June 13, 2011

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
P.O. Box 55, 19th Floor
Toronto, Ontario M5H 3S8

And

Me Anne-Marie Beaudoin, Corporate Secretary
Autorite des marches financiers
800, square Victoria, 22e etage
C.P. 246, tour de la Bourse
Montreal, Quebec H4Z 1G3

Re: **CanDeal Response to Proposed Amendments to National Instrument 21-101 *Marketplace Operations* and National Instrument 23-101 *Trading Rules*, dated March 18, 2011.**

Dear Mr. Stevenson and Me.Beaudoin:

Introduction

CanDeal is Canada's leading online marketplace for Canadian dollar debt securities (www.candeal.ca). CanDeal's Institutional Dealer-to-Client Request For Quote ("RFQ") marketplace provides online access to the largest pool of liquidity for Canadian government bonds and money market instruments. Regulated as an ATS since 2002, CanDeal has offered fixed income and money market trading on a regulated platform for nearly a decade. Throughout its existence, CanDeal has developed fixed income trading protocols and technologies which support increased liquidity and lower risk for OTC markets, in an optimally transparent manner.

CanDeal appreciates the opportunity to provide feedback on proposed ATS regulation and we look to take on an expanded role in this regard as our market continues to evolve.

Marketplace Information - F2/F3 filing changes

An F2 filing of a significant change must be done 45 days prior to enactment of change. The Companion Policy Section 6.1(4) lists types of changes that are significant including:
   a. Item (e) changes to or new types of securities traded on the marketplace; and
   b. Item (h) changes to or new types of marketplace participants.

In the case of a new type of security being introduced to a marketplace or a new category of participant being introduced, we would agree that a significant reportable event has occurred. Yet as the draft rule is written, it appears unintentionally to capture the insignificant. For example each time a new client in a longstanding participation category joins the system or each time, say, a conventional but newly issued government bond becomes available for RFQs and trading on the marketplace, an F2 amendment filing is required 45 days prior to enactment of the change.

In the case of a new participant, this rule represents a disincentive to new customers to participate in the marketplace and does not convey significant information to the public. In the case of new securities, the information is not usually available as much as 45 days ahead of issuance and to restrict trading of new securities for an extended period of days would disadvantage ATSs relative the opaque telephonic marketplace. In any case this information will be covered by the revised quarterly 21-101 F3 filings.

We recommend a clarification to the language of 21-101CP 6.1(4)(e) to read "changes to types of securities and new types of securities......" and a similar edit to section 6.1(4) (h).

<u>Marketplace Requirements – Fair and Orderly Markets (s 5.7 of NI 21-101)</u>

CanDeal is a unique participant in the Canadian ATS markets and submits that its trading methodology is consistent with fair and orderly markets. The RFQ model allows CanDeal to provide its participants with an open, optimally transparent and efficient trading facility which is available to all institutional customers. In the CanDeal model, each participant is aware of the identity of the counterparty to every trade. Furthermore, traders, salespeople and supervisory staff can access real-time trade blotters, specific to their business, including exact key stroke audit logs. These transparency and audit features ensure a level of fairness and orderliness which equals or exceeds that normally offered in the equity marketplaces.

<u>Requirements applicable only to ATS's - /Notification of Threshold</u>

Notification of Threshold

The amendment to this section reduces the market share level at which the CSA may require additional reporting from 20% down to 10%. Whereas under current companion policy interpretations, meeting the threshold meant that the ATS may have to report as an exchange; the new language suggests that additional customized terms and conditions of operation as an ATS may be enforceable against the ATS. This approach will present operational challenges for any ATS approaching the threshold.

CanDeal, for instance, will not be able to calculate market share as outlined in proposed changes to 21-101. No monthly industry statistics are available for the securities traded on our marketplace and the quarterly published statistics are generally 3 months delayed and presented in broad summary form. Furthermore, CanDeal would need to seek clarity from the CSA as to what constitutes a "type of security". Without further guidance, CanDeal will measure itself against the delayed data available and report threshold information as soon as practical.

Marketplace Systems and Business Continuity Planning

Amendments to this section are acceptable, however, we would like to comment on an existing clause and its relevance to an institutional debt market structured ATS such as CanDeal. Section 12.1(c) directs an ATS to notify regulators in the event of a "material system failure". Given that the delivery of many e-trading services is dependent on numerous systems, it seems only prudent to define a "material system failure". CanDeal defines a "material system failure" as a system wide stoppage of service caused by a failure of our trading engine. On the other hand, an incident in which a subset of institutional clients or dealers lose connectivity due to network errors while other participants continue to utilize the service would be an example of a *non-material* system failure.

Again, CanDeal appreciates the opportunity to comment on these proposed rules. I will endeavour to follow up with the recipients as we believe that constructive dialog on these issues may lead to more effective legislation.

Kind Regards,

Aubrey Baillie
CFO & CCO, CanDeal.ca