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VIA E-MAIL

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Dear Sirs and Mesdames,

Re: Notice of Proposed Changes (published April 23, 2020) (the "Proposed Changes")

Thank you for the opportunity to comment on the Proposed Changes. I will leave to others the granular discussions of the specific elements of this natural progression towards the internalization and thus further fragmentation of our equity capital markets. Instead, my focus is on the current deficiencies within our market structure regime that are the fundamental drivers underlying this initiative. The proposed new order types and the divisive nomenclature contained therein are merely symptoms of more substantive issues that remain unaddressed in the Canadian equity capital markets.

Specifically:

- We have never adequately addressed the issue of realistic, dynamic minimum bid/ask spreads.
- While the rules designed to curb the more parasitic nature of dark markets and order types were quite forward-looking when introduced, there was a last minute anomaly that is now being exploited to undermine the very first principles that we then sought to preserve.
- Competitive inadequacies have led some intermediaries to propagate false narratives and to employ divisive nomenclature when describing their more successful competitors. This permitted degree of non-civil conduct only serves to undermine the perception of market integrity within the larger stakeholder groups.

- Some larger dealers have attempted to block competition and market efficiency through the pursuit of internalization schemes, of which these Proposed Changes are but the latest example.
- As dealers remain unencumbered with honouring a fiduciary obligation to their clients, the current market structure heavily incents them to pursue orders and trading strategies (such as these Proposed Changes) that maintain artificially high transaction costs for their clients. This in turn allows these dealers to employ internalization schemes and extract said costs for their own financial benefit, at the undisclosed expense of their clients.

Fortunately, rather simple solutions are available to remedy much of this situation.

If you want to understand what motivates participants to pursue various strategies, just follow the money.

Historically, minimum bid/ask spreads were regulatorily enforced to ensure that market makers would be able to earn sufficient funds when supplying their services. As volumes rose, pressures mounted to reduce this implicit transaction tax and minimum trading increments collapsed over the years. Technology and multi-market trading environments have accelerated that trend and our regulations have fallen behind. The enduring success of inverted markets has long-since made a mockery of these artificially wide bid/ask spreads. These same spreads not only cost real investors but also incent inappropriate conduct by some participants.

Specifically, these wide spreads motivate the apparently persistent drive by some major dealers to reap the economic benefits of internationalization for themselves, at the expense of the very clients they often profess (ironically) to be protecting from "bad or predatory order flow". In part, they remain free to do so because of the tremendous efforts they have collectively expended to avoid owing any fiduciary duty to the same clients they pretend to be protecting. The economic benefits that internationalization affords them are not immaterial, having been calculated on numerous prior studies at notionally as much as $100 million per month in Canada alone. The magnitude of these benefits in turn is a byproduct of an antiquated minimum pricing increment regime imposed by the regulators. Put simply, smaller pricing increments and the resulting tighter spreads benefit the actual investing clients and reduce the money otherwise available for intermediaries to exploit via, inter alia, various internationalization schemes.

I would strongly encourage you to let market forces determine the appropriate minimum pricing increments. If you must mandate a minimum, perhaps a tenth of a cent might avoid the pricing games that could take decimalization to an absurd extreme while at the same time materially reducing the incentive to undermine market integrity through the pursuit of internalization. Until such time as you reduce the current artificially inflated incentive, I would suggest mandating that any economic benefits reaped through all internalization schemes (including intentional "unintentional" crosses) must be, at a minimum, fully reported to the clients involved and, more preferably, that all of the ensuing revenues be disgorged to those same clients. That would very quickly eliminate the practice. Again, transparency and accountability are usually the key foundations to solid regulation, are they not?

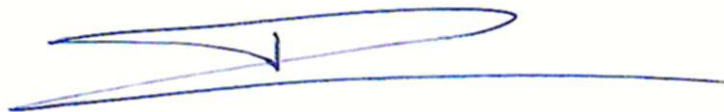
Adopting a more realistic minimum trading increment approach would also provide the opportunity to eliminate the anomaly that both continues to undermine the price discovery process (critical to maintaining fair and efficient markets) and that serves as the technical basis for these Proposed Changes. Specifically, I am referring to the bizarre exception granted dark markets and order types to trade at tighter trading increments than the lit marketplaces when the latter are at their most efficient and providing liquidity at the tightest spreads permitted by regulation. This highly unusual exemption serves no purpose other than to undermine the very markets and investors contributing to price discovery that dark orders steal from. It is also intellectually completely inconsistent. Somehow it is acceptable to give investors the benefits of tighter spreads when they support trading activity that undermines market integrity?

When you eliminate or greatly reduce the permitted minimum trading increments you should dispense with this anomaly and bring your market structure regime back into alignment by unequivocally stating that lit orders must always be interacted with before dark orders when they are at the same price level and that any minimum trading increments must be consistent across all markets.

Following these simple suggestions would halt the proliferation of internalization schemes, strengthen the integrity of our equity capital markets and greatly reduce the costs currently being borne by retail and institutional investors. Eliminating inefficiencies created by needless or outdated regulation and lowering the costs to the ultimate consumers is now hopefully a common objective?

Thanking you in advance for your consideration of this perspective, I remain,

Yours truly,



Ian Bandeen