



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**

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**Market Regulation Branch Ontario Securities Commission**

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And:

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**Re: Tradelogiq Markets Inc. –Lynx ATS – Notice of Proposed Changes and Request for Comments**

The Canadian Security Traders Association, Inc (CSTA). is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 members nationwide, and is led by Governors from each of four distinct regions (Toronto, Montreal, Prairies and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by CSTA representatives with various areas of market structure expertise. It is important to note that there was no survey sent to our members to determine popular opinion. The views and statements provided below do not necessarily reflect those of all CSTA members or of their employers.

The CSTA appreciates the opportunity to comment on the proposed changes to the Lynx ATS:

- Creation of a latency sensitive trader (LST) definition
- Introduction of a speed bump
- Proposed fee change

Lynx is proposing the creation of a latency sensitive trader (LST) definition that would apply to proprietary traders and direct electronic access clients of dealers using automated order systems and co-location strategies.

Lynx is also proposing the creation of a discriminatory, asymmetric speed bump on orders that originate from LST trader IDs. A speed bump of 1-3 milli-seconds would apply to all orders, change former orders and cancelations. The speed bump would not apply to post-only orders or any changes applicable to post-only orders.

Taken together, the LST definition combined with the speed bump effectively creates a mechanism that is both discriminatory and asymmetric in its application.

The mechanism is discriminatory because it would apply to some market participants (e.g. LST trader IDs) but not other participants. As proposed, LST traders that take liquidity are subject to the speed bump and will have their orders slowed down. Non-LST traders are not be subject to the speed bump and can trade without being slowed down. While we do not believe such discriminatory order handling practices by a marketplace are ideal, we also do not believe they are unreasonable. Unreasonable discrimination would include any discriminatory act based on an inherent characteristic, rather than a behavior, that is not possible to change. There is nothing inherently immutable about being a fast or LST trader. Anyone can choose to trade fast or slow, to use co-location facilities, to have high order to trade ratios, or to use post-only order types. Thus, we believe the discrimination practice here is reasonable and we do not see any fair access concerns.

The mechanism is asymmetric because the speed bump applies to orders that take liquidity and not to orders that provide liquidity. As proposed, orders that provide liquidity using the post-only order type would be exempt from the speed bump. Such asymmetry gives fast traders who provide liquidity the option to cancel their order if market conditions are changing quickly (e.g. the BBO on away marketplaces moves). Said differently, the Lynx speedbump allows liquidity providers to back away from trades that have a high probability of adverse selection.

The proposal suggests the benefits of such a mechanism would exceed the costs. Such benefits may include larger quoted size, narrower bid/ask spreads and less latency arbitrage, according to the document. We believe that they are probably right; but we request that Lynx commit to tracking these expected benefits as they are achieved with a view to reporting the results back to the street. This would enforce some accountability to what is, in some of our constituents' views, live experimentation with Canadian equity market structure.

While it is more difficult to measure, we would agree with the data cited in the proposal suggesting there is an economic inefficiency resulting from the technological arms race enabling faster and faster trading. However, we want to ask, is it the role of a marketplace to apply such discriminatory, asymmetric mechanisms and to effectively influence trading outcomes by picking winners and losers?

Regarding the segmentation of order flow, in the past, the CSTA has resisted any attempt to further segment retail orders away from the consolidated marketplace. Our position has not changed. All else equal, treating retail and institutional orders differently seems unreasonable. Indeed, we believe markets are efficient because they incorporate a diversity of orders, prices and opinions. Thus, we are

disappointed to hear the proposal acknowledging the new Lynx ATS will further increase the degree of retail segmentation.

Regarding the proposed fee change, we request further information on the magnitude and scope of the fee change. If Lynx is proposing an inverted fee structure, we note that inverted, taker/maker marketplaces don't tighten bid/ask spreads for all participants; rather inverted marketplaces only tighten spreads for those who earn the take rebate. We also note that the combination of a discriminatory, asymmetric speed bump *combined with* an inverted fee structure is likely to further exacerbate the degree of retail order segmentation. We feel that some further clarity around pricing structure would be important for stakeholders to correctly evaluate this proposal.

The CSTA is mindful of our collective interest to protect and preserve a Canadian equity market that is fair and efficient. We are deeply aware that not only is there no single path toward this goal, even if there were it is unlikely that a single group of stakeholders would know the way. Instead, the CSTA believes it is better to create a regime that allows for individual marketplaces to innovate, compete for order flow and if necessary, even fail. Indeed, within reason, the invisible hand ought to dictate what business models succeed and what business models fail. Given the new Lynx ATS will be an unprotected marketplace, we believe the scope of the proposed changes is narrow and the risk of any negative unintended consequences is low. Thus, while we are not enthused with the proposal purely based on the likelihood of further retail segmentation, we also do not see any negative systematic risks to the broader trading ecosystem. In the absence of such risks, we believe the proposal is safe enough to try.

We thank you for the opportunity to comment. Please feel free to contact any of the CSTA Trading Issues Committee leads if you have any further questions or wish to continue the discussions.

Canadian Security Traders Association, Inc. (CSTA)  
Trading Issues Committee (TIC)