INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÉRES

Susan Copland, B.Comm, LLB.
Director

James E. Twiss
Vice-President, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000 – 121 King Street West
Toronto, ON M5H 3T9
jtwiss@iiroc.ca

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Dear Mr. Twiss:

Re: Request for Comments on Marketplace Thresholds

The Investment Industry Association of Canada ("IIAC") appreciates the opportunity to comment on the above noted proposals. We generally agree with the guiding principles articulated in the Notice, however, we have a number of questions and concerns as noted below.

Our responses to the specific questions articulated in the Notice are as follows.

1. **As a result of recent experience in the U. S. with "erroneous trades" triggering Single-Stock Circuit Breakers, a number of commentators in the U. S. have suggested that standardized "limit up-limit down" volatility parameters be implemented at the market centre level. If adopted in the U.S., would there be a need for similar or "uniform" Marketplace Thresholds in the context of the Canadian market? In particular, would "uniform" Marketplace Thresholds be able to adequately take account of differences in trading patterns between large- and small-capitalization issuers on Canadian marketplaces?**

   Although the multiple marketplace environment in Canada can operate to benefit stakeholders, in certain cases, the existence of different standards creates inefficiencies, and, in matters involving regulatory integrity, can result in opportunities for regulatory arbitrage. In respect of establishing Marketplace Thresholds, it is important to have uniform standards to ensure that opportunities do not exist for erroneous trades to trade on one marketplace after being halted on another.

In respect of implementing US style limit up-down rules for single securities in Canada, our members have different perspectives. Certain members believe that the complexity of such a proposal will make it difficult for all but the most sophisticated market participants to understand. In terms of the actual operation of the limit up-down rule, they are concerned that allowing trading to take place only at the limit or better during a period after the security moves more than 5% from its Reference Price, may lead some investors to unknowingly trade securities during a limit state when there is legitimate news moving the security. Once the limit state is lifted, the stock may then move higher or lower to its new natural state. Those members believe that if a stock moves significantly in a short period of time, that trading be halted to avoid confusion.

Other members are of the view that a limit up-down approach reduces volatility, as trading would not be halted due to incidents such as a fat finger error. If trades outside specific parameters are prevented, many anomalous trades would not occur, which would reduce market disruption. If the limit up-down threshold is published continuously, it could be programmed into smart order routers which would reduce false alarms, as it would minimize trading that unintentionally exceeds volatility limits. Further, the members have indicated that such an approach would be less disruptive to ATS activity. They note that a trading pause would draw ATS orders away to TSX to participate in a re-opening trade. Given that most ATSs have no opening call market, a trading pause would be disproportionately disruptive to ATS orders.

2. **Should all marketplaces be required to adopt a form of "Marketplace Thresholds"? Should a marketplace that is not a "protected marketplace" be exempted if executions on that marketplace cannot occur outside of the spread between the "best bid price" and "best ask price"?**

   It is important that all marketplaces adopt the Marketplace Thresholds to provide consistency and predictability in the general market. As noted above, the controls should be uniform to ensure orders are not subject to a freeze on one marketplace while trading on another. Non-protected marketplaces should not be exempted from this requirement. However, in situations where executions cannot occur outside the spread between best bid and best ask price, it may be appropriate to allow for an exemption of the requirements.

3. **If marketplaces are allowed to adopt their own version of Marketplace Thresholds, are the "Suggested Guiding Principles" (set out in section 4 of this notice) appropriate? Are there are additional principles which should be considered?**

Given our position that Marketplace Thresholds should be as consistent as possible, we believe that the Suggested Guiding Principles are not sufficiently specific or binding in order to be effective. As such, we believe that the relevant regulation contain uniform requirements to freeze or reject orders at the same levels across all marketplaces.

4. If marketplaces are allowed to adopt their own version of Marketplace Thresholds, should:

(a) "freeze parameters" be required to provide for order cancellation during the period of the freeze (such that liquidity does not get "trapped" on a marketplace or "taken advantage of" on the lifting of the freeze in a rapidly moving market)?

We believe the regulation should apply to all marketplaces and that freeze parameters should not cause participants to cancel orders, and also should not prevent other orders from being cancelled. Participants should be able to cancel orders that are in the queue so that subsequent intervention is not necessary.

(b) "freeze parameters" be required to provide for order entry during the period of the freeze (so that any additional liquidity would have an opportunity to enter and stabilize prices)?

We would support this provision in the regulation.

(c) "freeze parameters" be limited as to how long they may be in effect for a particular security (to provide greater certainty to marketplace participants)?

We would support this provision in the regulation, however, it is important that marketplaces notify the PO if there is a time limit. Our concern is that without such notification, erroneous trades could be released upon expiry of the time limit.

(d) "rejected orders" be required to carry a message as to the reason for rejection so that the order could not be automatically re-routed to another marketplace without intervention from the Participant or Access Person who entered the order?

This is necessary to inform POs about why an order is rejected so that they can take the appropriate actions in respect of any remaining portion of the order.

Suite 1500, 701 West Georgia Street, Vancouver, BC V7Y-1C6 Tel: 604-637-1677 Fax: 604-801-5911

5. **How should "directed action orders" be treated under Marketplace Thresholds? [25] Should the obligation to ensure that the order is "acceptable" (e.g. the execution price would be below the volatility parameters of the marketplace on which the order is entered and below the threshold for regulatory intervention by IIROC) be borne by the party that marked the order as a "directed action order" (whether that be the Participant or Access Person that entered the order or the marketplace that marked and re-routed the order pursuant to the Order Protection Rule)?**

   Directed Action Orders should not be treated differently than other orders in respect of the application of Marketplace Thresholds. We are not aware of any reason that would make it appropriate to exempt marketplaces from their responsibilities to detect and/or prevent erroneous trades in respect of this type of order.

6. **What types of orders should be covered by Marketplace Thresholds? Should they cover all orders:**

- **entered on a marketplace;**
- **that on execution would establish the "last sale price" (thereby excluding: Basis Orders; Call Market Orders; Closing Price Orders; certain Special Terms Orders and Volume-Weighted Average Price Orders); or**
- **that would establish the "best ask price" or "best bid price" (thereby excluding orders that do not establish the "last sale price" together with Opening Orders and Market-on-Close Orders)?**

   All orders should be covered by Marketplace Thresholds

7. **The proposed National Instrument 23-103 contemplates that a regulation services provider may establish both "price and volume thresholds". If an order would have a significant impact on the market price beyond the threshold established by IIROC, Marketplace Thresholds would be expected to preclude the execution of the order. If an order would not have a significant impact on the market price on execution, should Marketplace Thresholds limit or preclude the ability of such order to trade simply because of the size of the order?**

   Marketplace Thresholds should be comprised of both price and volume parameters. Crosses, however should be excluded from Marketplace Thresholds, as such orders do not have market impact given that they do not generally interact with other market orders. In the event that a cross would have an impact on market pricing, UMIR has specific provisions to deal with that situation.

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8. **Should Marketplace Thresholds be more flexible during periods of "natural volatility" (e.g. in the twenty minutes following the regular opening and for the last thirty minutes before the close of regular trading, being the periods when the Single-Stock Circuit Breaker would not be triggered)?**

   We believe that there should be consistency in respect of the Marketplace Thresholds, and that they should not vary throughout the day, unless the thresholds provided for wider variance during such periods.

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

Yours sincerely,

Susan Copland