CANADIAN SECURITY TRADERS' ASSOCIATION, INC.
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Ontario Securities Commission

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RE: Lynx ATS Periodic Matching

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 Trading Issues Committee (TIC) 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 TIC appreciates the opportunity to comment on the proposed amendments and request for comment regarding Lynx ATS Periodic Matching. We are supportive of the Lynx ATS Periodic Matching

proposal with a few important caveats surrounding the consideration of a freeze period and a randomized match and a slight modification to the EOC final turn pricing. Conceptually, we are uncomfortable with a marketplace holding a matching event that is dependent upon a previous matching event and occurs at a superior price.

Periodic auctions and speedbump marketplaces both favour passive traders. Conceptually, both mechanisms delay the aggressive order and benefit the passive order; one mechanism simply delays the matching event, while the other mechanism delays the contra order.

As proposed, all shares will not necessarily execute at the same price, but the prices realized during a match event should be constrained by the protected NBBO. This is a novel approach. DAY orders will only interact with spread crossing IOC/EOC orders and not other DAY orders. During the collection phase, DAY orders are gathered and displayed on the visible book until a periodic match occurs. Since the DAY orders are advertising their intent to trade on an unprotected marketplace, they are both giving up information and are at risk of not getting filled. Intuitively then, DAY orders ought to be compensated for this risk. The Lynx ATS compensates DAY orders through reduced adverse selection. However, we question what the incentive might be for the aggressive IOC/EOC Trader waiting for an execution in the auction only to pay full bid/ask.   The proposal suggests aggressive Traders benefit from more stable, passive liquidity, but both sides can cancel or amend their orders right up until the last instant preceding a match.

With the periodic auctions and no order freeze mechanism, DAY orders can cancel anytime. This has the potential to introduce fading to EOC orders looking to trade. In an attempt to offset this outcome, it appears Lynx has proposed a final turn solution for any unfilled EOC orders that are marketable relative to the NBBO mid.

We disagree with Lynx's choice to structure the EOC final turn at a superior price point vs. the original matching event. The EOC final turn will match at the midpoint price vs the original matching event is driven by the limit prices of DAY orders. This model is overly generous to IOC/EOC orders. Curiously, by pricing the second match better than the first match, this pricing model also penalizes the first round of IOC/EOC orders that participated in the original match. If the original match priced at the midpoint price or if the orders in the EOC final turn were simply rejected back to the participants, we would have less concerns.

We wonder if a freeze period needs to be implemented on DAY orders, after which time they cannot be amended or canceled. We would also like to clarify if the matching event will occur randomly after the collection phase or at a static interval.   A random interval is preferred and should be required as it would reduce the ability of traders to game the timing of matching events. Conceptually, the model we are thinking of would be similar to a closing auction mechanism, just a much more frequent and much faster. A freeze period and a randomization may benefit the execution quality for both EOC and DAY orders in the visible book and the midpoint book.

Regarding the display of orders at a different price, a less aggressive price, than their true executable price we recognize the approach may be misleading. Given the unprotected status of the Lynx BBO, orders on Lynx will not contribute to the protected NBBO nor will they impact the accessibility or price discovery of protected quotations elsewhere. Essentially, we believe periodic auctions/matching events are reference price facilities and don't directly contribute to price discovery. None-the-less we believe

regulators should examine the repricing of orders on Lynx and its potential impact on market integrity prior to approval.

The CSTA TIC believes we all have a collective interest to protect and preserve a Canadian equity market that is fair and efficient for everyone. 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 TIC 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. We are supportive of the Lynx ATS Periodic Matching proposal with a few important caveats surrounding the consideration of a freeze period and a randomized match and a slight modification to the EOC final turn pricing.

We thank you for the opportunity to comment.

CSTA TIC