

GLOBAL BANKING AND MARKETS



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Via Email

**Re: IIROC Notice 18-0231: Proposed Amendments Respecting Provision of Price Improvement by a Dark Order**

Scotia Capital Inc. appreciates the opportunity to comment on the proposal by IIROC to revise the threshold for price improvement by dark orders on Canadian marketplaces (the "Proposal").

### **General Remarks**

Scotia Capital Inc. is generally supportive of the proposal as presented. Price discovery through displayed quotations is integral to the continued health of the Canadian equity markets. We believe that the block exemption built into the Dark Order Requirements is intended to strike a balance between incentivizing price discovery and offering avenues for size discovery with limited information content.

In practice we do believe the Dark Order Requirements adequately capture a practical definition of a block trade for certain low-priced securities. The market value of trades larger than 50 board lots can be as little as \$5100, which does not stand to reason as a "block". We therefore believe some adjustment to the rules is appropriate and timely.

We note that IIROC is in the process of reviewing all thresholds in UMIR. As part of this review we suggest working towards a harmonized definition of what constitutes a "large" order. This definition should be applied uniformly in UMIR 6.3 (Order Exposure Rule), UMIR 6.4 (exemptions to trading on a FORM) and UMIR 6.6 (price improvement by dark orders). We believe a common



definition would simplify the framework and allow for easier implementation of the rules by stakeholders.

Furthermore, we believe it would also be appropriate to develop a formula by which the threshold defining a "large" order is determined, and this threshold can therefore be updated periodically. This would allow the definition to vary over time without requiring a rule change and the associated lead time. While this will fundamentally alter the framework and require certain adaptation, we believe it is an appropriate course of action for the market as a whole.

Finally, we note that currently participants have no means of determining whether a marketplace considers their order as "large" for the purpose of UMIR thresholds and exemptions. This is particularly important for situations where an order qualifies on the basis of its notional value (which is price-dependent), rather than board lot quantity. We therefore believe it is appropriate for marketplaces to offer an indication of the classification of an order as "large" or otherwise as a private field communicated to participants. Additionally, we believe this identification should be provided to IIROC as part of regulatory data feeds to further enable surveillance and market monitoring.

### Answers to Specific Questions

1. *Will the proposed floor value of \$30,000 adequately capture small orders and address concerns regarding low-priced securities trading in the dark without price improvement? Would a \$25,000 threshold be more appropriate? If so, why?*

We believe the floor value of \$30,000 is preferred to the current framework, which may offer a block exemption for orders with a value as low as \$2500 (at a \$0.10 price point). We agree with the lower bound as presented. We would also be supportive of a larger (more restrictive) definition of a block trade if that definition better aligns the Dark Order Requirements with other components of UMIR, such as the Order Exposure Rule.

2. *What is the scope of work required to make the appropriate systems changes? Is a 90-day implementation period reasonable?*

We believe the majority of implementation effort related to the Proposal rests with marketplace operators rather than securities dealers. We therefore ask that IIROC consider input from marketplaces and their vendors to establish an appropriate implementation period.

3. *Are there any unintended consequences arising from the proposed inclusion of the \$30,000 threshold in UMIR Rule 6.6?*

We do not foresee any consequences from the Proposal other than those already identified.

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Respectfully,

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