sup>nd</sup>, 2020

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, Ontario M5H 3S8

Matt Thompson  
Chief Compliance Officer  
Nasdaq CXC Limited  
25 York St. Suite 900  
Toronto, Ontario M5J 2V5

BY ELECTRONIC MAIL: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca) ; [matthew.thompson@nasdaq.com](mailto:matthew.thompson@nasdaq.com)

**RE: NASDAQ CXC LIMITED NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT (CXD Minimum Size Orders & Exceptions by Counterparty)**, as published April 23<sup>rd</sup>, 2020

---

National Bank Financial Inc. ("NBF") appreciates the opportunity to comment on Nasdaq CXC's proposed enhancement to their existing CXD Trading Book. We support the OSC's stated mission to provide a securities regulatory system that protects investors from unfair, improper or fraudulent practices and fosters fair, efficient, and vibrant capital markets.

NBF is part of the diverse National Bank Financial Group ("NBFG") which: (i) manufactures mutual funds, owns proprietary distribution channels and supplies services to third party distributors; (ii) operates a discount brokerage firm; and (iii) is an IIROC-regulated investment dealer across Canada. We take great interest in initiatives contained in the Comment Paper and their potential impact on investors, the mutual fund industry, the investment industry and financial intermediaries.

We remain cautious in our views of the trend toward increased internalization in the listed Canadian equity markets, especially as it relates specifically to retail segmentation. Yet, as competitive forces continue to drive dealers toward improving their processes for internalizing order flow, we support enhancements that prioritize price improvement for natural investors.

The Mid Peg with Minimum Size orders are primarily used by institutional investors. Putting a minimum size on midpoint dark order means that the institutional trader has given up on potential small midpoint fills from contra retail & algorithmic flow in order to avoid potential information leakage that may result from similarly small probing orders. This has proven, by our analysis, to be good practice.

The proposal from Nasdaq CXC suggests three different scenarios to increase natural fill rates at the midpoint in their CXD book while still affording these dark orders protection from potential adverse selection.

As we continue to oppose explicit retail segmentation, we do not support the first two options, which do just this.

NBF supports the implementation of Option 3 – "Trusted Flow: permits all orders from the Member to trade regardless of the minimum size parameter." This feature represents activity that member firms could well build for themselves internally, albeit with some development costs. This option operates well



within the acceptable rules for order handling, as these trades are matched at the midpoint and equal price improvement is enjoyed by both sides. Incorporating this routing logic into an existing trading venue – rather than accepting that members build it themselves – makes this more broadly and immediately available to Canadian participants of all sizes, at a fraction of the cost.

We concede that even the “Trusted Flow” same-member alternative (Option 3) still engages in a practice of discriminating counterparties, which is a feature of order segmentation in similar vein as in-house client priority or “broker preferencing”. And yet, because this enhancement to the minimum fill quantity in CXD will primarily benefit natural investors from both the retail and institutional channels, with price improvement on all matched trades, it’s an enhancement we can support

We appreciate the opportunity to provide comments on this proposal.

---

Nicholas Comtois  
Managing Director  
National Bank Financial  
Inc.

---

Alain Katchouni  
Managing Director  
National Bank Financial  
Inc.

---

Patrick McEntyre  
Managing Director  
National Bank Financial  
Inc.