CSE | CANADIAN™ SECURITIES EXCHANGE

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and to:

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**To whom it may concern:**

**Re: Response to Request for Comment regarding CBOE Canada Directed Indication of Interest**

We are pleased to participate by providing feedback on the OSC's request for comment on the CBOE Canada proposed change relating to Directed Indications of Interest (D-IOI) published on October 24, 2024. As we review the proposal, it is necessary to consider how this affects fair access, one of the foundational principles of the Canadian capital markets, and the potential downstream consequences.

## Fair Access in the Canadian Markets

The concept of fair access has been integral to the Canadian market structure since the introduction of the Marketplace Rules. Fair access in Canada applies to many aspects of the operation of a marketplace, including fees for products and services, as well as access to functionality provided by marketplaces to trade. Access to trading generally means that all orders submitted to a marketplace interact with *all other* orders in that marketplace on a non-discriminatory basis. The application of fair access has been consistent in the equity market to prevent individual pools of liquidity from forming.

Any deviation from this application of fair access, as would be the case with the CBOE Canada's D-IOI where a) the Member can select which Sponsored Users (clients) it sends an IOI to, and then b) BIDS Trader allows a Sponsored User to narrow the type of liquidity received based on certain categories, would not be appropriate and does, in our view, represent an unreasonable level of discrimination not present in the Canadian market right now. CBOE Canada in their submission state that the D-IOI does not "unreasonably create barriers to access to the services provided by the marketplace.". However, if a Member can choose to which of its Sponsored Users D-IOIs are sent, the result is that this liquidity is not made available to the entirety of the relevant market. While one may argue that this is akin to the upstairs market, embedding this type of functionality into an exchange, in our view, is one step too far.

This behaviour – specifically permitting Members to choose to which Sponsored Users they may offer liquidity - opens the door for other functionality that may further limit access to order flow. It would then be difficult to deny these creeping proposals.,

## Segmented Flow

In our view, the D-IOI model is designed to, among other things, to facilitate internalization by the Member, where the Member sends a D-IOI to chosen Sponsored Users. This request is not seen by the broader participants in the IOI market, only the Members' Sponsored Users, and worse, only Sponsored Users of its choosing. It may be the case that similar workflows exist within Members but it is unique (and perhaps an overstep) in the equity markets to allow a process *within* an exchange facility with a public interest mandate that would enable dealers to solicit only its own clients.

## *Member Liquidity Source*

It is unclear whether there are restrictions regarding the type of order flow used to achieve the minimum size threshold in the D-IOI by the Member. Is the only position a house position? Does it represent a bundling of client orders that together would meet the threshold? Are there any controls on how the order is tagged by the Member (who is checking this?).

Permitting the Member to bundle client orders and use a marketplace to target specific clients to act as counterparties seems to be inconsistent with the goals of fair access and could create silos of liquidity.

### *Impact on Market Liquidity and Siloing Concerns*

If approved, this model risks creating isolated pools of liquidity accessible only to specific institutional participants, which could have a negative impact on broader market liquidity. Such siloed liquidity could lead to increased concentration, especially among larger institutional dealers, while limiting opportunities for smaller dealers. This may impact the ability of these Members to compete in the Canadian capital market. A decreasing number of independent and smaller dealers could impact other market participants, including junior issuers who access capital through these dealers.

## Conclusion

In conclusion, the proposal for D-IOIs allows for selective access for counterparties and challenges the fair access principle that has been a key driver of a robust Canadian market. While this model may be available through dealer/Member workflows, we do not believe that it is appropriate for a marketplace, especially one that is an exchange with a public interest mandate, to provide such functionality within the Canadian context. The potential for unintended consequences on market liquidity and fairness remains a concern.

We question whether this model could be contained such that it doesn't significantly impact the market by fragmenting liquidity. The risk of creating future silos of liquidity only accessible by the few still exist, potentially disadvantaging smaller dealers who likely could not participate in the pool and would be impacted by potential lack of quality in the residual liquidity left in the market.

If the proposal is ultimately approved, strict ring-fencing measures must be applied, with continuous monitoring to evaluate impacts on market structure, access, and liquidity availability for all participants. In addition, we do believe that CBOE Canada must build in system enforcement such that compliance with the model would be ensured.

Thank you for considering our views on this proposed change to the Canadian capital markets.

Sincerely,

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cc. Richard Carleton
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