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Re: CIRO's Proposed Amendments Respecting Trading Increments and Proposed Guidance on Applicable Trading Increments (24-0363) issued on December 12, 2024

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to CIRO regarding its Proposed Amendments Respecting Trading Increments and Proposed Guidance on Applicable Trading Increments.

The Canadian Independent Finance and Innovation Counsel represents national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CRO-regulated Investment Dealers in the Canadian securities industry.

Enhanced Clarity and Effectiveness of Trading Regulations

The Investment Dealers we represent believe that the Proposed Amendments Respecting Trading Increments enhance the clarity and effectiveness of trading regulations, particularly in relation to U.S. inter-listed securities.

The Investment Dealers we represent believe that the proposed changes will be required following the amendments to the minimum pricing increments established by the United States Securities and Exchange Commission (SEC) in accordance with Rule 612 of Regulation National Market System (Regulation NMS), which will take effect from November 3, 2025.

Harmonization between Canada and the U.S.

The Investment Dealers we represent welcome the proposal as it maintains harmonization between the Canadian and U.S. markets for inter-listed securities.

Our Investment Dealers appreciate CRO for recognising the inextricable links between the Canadian and U.S. markets and for listening to the industry's unanimous feedback to its 2023 proposal regarding the competitive necessity for Canada to align its trading increments to the U.S.'s variable pricing increments with respect to U.S. inter-listed securities.

We support the emphasis in the guidance on the importance of coordination with U.S. regulations to maintain harmonization for inter-listed securities, the lack of which could give rise to many problematic issues. For example, market fragmentation could occur if the same security were to be traded at different prices in different markets. This inconsistency could create confusion and inefficiencies for traders and investors, leading to less effective price discovery.

Divergent trading increments between markets could also open the door to arbitrage opportunities. Traders might exploit the price differences between markets for profit. While profitable for some, this could lead to increased volatility and instability across the market.

Furthermore, if trading increments were not harmonized, liquidity could be negatively impacted. Traders might favor the market with the more advantageous increments, resulting in reduced trading activity and wider bid-ask spreads in the less favorable market.

Regulatory challenges could also arise in the absence of harmonization. If the two markets were to have varying rules and requirements regarding trading increments, compliance efforts for market participants who operate in both markets would be further complicated.

These issues highlight the importance of harmonizing trading increments across markets with respect to U.S. inter-listed securities to ensure a more seamless and efficient trading environment for these securities in Canada.

Trading Increments for Non-U.S. Inter-listed Securities

We welcome the fact that the Proposed Amendments would not change the applicable trading increments for securities that are not U.S. inter-listed.

For these securities, UMIR would continue to prohibit the entry of an order to trade on a marketplace that is in an increment smaller than:

- \$0.01 for orders with a price equal to or greater than \$0.50; and
- \$0.005 for orders with a price less than \$0.50.

The Investment Dealers we represent support maintaining the status quo for these securities.

Trading Increments and the Universal Market Integrity Rules (UMIR)

CIRO is proposing to amend UMIR such that the applicable trading increment for a U.S. inter-listed security will be easily distinguishable from the applicable trading increment for all other securities traded in Canada.

As stated in its proposal, CIRO will need to periodically designate the trading increment for U.S. inter-listed securities to align it with the variable pricing increments in the United States. As part of these changes, UMIR must be updated to include a definition of a "U.S. inter-listed security" and to prohibit orders to purchase or sell such a security at a price smaller than the applicable trading increment, as designated from time to time by CIRO. We support this approach by CIRO.

Proposed Guidance – Consistent and Transparent Application

As previously mentioned, the proposed guidance further clarifies that the applicable trading increment for those U.S. inter-listed securities with a price in the United States that is equal to or greater than \$1.00 USD will be harmonized with the minimum pricing increments established by the SEC in accordance with amended Rule 612 under Regulation NMS in the United States. The Investment Dealers we represent support this harmonization.

We also support CIRO's explanations with respect to the rationale and process for determining and communicating trading increments for U.S. inter-listed securities. The proposed guidance ensures consistent and transparent application of trading increments in Canada. It outlines the evaluation period and minimum pricing increments, ensuring the process is clear and well-structured.

May and November Updates to the Trading Increments

The Investment Dealers we represent agree that the minimum pricing increments should become effective on:

- the first business day of May for the evaluation period from January through March and continue through the last business day of October of the calendar year, and
- the first business day of November for the evaluation period from July through September and continue through the last business day of April of the next calendar year.

The May and November updates to the trading increments may help resolve an issue identified by the Investment Dealers we represent, namely, managing "Good 'Til Cancelled" orders, which is discussed below.

Managing "Good Til Cancelled" (GTC) Orders

Managing "Good 'Til Cancelled" orders could become problematic as trading increments change for inter-listed securities. Since the trading increments may change on the first business day of May and the first business day of November, Investment Dealers have suggested accepting "Good Til Date" (GTD) orders expiring at the end of April or October, but no longer accepting "Good Til Cancelled" orders. This suggestion may resolve the anticipated issue of managing open orders as trading increments change for a security.

Conclusion

We commend CIRO for its efforts to maintain the reputation, integrity, and liquidity of the Canadian markets by proposing to harmonize equivalent Canadian rules and regulations with amended Rule 612 under Regulation NMS of the United States Securities and Exchange Commission.

Thank you for considering our comments on this important proposal.

As always, we are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at annie@cific.co with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

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