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**VIA EMAIL**

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Dear Ms. GuptaBhaya:

**Re: Re-Publication of Proposed Guidance on Marketplace Thresholds**

TSX welcomes the opportunity to comment on behalf of its equities marketplaces on the Request for Comments published by the Investment Industry Regulatory Organization of Canada (IIROC) on March 30, 2015 entitled "Re-Publication of Proposed Guidance on Marketplace Thresholds".

Please find below responses to the questions asked in the Request for Comments.

1. *IIROC has endeavoured to structure the Proposed Guidance such that its implementation would have minimal technological implications for Participants, Access Persons, the Information Processor, and service providers. Has IIROC achieved this objective? If not, what suggestions might we consider to better achieve the desired result?*

We believe that the updated Proposed Guidance better achieves the objective of minimizing the technological implications of the implementation.

2. *One of the perceived benefits of harmonization would be greater predictability. The Proposed Guidance does not propose instituting a uniform control mechanism that all marketplaces should use to implement Marketplace Thresholds. Should a uniform control mechanism for marketplaces be proposed or would the prescribed threshold levels and Guiding Principles adequately ensure the operation of a fair and orderly market and provide sufficient predictability? Are there other benefits to harmonization of marketplace control mechanisms?*

As stated in our response to the previous request for comments, we believe that the benefits of allowing marketplaces to design their own control mechanisms appropriate for their trading models outweigh the benefits of greater predictability that may be gained from a uniform mechanism. A bespoke approach to Marketplace Thresholds for each marketplace, depending on its own particular nature, combined with harmonized threshold price levels is the optimal approach.



3. *Is the approach of using both an NLSP reference price and a One-Minute Reference Price appropriate?*

Yes, we believe that use of these two reference prices is appropriate and achieves the goal of mitigating a sudden price movement of a single active order as well as preventing large price swings as a result of a series of orders. We note though that a runaway algorithm that triggers shortly before the one minute mark can lead to a price change of up to twice the threshold parameter, within a time interval of less than a minute.

4. *Is the one minute increment proposed for the One-Minute Reference Price appropriate? If not, why not and should the one minute increment be increased or decreased instead? Is there an alternative reference price that would better address erroneous orders that are part of a series of orders that have been generated from the same source over a very short period of time or are part of a series of stop-loss orders?*

We believe that the proposed one minute increment will be an appropriate initial setting but we would ask that marketplaces implement this as a configurable parameter. This will allow for coordinated adjustment of the reference price time should evidence suggest that a different time interval be more appropriate in the future.

5. *Is it appropriate not to extend Marketplace Thresholds to Opening Orders and Market-on-Close Orders? Are there any other order types that should not be subject to Marketplace Thresholds?*

Yes, we believe it is appropriate not to extend the Marketplace Thresholds to the Opening Orders and Market-on-Close Orders. We also believe that Marketplace Thresholds should not apply to orders participating in the post-halt auction.

Although not subject to the Marketplace Thresholds, we believe that marketplaces with opening, re-opening and closing auctions should implement their own volatility controls for these features and publish the details of these controls.

6. *Is it appropriate that the first trade in a security on a particular trading day in Canada and the first trade in a security in Canada after a regulatory trading halt are not subject to Marketplace Thresholds?*

In the context of applying the Marketplace Thresholds only during core trading hours, identifying the 'first' trade of a security in Canada would add complexity and would be subject to timing issues and race conditions.

A slightly modified approach that would lead to similar results would be to:

- Extend the Hours of Operations to cover any period where a trade can occur that can update the NLSP.
- Use NLSP as the Reference Price for purposes of determining the acceptable trade price range. If no NLSP for the day, do not apply Marketplace Thresholds.



This approach would then work for marketplaces with no opening auctions, as well as for trades immediately following an opening or re-opening auction.

7. *Is the requirement in Part 8 of Policy 7.1 for an Access Person or Participant to ensure that order parameters of every automated order system it or any client uses are tailored to not exceed specific Marketplace Threshold levels necessary or appropriate?*

We do not believe that this requirement is necessary once the marketplaces have implemented the Marketplace Threshold functionality. This requirement would place an unnecessary burden on the market participants.

8. *IIROC is proposing that the implementation date be at least 180 days following the publication of the final Guidance. Is this time period sufficient to make any necessary technological changes? Are there any specific considerations which IIROC should take into account in establishing an implementation deadline?*

We believe that it will take closer to a year to implement the Marketplace Threshold guidance. As commented in our earlier response to the guidance, the main drivers of timeline are:

- (a) Each marketplace has to design its own marketplace specific rules, which may involve industry consultation, regulatory filings, public comment, technological development and testing by marketplaces and market participants.
- (b) Marketplaces and market participants will need to be ready on the same implementation day which imposes an additional and heavy burden on resources.

In addition, there are several other industry changes on the horizon that IIROC should take into consideration while scheduling the implementation including the OPR rules, and NI 21-101 and 23-101 amendments. These changes will strain resources and impose scheduling difficulties for all industry participants.

### ***Other Comments***

#### *Thresholds for low priced securities*

With respect to the proposed harmonized price thresholds, IIROC has indicated a 300% threshold level for securities trading between 0 and \$0.50. Since penny stock trading patterns are extremely erratic and a \$0.04 move may be entirely normal, we believe that the proposed threshold level is too restrictive for the extreme low end of the price band. Using the proposed threshold level, a security trading at \$0.01 will not be able to move past \$0.04 without intervention by a Market Integrity Official. We propose a threshold level of 500% for the \$0-\$0.045 price band.

#### *Calculating the price categories*

The current practice within the existing TSX equities marketplaces freeze is to dynamically calculate the price bands based on the LSP. We believe that the best approach would be to determine the Marketplace Threshold price categories dynamically based on the NLSP and the One-Minute Reference Price. For



example: If the NLSP was \$0.95 and the One-Minute Reference Price is \$1.05, then the price bands would be NLSP (\$0.95) +/- 50% and One-Minute Reference Price (\$1.05) +/- 30%. Using this approach will avoid the problems of a stock price crossing one or more price band categories intra-day and using an inappropriate threshold level.

However, if the Price Categories are to remain static for the entire day, then we believe that the listing market's last sale price (which could be the closing price) should be used for purposes of determining the price category, as opposed to NLSP. This will be easier for the industry to implement and will be consistent with how the boardlot size is determined and synchronized today.

We would be pleased to discuss our comments further at your convenience.

Yours truly,

*"Deana Djurdjevic"*

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