



CANADIAN SECURITY TRADERS ASSOCIATION, INC.

P.O. Box 3, 31 Adelaide Street East

Toronto, Ontario M5C 2H8

June 10, 2021

Denno Chen

Director, Regulatory Affairs

TMX Group

100 Adelaide Street West, Suite 300

Toronto, Ontario M5H 1S3

Email: tsxrequestforcomments@tsx.com

AND

Market Regulation Branch

Ontario Securities Commission

20 Queen Street West

Toronto, Ontario M5H 3S8

Email: marketregulation@osc.gov.on.ca

Re: 13.2.1 TSX Inc. – Notice of Proposed Amendments and Request for Comments

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 Governors from each of four distinct regions (Toronto, Montreal, Prairies and Vancouver). 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”), a group of 20 appointed members from amongst the CSTA. This committee has an approximately equal proportional number 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 opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members nor the opinion of all members of the Trading Issues Committee.

The Committee appreciates the opportunity to comment on the proposed introduction of conditional orders to the TSX Dark pool. Conditional orders are not new to our marketplace, if approved, the TSX would become the 5th conditional book in Canada. Conditional order types are the de facto method for aggregating dark liquidity in a fragmented marketplace. We are generally supportive of this proposal:

- The introduction of conditional orders on the TSX will allow institutional traders to represent their interest across multiple order books in hopes of achieving more and larger sized dark fills and minimizing market impact.
- Proposed minimum order size (greater than 50 board lots and \$30,000 in value, or greater than \$100,000 in value) is very much in line with industry standards and is consistent with UMIR 6.6 (the rules governing dark price improvement).
- Opt-In feature for firm orders to interact with conditional book will encourage more block activity on the TSX. The proposed functionality reduces search costs/delay costs for traders and may help reduce some of the more excessive intermediation that can otherwise occur in a fragmented marketplace. We agree that a firm order that has opted in should not be held, locked or removed from the book and should be able to execute against contra dark and visible liquidity during the firm up process.
- We also supportive of TSX's application for exemptive relief from the pre-trade transparency requirements (order display rule within UMIR 7.1(1) of NI 23-101) as we recognize such relief is necessary to facilitate the interaction of firm, dark orders with conditional orders without leaking information.
- Q4 2021 implementation should be sufficient time for brokers and vendors to prepare for this new order type.

Our only comment on this proposal will be centered on the monitoring and consequences of bad behaviors for conditional order users. Conditional orders come with their own set of risks that mostly arise from the embedded optionality within the conditional firm up process, hence we encourage TSX to establish a robust process to monitor the conditional firm up rates. We support the establishment of a threshold score after a 90-day assessment period but think the process should include meaningful consequences for unexplainably low firm up rates beyond a simple "time out" for the next trading day.

The Committee believes we all have a collective interest to protect and preserve a Canadian equity market that is fair and efficient for everyone. We are deeply aware that not only is there no single path toward this goal, even if there were it is unlikely that a single group of stakeholders would know the way. Instead, we believe it is better to create a regime that allows for individual marketplaces to innovate, compete for order flow and if necessary, even fail. Indeed, within reason, the invisible hand ought to dictate what business models succeed and what business models fail. In the case of the proposed introduction of conditional orders to the TSX trading system, we see little evidence of fair access concerns, systematic risk or unintended consequences impacting trading on other marketplaces. Thus, in the absence of harm, we are supportive of the proposal.

We thank you for the opportunity to comment. Please feel free to contact any of the Committee leads if you have any further questions or wish to continue the discussions.

CSTA Trading Issues Committee