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VIA EMAIL

Theodora Lam
Senior Policy Counsel, Market Policy
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
Email: tlam@iiroc.ca

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55, 20 Queen Street West
Toronto, Ontario M5H 3S8
Email: marketregulation@osc.gov.on.ca

RE: PROPOSED AMENDMENTS RESPECTING THE TRADING OF DERIVATIVES ON A MARKETPLACE

Dear Ms. Lam:

Nasdaq CXC Limited ("Nasdaq Canada" or "we") welcomes the opportunity to respond to the Investment Industry Organization of Canada's (IIROC) proposed amendments respecting the trading of derivatives on a marketplace (Proposed Amendments).

We understand the Proposed Amendments are being published in response to anticipation of a second derivatives exchange operating in Canada. For this reason we believe that it is an important time, at this junction, to address the framework for regulating trading on multiple derivatives exchanges to ensure that any burden for participants created by a new entrant is minimized while also ensuring a high standard of market integrity. The right framework will not only facilitate trading on a second derivatives exchanges but will facilitate the entry of other derivatives exchanges in the future.

For this reason, we believe that the use of a third-party Regulation Services Provider (RSP) for regulating multiple exchanges represents an approach that will provide efficiencies while protecting investors. Furthermore, we endorse IIROC serving in this capacity because of its current expertise in performing surveillance across equities and debt securities and in turn its capability to perform cross-asset surveillance in the future.

A single set of rules for trading derivatives will simplify both understanding and compliance by participants. Using UMIR as the starting point for this rule set will help support this objective by building on an existing and well-known list of requirements. One of the drawbacks attracting international participants into Canada is the complexity of its market structure, including its rules, particularly in relation to the size of its capital market. Using a common set of rules for derivatives will streamline the learning curve for new entrants. In addition, given that many participants that trade derivatives also trade equities today (both domestic and international) many participants will be familiar with UMIR already.

IIROC's distinguished ability internationally to perform real-time inter-market surveillance for equities can be expanded to include trading derivatives where appropriate. While the responsibility for market regulation resides with exchanges under National Instrument 21-101, an exchange when performing this function is limited to monitoring trading on its own market. This does not create issues where a single exchange exists, however its limitation is evident by the inefficiencies that result when more than one operating exchange trade the same listed derivative. Without delegating responsibility to a third party with the ability to consolidate orders and trades across exchanges in real time, inter-market surveillance can only be performed on a delayed basis. It is for this reason that IIROC was first established (RS as its predecessor). With the advent of multiple equity marketplaces there was a need for an independent third-party entity positioned to regulate a common rule book across competing exchanges.

Although derivatives markets may often list unique derivatives contracts, there are often standardized contracts listed on multiple exchanges competing for trading volume. It would be beneficial to have IIROC be positioned to regulate trading in the same contract across exchanges similar to how equity options trade in the United States today. Unlike a single exchange IIROC would be able to monitor and enforce a comment set of trading rules in real time across multiple competing exchanges.

Because IIROC serves as a single RSP for equities and debt securities it is uniquely positioned to perform cross asset surveillance. Given the proliferation of equity derivatives, indices, exchange traded products and their related futures contracts, any attempt to manipulate or deceive the market can be effected in one of several asset classes or a combination of them. Adding regulation of exchange listed derivatives to IIROC's current responsibilities will allow for a complete picture of trading activity across asset classes enabling comprehensive monitoring for abuse.

Finally, we note that one of the most significant challenges facing regulators tasked with market surveillance today is the capacity of their surveillance systems. Given the technological driven demands and exponential increase of order and trade information a system must have the ability to consume, and capacity to process, large amounts of data to accurately identify positive alerts. IIROC's has robust capacity in this area as it recently conducted a review of third-party providers. Deciding to upgrade its surveillance system with its current provider ensures it has sufficient processing capacity to process trading from other asset classes and the capability to perform cross product surveillance

We thank the IIROC for its consideration of these comments and would welcome the opportunity to discuss further our views with staff.

Sincerely,

Nasdaq Canada

Nasdaq CXC Limited ▪ Suite 900 - 25 York Street ▪ Toronto, ON M5J 2V5 ▪ TEL: 888.310.1560