

NEWS RELEASE

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Complements other initiatives to support market quality and integrity

IIROC completes comprehensive study of High Frequency Trading

December 9, 2015 (Toronto, Ontario) –The Investment Industry Regulatory Organization of Canada (IIROC) today announced completion of its [comprehensive, multi-phase study of High Frequency Trading](#) (HFT) and its impact on Canadian equity markets.

The results of the study did not reveal any concerns that warranted a regulatory response beyond measures already implemented by IIROC and indicate that the presence of HFT has different impacts on Canadian equity markets and those who invest on those markets. General findings include:

- HFTs generally provide more liquidity.
- HFT liquidity provision can be significantly lower when a large trade is considered stressful – that is, when the volume of a large trade represents a higher than normal percentage of all trading volume on the day.
- HFTs contribute substantially to price discovery.
- The majority of passive orders entered by HFT either improve the best price or match the prevailing best prices.

- There is little evidence that HFTs take advantage of slower non-HFTs or front-run non-HFTs. (Front-running occurs when a market participant makes a non-client transaction that may affect a security’s market price before filling a client order for that security.)

“Our HFT research demonstrates how IIROC uses empirical information and objective analysis to inform policy development,” said Victoria Pinnington, IIROC Senior Vice-President of Market Regulation. “As a public interest regulator, it was important to conduct comprehensive research to help us all better understand HFT and its effects on Canadian market.”

The HFT study was designed to complement other initiatives already adopted by IIROC to govern high frequency and algorithmic trading, such as implementation of Electronic Trading Rules and requirements respecting third-party electronic access to marketplaces, as well as the issuance of guidance relating to manipulative and deceptive practices.

IIROC will continue to be proactive in strengthening its oversight and regulation of trading, including developments relating to HFT.

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About the HFT Study:

In the first two stages of the three-phase HFT study, IIROC identified and examined the activity of a group of traders responsible for a high number of orders, compared to the number of trades they actually completed over a specific period of time – a characteristic commonly associated with HFT activity – and conducted a detailed analysis of this study group’s trading activity on Canadian equity marketplaces. This [High Order-to-Trade \(HOT\) study](#) was published by IIROC in December 2012.

In the third and final phase of the study, five independent academic teams selected by IIROC examined the impact of HFT on the Canadian equity marketplace. The academic papers were discussed at a public forum this fall, hosted by IIROC with the Capital Markets Institute at the Rotman School of Management at the University of Toronto. A video recording of the [HFT Forum](#), along with the academic papers and all other IIROC publications related to the study are available on the [IIROC website](#).

IIROC is the national self-regulatory organization which oversees all investment dealers and their trading activity in Canada's debt and equity markets. IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

L'OCRCVM est l'organisme d'autoréglementation national qui surveille l'ensemble des courtiers en placement et l'ensemble des opérations que ceux-ci effectuent sur les marchés des titres de capitaux propres et les marchés des titres de créance au Canada. L'OCRCVM établit des normes élevées en matière de réglementation et de commerce des valeurs mobilières, assure la protection des investisseurs et renforce l'intégrité des marchés tout en favorisant l'efficacité et la compétitivité des marchés financiers. L'OCRCVM s'acquitte de ses responsabilités de réglementation en établissant des règles qui régissent la compétence, les activités et la conduite financière de ses sociétés membres et de leurs employés inscrits, et en veillant à leur application. Il établit aussi des règles d'intégrité du marché qui régissent les opérations effectuées sur les marchés des titres de capitaux propres canadiens et veille à leur application.