



CANADIAN SECURITY TRADERS ASSOCIATION, INC.  
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June 6<sup>th</sup>, 2022

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**Re: B.11.2.2 TSX Inc. – Proposed Amendments and Request for Comments – Notice 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 three distinct regions (Toronto, Montreal 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 the CSTA Trading Issues Committee (the “Committee”), a group of roughly 20 appointed members from amongst the CSTA. This committee has an approximately equal proportional number of buy-side and sell-side representatives with various areas of market structure expertise, in addition to 2 independent members. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members or the opinion of all members of the Trading Issues Committee.

The CSTA appreciates the opportunity to comment on the proposed amendments to give price setting order (i.e. an order that sets the best price on TSX), the same allocation priority as a Long Life order entered after such price setting order.

The Long Life order type was a unique order type launched by the TSX in 2015, it is designed to enhance the quality of execution for *natural* investors and their dealers – both retail and institutional – by

rewarding those willing to commit liquidity to the book for a period of time (one second). It is marketed by the TMX Group on their website to have the following benefits:

- Higher fill rates for natural passive orders
- Higher fill rates for active orders due to better reliability of the displayed quote
- Reduced short-horizon fleeting liquidity, unnecessary intermediation and message traffic

Direct quote from TMX marketing material - "By choosing to use the Long Life order type, participants can effectively and confidently trade on Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) without having to compete on speed."

The TMX believe that the order type has been generally successful but not without some unintended consequences. They outline a problem they call "tailgating". Tailgating can be described as:

- When TSX Liquidity Providers ("LPs") create new price levels, the price levels are untested (no other orders exist at price level) and LP's create them without using Long Life.
- Shortly thereafter, a second party will join, having seen that the new level is not immediately taken.
- This second participant enters a Long Life order and hence is provided priority over the original order that set a new price level (i.e. the Long Life order incurring far less risk).

While we agree that this inappropriate use of the Long Life order type by predatory participants is a problem and might hinder price discovery in our market we are not sure the problem is large enough to change priority of an order type meant for (as marketed by the TMX Group) *natural* investors. We understand that the priority change will only be for the single price setting order and that the order will lose its priority if any amendments are made. However, no matter how small the impact will be, we are hesitant to change the priority for any order types that benefit *natural* investors. TMX Group has not demonstrated that tailgating is a material issue for the market and so we have requested the TMX Group to provide data on how often "tailgating" happens and its impact on price discovery.

Furthermore, if the price setting order is unconfirmed and requires confirmation from a Long Life order before it becomes obvious to traders that the first price setting order is the true market equilibrium bid/ask price, perhaps the magnitude of the price discovery contained within the original price setting order is overstated. Thus, are not very sympathetic to insecure liquidity provision.

We, again, thank the TMX Group for their efforts and the opportunity to comment on this proposal. The CSTA TIC is generally supportive any changes that improve price discovery in our market however we are unsure if the proposal's costs outweigh the proposed benefits that Long Life is meant to provide natural participants.

Respectfully,

"Signed by the CSTA Trading Issues Committee"