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Re: IIROC Rules Notice 12-0221 Proposed Guidance on Certain Manipulative and Deceptive Trading Practices

Dear Madam,

We are supportive of the general message of the Guidance, and approve of the differentiation between the general use of algorithmic or HFT strategies and the specific undesirable behaviours that they may employ.

We are however concerned about this section from the Guidance:

"In the event that algorithmic or high frequency trading is engaged in by the Participant or its clients, IIROC expects the Participant to ensure that compliance procedures adopted include the monitoring of all orders, the use of automated pre-trade controls and real-time alert systems that are programmed to detect patterns related to manipulative practices including, without limitation, layering, spoofing, quote manipulation, quote stuffing and abusive liquidity detection strategies."

- We are particularly concerned that the requirement to use pre-trade controls to prevent some of the indicated behaviours would not be practical to implement or in some cases even possible. We are also not convinced that that pre-trade controls would provide a significantly better protection for market integrity than post trade detection of the described behaviours.
 - o e.g. Should a 'spoofing' pre-trade check prevent the entry of the first order? Prevent the cancellation of that order? Prevent the entry of a second order?
- The development and integration of pre-trade controls and real-time alerts for all of these cases represent significant technology projects. We feel that the high technology costs and somewhat fluid definitions of some of the behaviours would not result in market integrity improvements sufficient to justify this investment and that post-trade review would be a more appropriate standard.

- We would also note that in some cases a client may be trading with multiple brokers which would make detection of some of these patterns more difficult for any one broker. In these cases IROC may be the only party in a position to properly detect these potential violations.
 - o e.g. In the layering example given in the guidance, a client may place the actual buy order with one broker and then place 'layering' orders on the sell side through one or more brokers.

In many cases it will be very difficult or impossible to distinguish between a client engaging in legitimate trading strategies and those engaging in manipulative behaviour based solely on real time analysis of their order flow. We believe that brokers are already responsible for their clients' trading and that in most cases this has been achieved through higher levels of post trade reviews than are applied to other parts of their business. We are supportive of highlighting specific strategies or behaviours that have become a concern for regulators, and reminding brokers of their responsibility to detect and address potentially manipulative behaviours by their clients. We would however suggest that the guidance indicate that it is reasonable that this be done on a post-trade basis in line with current practices.

In response to the specific questions in the Guidance:

1. Are there other trading strategies not discussed in the Proposed Guidance that could, by their nature, be considered manipulative and deceptive?

We feel that the following strategies could be considered manipulative and deceptive and would appreciate clarification:

- Orders which are intended to be posted visibly for less time than it would take most market participants to read the quote feed and respond with an offsetting order.
- An order in which more size than actually desired is split across multiple marketplaces with the intention of cancelling the balance of the order as soon as any part is filled.
- Latency arbitrage type strategies where a small passive order is placed on the bid or ask of one trading venue, with the intention of detecting a large buy or sell order and then immediately trading ahead of it on other marketplaces.

2. Are there any matters which should be added to the "Question and Answer" section of the final Guidance Note?

We would seek clarification if IIROC is of the view that any strategy which attempts to determine the existence of a "large" buyer or seller with the intent to trade ahead of, rather than against the large buyer or seller, would be considered abusive?

As always, we appreciate the opportunity to comment on the Proposed Guidance. We are supportive of the motives behind this guidance but would caution against requiring pre-trade controls be used to address the identified trading behaviours. We would welcome the opportunity to answer any questions you may have or provide more information on any concerns we have raised.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Evan Young". The signature is fluid and cursive, with a long horizontal stroke at the end.

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