



October 10, 2000

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland
Registrar of Securities, North West Territories
Registrar of Securities, Yukon Territories
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario, M5H 3S8

- And To -

Claude St. Pierre, Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square
Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montréal, Québec, H4Z 1G3

Dear Sirs/Mesdames:

**Re: Proposed National Instrument 21-101, Marketplace Operation;
Proposed National Instrument 23-101, Trading Rules; Proposed
Ontario Securities Commission Rule 23-501, Designation as Market
Participant and related companion policies and forms (collectively, the
“2000 Proposal”)**

ITG Canada Corp. (“ITG”) welcomes the opportunity to respond to the issues and questions raised by the Ontario Securities Commission (the “OSC”) and by the Canadian Securities Administrators (the “CSA”) concerning Alternative Trading Systems (“ATS”) in the 2000 Proposal published July 28, 2000 at (2000) 23 OSCB (Supp).

ITG has chosen to restrict its comments to those aspects of the 2000 Proposal related to the regulation of equity markets and has included in Part I of this letter, general comments, and in Part II, specific comments in response to the questions raised in the 2000 Proposal. Part III of this letter sets out additional items for consideration by the CSA.

PART I: GENERAL COMMENTS ON THE 2000 PROPOSAL

ITG is in general agreement with the 2000 Proposal as it relates to the regulation of the equities markets. ITG believes that the 2000 Proposal is a significant improvement over the 1999 Proposal and commends the CSA for their consideration and incorporation of the comments of all industry participants received during the last comment period.

In particular, ITG is supportive of the CSA's proposed deletion of the cross interference rule and the incorporation of broader display requirements.

With respect to the selection of a market regulator, ITG concurs with the position expressed by the CSA: it is not clear that ATs could, at least initially, support the cost of establishing and operating a separate market regulator. ITG therefore believes that regulation of equity markets should be performed by independent divisions or subsidiaries of the existing Canadian stock exchanges, provided the surveillance functions are kept separate and apart from the "for-profit" activities of the exchanges.

PART II: RESPONSES TO SPECIFIC REQUESTS FOR COMMENT

Q.1: Should broker ID numbers be collected and disseminated by the data consolidator? If yes, should the customer decide whether the broker ID is disseminated?

Although ITG agrees that, as a general rule, broker ID numbers should be collected and disseminated by the data consolidator, ITG believes that the customer should have the option of specifically requesting the suppression of broker ID numbers.

While ITG agrees that the collection and dissemination of broker ID numbers improves information transparency and leads to increased competition among market participants, ITG has some concern that this information could also be used to piece together the identity of the client, and as a result, believes that the client should be entitled to suppress this information upon request.

Q.2: Who should provide market regulation for ATs? Please provide reasons for your answer.

ITG believes that regulation of the equity market can be adequately performed by the market regulation divisions of the existing Canadian stock exchanges provided appropriate measures, including corporate governance protections, are established and agreed to by industry participants.

Although ITG shares the concern expressed by many non-exchange commenters that the regulation of competing trading systems by the exchanges may give rise to conflicts of interest, ITG believes that these conflicts can be sufficiently mitigated where market regulation is performed by independent divisions or subsidiaries of the exchanges. So long as the surveillance functions are kept separate and apart from the “for-profit” business of the exchanges, ITG believes that an independent system of review, free of conflict of interest, can be established and the confidentiality of proprietary information maintained to the satisfaction of all industry participants.

As was noted in the 2000 Proposal, it is not clear that AFSs could support the cost of establishing and operating a separate market regulator. It is ITG’s position that the establishment of a separate market regulator is not a viable or cost-effective alternative at this time.

Q.13: Should there also be an exception based on number of shares traded (in addition to value of shares traded)? Are there any exceptions to the display requirements that should be included?

ITG supports the CSA’s decision to delete the cross-interference rule and replace it with broader display requirements. ITG believes, however, that in addition to an exception based on value of shares traded, separate exceptions are needed based on (i) the number of shares traded (so that a more appropriate threshold may be set for low-priced securities for which the threshold of \$100,000 may be too high), and (ii) the liquidity of shares traded (so that a more appropriate threshold may be set for highly liquid shares for which the threshold of \$100,000 may be too low).

ITG proposes that orders for equity and preferred securities in excess of 100,000 shares in number, but which do not meet the \$100,000 threshold (i.e. shares traded for less than \$1.00 per share) should also be excepted from the display requirements. The same principles apply in respect of block size orders for relatively inexpensive shares as apply to block size orders for higher priced shares.

Conversely, ITG proposes that orders for equity and preferred securities which are highly liquid, such as those securities listed on the S&P 60, should be subject to a higher threshold of \$200,000.

These proposed thresholds are intended to balance order size and value considerations appropriately.

Q.18: Should the display requirements for over-the counter orders or trades be expanded from market makers to all dealers?

Q.19: Should the information be sent to the data consolidator or another party?

ITG considers questions 18 and 19 to be related questions. ITG believes that the display requirements for over-the-counter orders should be expanded from market makers to all dealers. The display requirements for orders in equity securities should be the same whether the order is executed over-the-counter or through an organized marketplace. ITG believes that the information should be sent to the data consolidator rather than to another party.

Q.20: Should the short selling provision be limited to trades facilitated on a marketplace or should they apply to dealers trading outside of a marketplace?

ITG believes that the short selling provision should apply uniformly. There does not appear to be any justification for distinguishing between short selling in over-the counter equity securities and marketplace-traded securities.

PART III: ADDITIONAL ITEMS FOR CONSIDERATION BY THE CSA

1. Principal Trading

ITG notes that the TSE's existing Client-Principal Transaction rules¹ contemplate the execution of a principal trade for an order to buy or sell more than 5,000 shares of a listed security (provided the marketplace participant has taken reasonable steps to ensure that there is not an existing bid or offer on the Exchange that would yield a better transaction price and the price obtained is the best available price at the time). By comparison, section 7.1 of the Proposed Trading Rules prohibits a marketplace participant from executing a principal transaction for an order having a total value of \$100,000 or less unless the marketplace participant buys at a higher price or sells at a lower price than the best bid or best offer displayed in the consolidated market.

The new rule differs from the old rule insofar as it forces a marketplace participant to either price improve or to effect the trade through the market. Under the new rule, a marketplace participant no longer has the option of effecting a principal trade at a price equal to the best price then available on the Exchange.

ITG has some concern that the revised Principal Trading Rules can be circumvented by the introduction of a separate legal entity affiliated with the regulated broker, acting in the capacity of a customer, on the other side of all trades. The revised Principal Trading Rules do not preclude a

¹ See section 4-502(3) of the TSE Trading Rules.

broker-dealer from effectively subdividing the functions of their trading desk and offsetting customers orders through an unregulated corporate affiliate.

As a possible solution, ITG recommends that the definition of “marketplace participant” be expanded to include the beneficial owner of any account where (i) capital is provided by an affiliate of the registered broker-dealer and (ii) the personnel operating the account in question are located in the same premises and under common senior management as the registered broker-dealer.

2. Stock Lending and Borrowing

As a final consideration, ITG believes that the CSA should give consideration, in due course, to including the activities of stock lending and borrowing in Parts 2, 3, 4 and 7 of the Proposed Trading Rules. The arrangement of stock loans can be an important prerequisite in the execution of certain trading strategies and as such, should be addressed by regulators to ensure fair and efficient capital markets.

As noted above, ITG is generally supportive of the 2000 Proposal insofar as it deals with the regulation of equities markets and it encourages the CSA to complete its deliberations at the earliest opportunity.

We would be pleased to discuss any of the comments of this letter with the OSC, members of the CSA or its staff. If we can be of further of assistance in this regard, please do not hesitate to contact the undersigned at (416) 874-0950.

Yours very truly,

ITG CANADA CORP.

Kenneth C. Hight
President and Chief Executive Officer