

September 9, 2024

Trading and Markets Division
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
tradingandmarkets@osc.gov.on.ca

and

Joanne Sancı
Senior Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
tsxrequestforcomments@tsx.com

Via Email

**Re: TSX INC. NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS –
PROPOSED AMENDMENTS TO THE LONG LIFE ORDER TYPE.**

Scotiabank appreciates the opportunity to comment on the proposal by TSX Inc. to introduce amendments to the TSX Rule Book to reflect certain proposed amendments to the Long Life order type.

General Remarks

The Long Life order type was introduced in 2015 as a way for participants who were willing to commit their order to the order book for a meaningful amount of time (at the time deemed at least 1 second) to receive a higher matching priority than those who did not make such a commitment. The original proposal cited benefits for “natural investors, their dealers and other non-latency sensitive participants to effectively and confidently participate in the markets.”

The order type as it stands today includes an additional variable delay to any amendments or cancellations for Long Life orders that have been in the book for the minimum resting period of 1 second. This additional variable delay was originally added to “further discourage use of Long-Life orders by those employing latency-sensitive trading strategies” as per the TSX’s original proposal of the order type. The cancellation delay persists for the full life of the order (rather than just the first second) because the benefits given – queue priority – also persist for the full life of the order.

The amendment being proposed removes this additional delay, and the TSX is citing “flexibility in order type management, especially in response to the fast-paced and ever changing market dynamics” as the rationale for the change. The TSX further states that the amendments are in response to participant feedback that represents more than 45% of all Long Life order users on the TSX and TSX Venture Exchange.

Long Life Changes are Inappropriate and Unfair

We believe that the Long Life order type, including the cancellation delay, has been a valuable market structure tool that caters to the non-latency sensitive segment of the market. Our view is that the cancellation delay is an integral aspect of the Long Life order type. We believe that it is in fact the most important element in achieving the original stated goal of benefitting “natural investors, their dealers and other non-latency participants”. We have trouble understanding what additional flexibility this amendment will provide to natural investors and their dealers.

The removal of the cancellation delay will provide orders with a benefit for an unlimited duration – queue priority – in exchange for risk only in the first second. This is because after the first second, users will be able to cancel their order at any time, promoting precisely the type of liquidity fade that bona fide “natural investors, their dealers and other non-latency participants.” The benefit conferred is disproportionate to the risk being taken, while harm is done to the queue priority of pre-existing resting orders.

We are further concerned that the TMX Group’s claim of support from “45% of all Long Life order users” mis-represents industry support for this amendment. Our client base has not reflected any such support. On the other hand, if users accounting for 45% of orders entered support this change, then it is more likely to reflect the wishes of a narrow community of traders who are responsible for a disproportionate number of high frequency orders. We believe that such participants are already using this the Long Life order type to jump the queue, contrary to the stated intention of the TMX when the feature was introduced. We believe the proposed amendment would allow for further misuse, to the detriment of the broader community of stakeholders.

For example, under the proposal, new Long Life orders can join the order book at any time, and immediately take priority over pre-existing non-Long-Life orders, with the ability to cancel at any time after the first second. In an environment of stable quotes, these orders will be filled sooner, but can also rapidly cancel to avoid adverse selection. This is akin to having one’s cake, and eating it too.

TMX Group introduced, in 2015, a valuable, innovative and flexible tool for natural investors who were willing to commit to at least one second of resting time the advantage of a small measure of time priority. The cancellation delay was introduced on the recommendation of a broad cross-section of industry. At the time, this proposal was universally applauded. We subscribe to the golden rule of “if it

The Bank of Nova Scotia
Global Equity
Scotia Plaza
40 Temperance St, 4th Floor
Toronto, ON M5H 1Y4



isn't broken, don't fix it" and don't see how this amendment supports the original intended use case, or improves market quality. On the contrary, we believe the amendment overwhelmingly benefits participants who are extremely latency sensitive. Removing the cancellation delay allows for a much more predictable cost of using this order type and will encourage lower latency players to build systems that can take advantage of this order type while hurting natural liquidity.

Closing Comments

We believe the proposal should not be adopted in its current form. We do not see any benefits to this change to the intended audience of the Long Life order type. On the other hand, we believe these changes directly benefit low-latency participants for whom the Long Life priority advantage was never intended, and indeed, which the Long Life order type was intended to counteract.

If TMX Group believes that changes are needed, we recommend that TMX Group hold industry consultation on the future of the Long Life order type, including a broad cross-section of users. We do not believe such consultations took place prior to the publication of this proposal.

We appreciate the opportunity to comment on this matter.

Respectfully,

Nitin Mathur
Head of ScotiaRED Electronic Execution Services
Scotiabank Global Banking and Markets
(416) 945-6677 | nitin.mathur@scotiabank.com

Alex Perel, CFA
Managing Director
Scotiabank Global Banking and Markets
(416) 862-3158 | alex.perel@scotiabank.com