September 19, 2014

<u>DELIVERED VIA EMAIL</u>
The Secretary
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Me Anne-Marie Beaudoin
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Dear Sirs/Mesdames:

Tradebot Systems, Inc. ("Tradebot") appreciates the opportunity to comment on the CSA's proposed amendments to National Instrument 23-101.

Tradebot is a proprietary trading firm based in Kansas City, MO. While we have only been active in the Canadian equity markets since 2008, we have been involved in electronic trading in the U.S. since 1999. Our experiences in the US and Canada over the last 15 years give us insight into many market microstructure issues. We feel these insights may be beneficial in helping further the debate on many of the issues currently facing the Canadian equities markets. We hope the following comments, while not specifically addressing the questions in the proposal, help guide discussions on developing a more complete proposal.

1) With respect to the threshold at which a market receives order protection, we would prefer to see a threshold level of 2% instead of 5%. The other proposed changes to trading and market data fees should address the "captive consumer" issue detailed in the proposal. The other cost issue that the industry is concerned about is related to the resources required to connect and certify; a 2% threshold should still give IT departments plenty of foresight with respect to when to schedule the connectivity and certification.

2) We think measuring every 6 months to be protected is appropriate, and then allowing 3 months for connectivity. We also like the idea of having a lower threshold or a longer measurement period to lose protection.

3) Both of the comments above err on the side of more protection instead of less. Competitive marketplaces have helped lead to significant cost savings, better technology, and more innovative products. We should always err on the side of promoting more competition.

4) With respect to the trading fee cap, while outside the scope of this proposal, we believe that the cap should apply to trades in the opening and closing auctions. Due to the benchmark nature of these products, the auctions are not subject to competition from other marketplaces. This strikes me as an important place for a regulator to exercise their authority on pricing control.

5) In general, we think a strong argument could be made that passive order flow deserves some type of compensation based on the benefits it provides to the market:
   a. A passive order on the book adds to price discovery that the entire market benefits from
   b. A passive order on the book is a "free option" for the entire market to trade against
   c. A passive order on the book transmits information about the sender's intentions to buy or sell a security

   Currently, a main source of compensation for a passive order is the rebate. The rebate is tied to executions, which is a nice way of recognizing the value in items a) and b) above. To the extent a passive order doesn't provide any value to the market in the form of price discovery or optionality then it won't trade and therefore won't get a rebate. Other standard forms of compensation for passive orders are: 1) order protection, which would be harmed by this proposal; and 2) execution priority, which is harmed by the existence of broker preferencing and market maker participation rights on several markets in Canada, allowing other orders to "jump the queue".

   Passive orders are one of the only forms of pre-trade price discovery and this proposal seeks to reduce their benefits. If the CSA wants to do a pilot where it eliminates rebates, then I would encourage the industry to contemplate other forms of adequate compensation for passive orders. I have heard many participants express frustration about not being able to access the quotes on their screen; if implemented as proposed, there will certainly be fewer quotes on the screen to access.

6) Many people have argued that the myriad of pricing schemes is just a way to accomplish sub-penny pricing. To a proprietary trading firm this is the net effect, however, as you are well aware, to a broker/dealer handling a customer order this is not necessarily the case. The price of the trade that gets passed back to the customer is not the net price of the trade, and this is where conflicts of interest arise. If routing conflicts are seen to be an issue, IIROC has the authority to address this issue under their current rule book.

   If discussion is primarily related to addressing those conflicts of interest, we would prefer that regulators directly address minimum tick increments, both increasing and decreasing the minimum tick where appropriate.

7) We are supportive of transparent, simplified, and appropriately-priced access to market data.

8) We commend the CSA for its progressive actions on policy making over the last several years. And we certainly understand the rationale for some of these proposed changes. However, we would encourage the CSA to move in a measured fashion on some of these issues, as the effects of unintended consequences are real (see U.S. market evolution post-Reg NMS). The benefit of the pilot study is that it allows you to do an experiment before jumping head first into a policy that may

have significant, long-term unintended consequences. That being said, the pilot must designed in such a way that will yield accurate results that can be used in policy formation, so we would encourage working with both academics and practitioners to design the pilot study.

Again, we appreciate the opportunity to provide our thoughts on this important proposal and would be happy to provide additional feedback.

Respectfully,

Andrew O'Hara
Vice President

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