

September 16th, 2005

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Subject: **CSA DISCUSSION PAPER 23-403**

The CSA Discussion Paper 23-403 lists thirty-one questions dealing with several different aspects of the current Canadian trading model as well as potential changes to this model. At the heart of this discussion lies the issue of Trade-Through and the rights and obligations which accompany this debate.

The CSA have asked parties which are interested in addressing a public forum to have their comments in by September 19th, with formal responses requested to be submitted by no later than October 20th. National Bank Financial hereby submits this as our preliminary comment paper and requests the opportunity to present our opinions at the public forum. A more detailed response will be tabled before the October 20th deadline.

We wish to begin our comments addressing what we consider to be the main issue, Trade-Through. National Bank Financial believes strongly that Trade-Through protection is paramount if Canada is to maintain a fair, efficient and meaningful *equity* market. We are too small a market to allow for fragmentation of liquidity especially in light of the US market to which we are so closely tied. Trade-Through protection allows for competitive market places while at the same time creating, or maintaining a single liquidity pool.



Re : CSA Discussion Paper 23-403

Orders which are afforded Trade through protection are forced to compete with one and other for execution. This competition plays out by way of price improvement to existing orders which translates to tighter spreads and cheaper overall transaction costs for takers of liquidity. Without protection, liquidity providers have little incentive to improve price as they will have no assurances that their chances of execution are improved. This leads to wider spreads, less efficient price discovery and an overall increase in transaction costs for all industry participants. **In short, orders which are visible, accessible and immediately executable must be afforded Trade-Through protection.**

We would also at this time, like to address one of the questions in the Discussion Paper, specifically the first question contained in the Introduction. The question asks:

“What factors or criteria should be considered in identifying the appropriate structure and requirements for the Canadian market?” (Emphasis added)

In identifying factors or Criteria which should be addressed, one needs to look at the security in question and its own characteristics. There exist significant differences between security types to render a “one size fits all” approach unworkable. In fact we believe that any attempt to force one set of rules and regulations on all securities will do more harm than good to the “Canadian market” as some rules will be at odds with the natural workings of some securities.

This belief forms the tenet of our responses to the remaining questions in the Discussion Paper. A practical example of this is that we do not believe that Trade-Through protection is either necessary or required for all security types, with fixed income securities as the most obvious example.

We look forward to discussing these points with you at the public forum and will provide the rest of our comments in due course.

Respectfully submitted;

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