TMX THE FUTURE IS YOURS TO SEE.

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VIA EMAIL: paul.romain@tradelogiq.com; marketregulation@osc.gov.on.ca

Paul Romain
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and to:

Market Regulation Branch
Ontario Securities Commission
20 Queen St. W.
Toronto, Ontario M5H 3S8

Dear Sirs/Madams,

RE: Tradelogiq Markets Inc. - Lynx ATS - Notice of Proposed Changes and Request for Comments

TMX Group Limited ("TMX Group" or "we") welcomes the opportunity to comment on the Notice and Request for Comment (the "Notice") as published by the Ontario Securities Commission (the "OSC") on March 11, 2021 on behalf of Tradelogiq Markets Inc. ("Tradelogiq") outlining certain proposed functional changes to the Tradelogiq's Lynx trading platform. The two proposed changes set out in the Notice relate to:

(i) the designation of certain trader IDs as latency sensitive traders ("LST"); and
(ii) the introduction of a speed bump.

TMX Group is a proponent of market initiatives that are designed to enhance the liquidity environment within the Canadian capital markets, and we feel that mechanisms designed to curtail latency arbitrage strategies can be an effective measure for bolstering the quality of liquidity provision and ultimately benefit the investment community. However, TMX Group has concerns regarding the implementation methodology of the speedbump described in the Notice.

In particular, TMX Group is concerned that Tradelogiq's described methodology for identifying LST traders is underdeveloped, and provides the marketplace inappropriate subjectivity in dictating what participants will be labelled as LST. TMX group further believes that subjecting a subset of participants to a speedbump is counter to the spirit of fair access. For these reasons TMX Group is not supportive of the OSC approving the implementation of the LST speedbump.

Concerns regarding the subjectivity of the LST definition

TMX Group is concerned that subjectivity within the LST definition would allow for marketplaces to apply their own discretion when applying conditional access to their venue.

Tradelogiq defines LST as a Trader ID that:

a. "are entered by proprietary traders of dealers or direct electronic access (DEA) clients of dealers using automated, co-location trading strategies."

We feel that the definition is unsuitably vague and does not sufficiently isolate those traders that are capable of engaging in high speed latency arbitrage. Proprietary participants of varying levels of sophistication will utilize colocated routing technology to interact with the fragmented market, and could therefore fall under the definition of LST as defined within the Notice, irrespective of their ability to participate in latency arbitrage.

Tradelogiq issued a refinement to their LST definition from the version published on March 5, 2020, adding the following qualifier to the LST definition:

> *"Any type of client order flow where the client has no control over which marketplace their orders get routed to is not considered to be LST."*

We feel that this is not a sufficient qualifier to isolate the desired target participant as many non-high speed proprietary clients can exercise governance over their co-located routing strategy though order and execution instructions forwarded to their vendor. These participants are not capable of latency arbitrage but could be categorized as LST at the discretion of Tradelogiq due to an imprecise LST definition. We ask that the OSC consider whether the LST definition provides the appropriate level of specificity required to capture only the desired participants.

In addition to the LST definition, the Notice states that Tradelogic may place a Trader ID in the LST category based on the following metrics:

- ***order to trade ratios** – high order to trade ratios are often associated with LST trading strategies. We intend to monitor the amount of messaging frequency and trade frequency.*
- ***Fill rates** – very low fill rates are often associated with LST trading strategies.*
- ***Number of orders entered daily**; and*
- *If a Trader ID trades both proprietary and client flow and falls under the definition of LST, then that ID will be categorized as LST.*

Tradelogiq offers no guidance quantifying the threshold at which these metrics would qualify a participant to be labelled as LST. TMX Group would expect that this methodology would be made available to the public for review to ensure that a marketplace cannot apply inappropriate discretion or even discrimination.

TMX group is concerned that the monitoring solution outlined by Tradelogiq provides too much flexibility with insufficient accountability. We believe that the gravity of an LST label, and its implications for access, should necessitate a clearly defined methodology outlining when it can be applied to a participant.

<u>Fair Access and Segmentation</u>

TMX Group continues to recognize the merit in attempting to improve the liquidity environment through innovations that optimize counter-party interactions while adhering to the existing regulatory principles and framework that ensure that no participant is unfairly restricted from accessing marketplace liquidity. TMX Group therefore feels that order features and attributes should be available and applied to all participants with uniformity. TMX group applauds any effort to increase the quality of liquidity on the Canadian equity markets, but feels that any measures enacted to do so should adhere to fair access requirements and principles. As a result, we feel that a marketplace should ensure that all active orders are subject to the same delay regardless of a participant's designation. TMX Group believes that the imbalanced application of the speedbump to only LST participants does not adhere to the spirit of fair access.

We further find that the issue of segmentation, while addressed in regards to the retail trading community, was insufficient in scope. Any mechanism that is designed to provide conditional access to only one segment of market participants will clearly have an impact on market segmentation.

<u>Rationale</u>

TMX Group is concerned that the rationale provided in the Notice does not demonstrate sufficient rigor to address the concerns of the impact to the Canadian investment community.

Tradelogiq relies heavily on marketplace precedent to justify the approval of their proposal:

> *"Tradelogiq respectfully submits that the differentiated treatment of LSTs in the unprotected Lynx trading book is consistent with the same policy rationale that was applied to two other Canadian exchanges which allowed them to treat certain marketplace participants differently in their respective speed bump models."*

In this statement, Tradelogiq erroneously claims that two marketplaces treat participants differently in speedbump models. TMX group is aware of only one marketplace that applies latency delays based on a characterization of participant type. TMX Group feels that to apply speedbumps in this way does not adhere to the spirit of fair access.

In the Notice, Tragelogiq provides the following statement to justify employing conditional access restrictions to a subset of participants:

> *"We believe that slowing down predatory active LST trading is not a barrier on the fair access requirements as it will reduce the cost prohibitive "Arms Race" barrier which will allow slower participants to compete on a more equal basis thus allowing them to commit to more available passive liquidity for natural investors."*

TMX Group does not find a relationship between the stated rationale and the issue of fair access. Instead, Tradelogiq provides a potential auxiliary benefit of their proposal as a justification, but this explanation does not sufficiently address the issue of fair access.

Conclusion

While TMX Group is supportive of market initiatives that are designed to increase the quality of execution and reduce cost for Canadian participants, we have concerns regarding the implementation details and LST definition put forth by Tradeloigiq in the Notice and would not be supportive of OSC approval.

TMX Group appreciates the opportunity to express our thoughts and views on this initiative.

Sincerely,

'Rizwan Awan'

Rizwan Awan
President, Equities Trading
TMX Group