



The Secretary
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Me Anne-Marie Beaudoin - Corporate Secretary
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Dear Sir/Madam:

Desjardins Securities thanks you for this opportunity to comment on the joint CSA/IIROC Consultation Paper 23-406 – Internalization within the Canadian Equity Market. We are supportive of issues raised in the Consultation Paper and appreciate the complexities that currently exist within our industry. Various dealers, with different corporate objectives, are key players in our market, therefore, we feel this paper will give everyone an opportunity to comment/suggest concepts to better our markets and create an equilibrium amongst everyone.

As illustrated in the paper, Desjardins is supportive and agrees with the listed market attributes as being very relevant. They are the most important mechanisms for a sound and solid market. As we are all subject to a multiple market structure in Canada, we therefore need to ensure a sound and efficient market for our investors. Fairness and market integrity should be looked at with greater importance. As previously mentioned, creating an equilibrium amongst the players will only strengthen our market.

The magnitude of internalization in Canada is of great concern to the majority stakeholders as internalization has a direct impact to market quality. Desjardins understands that sufficient size client orders could be facilitated (CLT vs CLT or facilitation cross) as much as possible to minimize market impact, known as intentional cross. The paper mentioned a second type of cross as unintentional, referred to as broker preferencing, which in our mind needs to be re-evaluated to create a better equilibrium for all players participating with order flow.

The consultation paper often refers to the importance of Retail Orders and how they are imperative to our market places. The paper states *"It is clear that retail orders have value to a variety of market participants, and a great deal of resources have been expended by various industry stakeholders to create ways to extract this value to the benefit of some, but not necessarily all."* What is striking in the phrase is *"...various industry stakeholders to create ways to extract this value..."* This comment is of great concern that is echoed by everyone.

Desjardins believes that broker preferencing is not a total detriment to the current market structure. This is where an equilibrium can be improved. Order exposure rule stresses in routing all orders of 50 standard trading units to a market place, Desjardins believes that these same orders should simply trade directly with the top of the book and not be eligible for broker preferencing. Orders of quantity greater than 50 trading units can trade as broker preferencing and therefore creating an equilibrium amongst all participants. In order to achieve this outcome, dealers would not withhold or delay the orders in order to circumvent the rule.

For years the Canadian market has been trading in a FIFO (first in first out) format. The proposal of 50 lots not eligible for broker preferencing would now give a greater value to the orders who did initiate the best bid/ask.

Thank you for the opportunity to comment on the joint consultation paper. We support this initiative given that it could help the overall Canadian market structure. We would be more than pleased to discuss in further detail this comment letter at your convenience.

Sincerely

Desjardins Securities