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March 1, 2019

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

Re: CSA Staff Notice and Request for Comment 23-323 -Trading Fee Rebate Pilot Study (“Proposed Pilot”)

The Investment Industry Association of Canada (the “IIAC or Association”) appreciates the opportunity to comment on the Proposed Pilot.

We believe it is a worthwhile exercise to study the effects of the prohibition of rebate payments by Canadian marketplaces, and ensure any proposed policy relating to trading fees is based on empirical data. Our members view this as a useful opportunity to improve the markets via a reduction of fees, if the data supports this outcome.

From a practical standpoint, in order to minimize market disruption and create a comparable data set, we support timing the Proposed Pilot to run concurrently with the Proposed SEC Transaction Fee Pilot. Members agree that there is merit to conducting a separate Canadian Pilot, owing to the key differences

between the markets, such as internalization in the U.S. and broker-preferencing in Canada, that may affect dealer routing decisions. Understanding the differences and similarities between the systems, and the way in which they interact will assist in the development of an effective regulatory response, targeted to the Canadian context. If possible, members would like to ensure that the Proposed Pilot ensures that the differences in the marketplaces between US and Canada are specifically analyzed in designing and measuring the outcomes of the Proposed Pilot.

Although the IIAC advocates conducting the Proposed Pilot in tandem with the US, if circumstances arise where the US Pilot is significantly delayed or cancelled, members support undertaking the non-inter-listed Canadian element of this Pilot.

Questions for Market Participants

1. We propose to define a security as medium-liquid if it trades at least 50 times a day on average and more than \$50,000 on average per trading day over the past month. Do you believe that this definition is appropriate? If not, please provide an alternative definition and supporting data, if available, to illustrate which securities your definition captures.

This definition of a medium-liquid security appears to be reasonable for the purposes of the study, however, members questioned how the numbers were chosen. In addition, certain members suggested that the definition should possibly consider the exchanges on which the security is listed, as well as the type of security.

2. We propose to introduce the Pilot in two stages, with non-inter-listed securities first, followed by inter-listed securities. Do you believe that such staggered introduction will cause material problems for the statistical analysis and the results of the Pilot? If so, please describe your concerns in detail.

Members expressed concern with the two-stage, staggered introduction of securities into the Proposed Pilot. We understand the reasoning that a market event may skew the entire set of results in a one-stage Pilot, however, some members indicated that should this happen, it would skew the results so that the comparability of the data sets would be compromised. Although the data sets of domestic and inter-listed securities have different characteristics, Canadian-only listed securities are not completely independent of market events that affect inter-listed securities. Running a one-stage Pilot would ensure the variables apply to both data sets equally, leading to more consistent data.

In addition, a one-stage Pilot would facilitate a simpler implementation.

3. Several Canadian marketplaces offer formal programs that reward market makers with enhanced rebates in return for liquidity provision obligations. On the one hand, such programs may benefit liquidity. On the other hand, one of the primary objectives of the Pilot is to understand if rebates cause excessive intermediation. In your opinion, should exchanges be allowed to continue using rebates or similar arrangements for market making programs during the Pilot? Do you believe any constraints on such programs during the Pilot to be appropriate?

Members agreed that the Proposed Pilot should create an environment where the controlled behavior is uniform among test participants. There should not be any exemptions for existing market makers, as the results would not reflect a state where rebates are not used for compensation. Confounding the results by having too many variables will hamper proper evaluation of the cause and effect relationship between the rebates and trading outcomes.

4. We propose to compute price impacts at the one- and five-second horizons. Do you believe that we should consider other horizons? If so, which ones?

Members defer to the expertise of the data scientists and academics in respect of this question.

5. We propose to compute time-to-execution for limit orders posted at the CBBO prices or improving these prices. Do you believe that we should consider different price levels? If so, which ones? Please provide supporting data and analysis, if available, to demonstrate the empirical importance of order postings at other levels.

Members support using the CBBO as a consistent metric to compute time-to-execution.

6. We propose a number of market quality metrics. Do you believe that we should consider additional metrics? If so, please outline these metrics and provide supporting data and analysis, if available, to demonstrate their empirical importance.

Members defer to the expertise of the data scientists and academics in respect of this question.

7. We have had extensive discussions with a number of market participants on whether to include exchange-traded products (ETPs) in the Pilot, and some participants suggest that such an inclusion is warranted. Nevertheless, others point out that trading characteristics of ETPs are substantially different from those of corporate equities and including ETPs will present significant challenges in the matching stage and will likely confound the results in the analysis stage.

As such, in relation to ETP inclusion, we ask that market participants consider the following questions: Given the challenges that ETP matching presents, can the goals of the Pilot be achieved without including ETPs in the sample? If ETP inclusion is important, can you propose a way to construct a matched sample that addresses the concerns identified above?

We agree with the conclusion to exclude the ETPs in that the trading characteristics significantly differ from corporate equities, and as such, will create “noise” in respect of the results of the data. The data that may be obtained from including such products are likely not worth the degradation of the data in respect of the corporate equities.

Despite excluding the ETPs from the Proposed Pilot, we support them being subject to any rule that results from the Proposed Pilot. Any rule resulting from the Proposed Pilot should apply to all securities.

Practical Considerations

In addition to the above issues discussed above, members noted a number of practical considerations that should be addressed in implementing the Proposed Pilot.

In respect of the setting for Smart Order Routers (“SOR”), for this testing to yield accurate results, the participants must be able to have and implement different routing methods with the selected symbols. Some trading platforms are unable to support two SOR settings. If participants are unable to adjust the SOR for the selected symbols, the results may not be accurate, as it will show no change in behavior from the retail/Capital Market activity. The passive posting method may not change if the active flows do not adjust.

The shorter the lead-time to the Pilot, the less ready firms will be. It is likely that some firms will not be ready for the start of the Pilot and will make changes over time. As such the first week/month(s) may not be representative of realistic market behaviour due to lags in technology adjustments.

The additional cost to industry of the Pilot approach rather than simply making a rule change may be needed specifically to be built into the Pilot structure.

Thank you for considering our comments. If you have any questions, please don't hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Copland', written in a cursive style.

Susan Copland