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Dear Mr. Twiss:

Re: Proposed Guidance on Marketplace Thresholds (the "Proposed Guidance")

The Investment Industry Association of Canada (the "IIAC" or "Association") appreciates the opportunity to comment on the Proposed Guidance. The Association generally supports the content of the Guidance; however we have a number of questions and concerns as noted below.

In the pre-amble to the Proposed Guidance, there is a statement that brokers should take into account the 10% price movement threshold in setting their order parameters in any automated order system. This is impractical and unnecessary, given that this is a process undertaken at the exchange level. Given that bands change at the open and close of trading for different symbols, and as such the 10% threshold does not apply to all securities at all times of the day, requiring brokers to monitor and program for this on a time of day and per day basis would be extremely complex. Exchanges are in a much better position to undertake this task, and imposing a similar requirement on brokers is unnecessary and costly. In addition, the outcomes would be inconsistent and disorderly as standards, processes and latency among brokers may differ in respect to when orders are rejected or accepted, making an accurate assessment of whether the 10% threshold will be triggered virtually impossible. Although dealers have controls to prevent erroneous orders from being entered, the imposition of a dealer responsibility with respect to market thresholds is much more nuanced and would introduce a new level of risk to dealers attempting to comply.

We also note that IIROC does not deal with the 10% threshold in a consistent manner. There have been many circumstances where in its discretion; IIROC has found it appropriate to permit price movements beyond 10%. As such, it is very difficult for dealers to anticipate when the triggering event will actually take place, as the 10% threshold is not strictly applied at the regulatory level. Requiring dealers to program their systems at this level may prevent certain bona-fide trades from taking place, which does not contribute to market confidence or integrity.

Given that IIROC has discretion to re-price erroneous trades to levels that are beyond 10%, broker-dealers should also be allowed to submit orders that are beyond 10%, as there are times where a reasonable price exceeds the 10% move.

If marketplace thresholds are in place, and dealers have appropriate controls to prevent erroneous trading, risk is minimized. IIROC also has the authority to examine trades and make rulings should a problem trade occur that does not trigger the marketplace threshold or the dealer's systems.

Response to IIROC's Specific Questions

1. **IIROC is proposing that the implementation date be at least 180 days following the publication of the final Guidance. Is this time period adequate or too long? Are there any specific considerations which IIROC should take into account in establishing an implementation deadline?**

   The appropriate implementation period will depend on the approach of the marketplaces. It is difficult to assess what actions and resources will be required until the marketplaces disclose how they intend to proceed. Given the implementation of the TSX Quantum system this summer, followed by the TSXV implementation in the fall, we estimate that a summer 2015 implementation is appropriate.

2. **The Proposed Guidance would require marketplaces to take account of a series of stop-loss orders for a particular security that are held by the marketplace for processing which have been triggered at the same time or in succession over a very short period of time. Are there any other types of orders that marketplaces should be specifically required to take into account in the design of their Marketplace Thresholds?**

   The stop-loss order appears to be the only relevant order that would be applicable to the Marketplace Thresholds.

3. **Given the infrequency of trades in many of the securities not covered by a SSCB is such that the measurement of price movement over a short period of time is extremely problematic, IIROC has suggested that any Marketplace Threshold for these securities may be measured on price movement from the last sale price or the closing price on the prior trading day. IIROC has also suggested that any Marketplace Threshold for these securities might trigger at a price level which is in excess of the percentages and increment movement that would trigger a SSCB. Should IIROC allow marketplaces to have discretion to design their Marketplace Thresholds for these securities or should IIROC establish a lower limit at which the Marketplace Threshold should be triggered? If a limit is to be established, what percentage price movement or increment movement would be appropriate?**

   We are concerned that permitting marketplaces to design their Marketplace Thresholds for securities not covered by a SSCB may result in policy decisions that are based on the economics of the marketplace, rather than in the best interest of the market in general. Marketplaces may set different thresholds, and implement different filters, parameters, and processes leading to different outcomes (eg: re-pricing or cancellation) for the same securities on various marketplaces. Inconsistent standards among marketplaces may skew trading behavior, and will lead to uncertainty as to where particular orders stand, in terms of whether there has been a full trade, a partial trade, re-pricing or a cancellation. Market integrity is better served where there is consistency, so participants understand what will and has happened with their orders when thresholds are triggered.

   In addition to the market integrity concerns, permitting marketplace discretion in this realm will increase the complexity and cost to the industry in respect of programming order routers to properly manage all of the different thresholds, parameters and outcomes of each marketplace.

   Any benefits of marketplace competition in this respect are far outweighed by the complexity and costs of customization, and the elements of uncertainty this introduces into the trading environment. In order to ensure the market interest is represented and there is consistency in application, we believe IIROC should be responsible for setting uniform thresholds and processes in respect of freeze mechanisms and order reject processes.

4. **The Proposed Guidance would require each marketplace to publicly disclose an outline of the functionality of its Marketplace Thresholds. Are there any additional specific items that a marketplace should address in the public disclosure?**

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The disclosure should clearly articulate what a marketplace will do with an order (eg: reject, re-price, partial fill) when it triggers the threshold. Disclosure should include the full mechanics of the process, and should be subject to public comment if an exchange wishes to change its methodology.

5. **The Proposed Guidance would not require a marketplace which is a "dark pool" to adopt Marketplace Thresholds based on the limitations currently in place on the execution of Dark Orders. (See section 4.3.2, Application Limited to a "Protected Marketplace"). Are there any circumstances that would justify the extension of the requirements for Marketplace Thresholds to non-protected marketplaces?**

   The Marketplace Thresholds should apply to non-protected marketplaces, including dark pools, in order to avoid inconsistent trading behavior. For example, any lit venue that also has dark orders resting in their book (eg: TMX) would be expected to prevent their dark orders from executing outside the marketplace thresholds. If fully dark pools are excluded from the marketplace threshold rules the application of the rule to dark orders would be inconsistent.

   In addition, all matching engines that accept 'market priced' orders should be required to have safeguards in place to prevent erroneous matching prices. This should include dark pools. If this were not the case, it is foreseeable that a dark pool could continue to generate erroneous matching prices while lit venues are prevented from transacting due to marketplace threshold parameters. Note also that it is common practice for brokers to flow their orders through dark pools before routing to the displayed markets.

   Technical complexity should not be a concern as we believe dark pools are already processing all of the information in real time that would be necessary to implement marketplace thresholds: national best bid/ask/last trade, symbol and market status (halted, primary market frozen, etc.)

6. **IIROC has endeavoured to structure the Proposed Guidance on Marketplace Thresholds such that its implementation would have minimal technological implications for Participants, Access Persons, the information processor, service providers and IIROC. Has IIROC achieved this objective? If not, what suggestions might we consider to better achieve the desired result?**

   As noted above, in order to achieve the objectives noted above, it is critical that there be consistency and uniformity in its application.

7. **The Proposed Guidance would allow each marketplace to establish its own Marketplace Thresholds which are most appropriate to the type of trading undertaken on that marketplace; the alternative would be some degree of**

harmonization. One of the perceived benefits of harmonization would be greater predictability. However, given that the Proposed Guidance includes measures to reduce the risk exposure of Participants and Access Persons arising from “frozen” and “rejected” orders (see section 4.2.2), would this benefit justify the potential costs of harmonization (which could require marketplaces, Participants and Access Persons to modify their systems to base their actions on a common data source)? Are there other benefits to harmonization?

See 3. above

8. **The Proposed Guidance would not require marketplaces to include volume controls in their Marketplace Thresholds, given the existence of controls which each Participant or Access Person must have in place to monitor not only the credit position of clients but the capital position of the Participant or Access Person. Would there be any reason to require volume controls on orders at the marketplace level if the orders are not having an impact on market prices?**

   Volume controls are currently implemented at the dealer level, so there is no need to implement them at the marketplace level.

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

Susan Copland