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Toronto, Ontario, Canada M5A 1J4

July 7, 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 National Instrument 23-103 Electronic Trading and Direct Electronic Access to Marketplaces and its related companion policy

Dear Mr. Stevenson and Me.Beaudoin:

<u>Introduction</u>

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 this proposed National Instrument.

The Request for Comment document cites dramatic change in the equities markets as the raison d'être behind this rule. The evolution of Canadian equities markets, into a fully electronic market with a large component of fully automated trading, including multiple interconnected marketplaces has created a situation where the "flash crash" scenario of May 2010 or other undesirable events are possible. It seems prudent on the part of regulators to propose measures to limit the new risks presented by these circumstances.

CanDeal's position is that NI 23-103 makes logical sense for the equities markets but is not appropriate for a fixed income ATS such as CanDeal and is in fact detrimental to transparency and other positive developments associated with electronic trading of OTC fixed income markets.

CanDeal's Market

CanDeal is a unique participant in the Canadian ATS markets. Unlike other ATS's, CanDeal was designed to replicate telephonic trading methodologies while leveraging the efficiencies, transparency and oversight capabilities made available through the electrification of the OTC debt markets. CanDeal submits that its trading methodology and systems are not subject to the risks outlined in the NI. The RFQ model allows CanDeal to provide its participants with an open, optimally transparent and efficient trading facility available to all institutional customers. In the CanDeal model, each participant is aware of the identity of the counterparty to every trade, eliminating unknown counterparty risks and the possibility of sub-delegation. 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 exceeds that offered in the equity marketplaces.

Furthermore, CanDeal's systems allow each user to have a maximum of one RFQ in the market at a time. A trade must be completed between a dealer and an institutional client before that client can launch another. This control limits the extent to which automation can get out of hand and eliminates the possibility of extreme imbalances (a "flash crash" type of event) in our market.

CanDeal's DEA clients

The vast majority of DEA clients in the equity markets are dealers or registered investment advisors, both classes of market participants fall under IIROC or CSA jurisdiction. Conversely, CanDeal's clients are institutional investors; a large portion of which are organizations not under the jurisdiction of Canadian financial regulators and many of whom operate their businesses outside of Canada. CanDeal respectfully submits that in light of CanDeal's RFQ model and the differences between its clients and typical DEA clients, it is inappropriate for the rule to apply to activity on its marketplace.

Arbitrage and the loss of transparency

CanDeal does agree with the authors of NI 21-103 that there is a risk of arbitrage although not in the way conceived in the Request for Comment. Applying this type of rule to a fixed income ATS (or any ATS trading exclusively in OTC securities) where there still exists a viable, unregulated and opaque telephonic market will surely lead to a migration of the institutional client base back to telephonic trading.

As mentioned at the outset, CanDeal developed fixed income trading protocols and technologies which support increased liquidity and lower risk for OTC markets, in an optimally transparent manner. The CanDeal type of trading model is supported in many countries as an advancement in controls and transparency and, in the case of OTC derivatives markets, may soon be one option for mandated trading protocols. Although the proposed rule will no doubt drive forward market integrity efforts in the equity markets, we believe this type of rule applied to the fixed income ATS markets will have the opposite effect as clients and trading volumes migrate from transparent ATS's back to the phone.

CanDeal requests that the CSA consider an exemption to this proposed rule for fixed income marketplaces like CanDeal and furthermore that the CSA consider an exemption generally for ATS's trading exclusively in OTC market securities.

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 will lead to more effective legislation.

Kind Regards,

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Aubrey Baillie
CFO & CCO, CanDeal.ca