May 13, 2019
Delivered Via Email

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Delivered to

The Secretary
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IIROC
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Dear Sirs/Mesdames,

RE: Joint CSA/IIROC Consultation Paper 23-406 Internalization within the Canadian Equity Market

We are writing in response to CSA Consultation Paper 23-406. We are appreciative of the opportunity to comment on this topic.

Internalization of trades is a complex topic that refers to two different actions. Internalizing trades refers to principal trading against large orders to minimize the trades effect on the market. Internalizing trades also refers to broker preferencing by matching orders (internal cross) within the brokers order book before any residual order is released to the market. Internalizing large orders is positive to the market because large orders can affect the market adversely. Broker preferencing is negative to the market, and our comments focus on how broker preferencing negatively impacts clients at independent firms.

Broker preferencing negatively impacts immediacy, fairness, and the integrity of the marketplace. Investor trades are not being filled even though they have price and time priority. Orders can be 'traded around' entirely through broker preferencing; for example, the market can advance and retreat past the price a client bids or asks because a cross can occur at a large dealer that utilizes broker preferencing. Broker preferencing negatively impacts investors because it impacts the immediacy of orders in the market. Broker preferencing is unfair to investors because it does not allow investors an opportunity to trade when they have price and time priority. This is not a question of common good versus best interest, this is a question of whether its acceptable to provide priority to investors based on the Dealer they trade through.

Large dealers have mentioned that eliminating broker preferencing may cause larger dealers to attempt to find a way to mirror broker preferencing by trading on alternative markets or using algorithms. This is not a reason to maintain broker preferencing, rather this illustrates that broker preferencing is not necessary since large dealers can reproduce the benefits of broker preferencing without an internal cross. This argument shows that broker preferencing is not about the investors best interest, but rather cutting Dealer costs. Broker preferencing creates an uneven playing field that negatively impacts the integrity of the marketplace by providing an un-warranted advantage to one group of clients over another.

We strongly suggest broker preferencing be eliminated. Additionally, Dealers who automate the internalization of small trades should be considered a market and as such be required to provide access to their market and should be required to adhere to the same regulatory requirements markets adhere to. Eliminating broker preferencing preserves market integrity.

We appreciate the opportunity to comment on this proposed rule change. If you have any questions or further inquiry, please feel free to contact us.

Sincerely,
Jason Jardine, CPA, CA
Manager, Regulatory & New Initiatives
Leede Jones Gable Inc.