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Via Email

**Re: Proposed Public Interest Rule Amendment and Request for Comments: Directed Indication of Interest**

Scotiabank appreciates the opportunity to comment on the proposal by Cboe Canada Inc. to introduce a "Directed IOI" mechanism to the BIDS platform.

**General Remarks**

Scotiabank's institutional equities team is a regular user of IOI functionality offered by multiple vendors. We routinely send IOIs to our client community, and the ability to choose which clients receive indications is part & parcel of a full-service equities business model. The ability to send indications of interest is not an innovation, but the proposal contemplates IOI capabilities within the walls of a marketplace. The majority of Cboe Canada's proposal is analogous to vendor solutions that exist today. However, there are some key differences.

First, existing vendor solutions for IOIs are designed to protect the information of buy-side clients, rather than the dealers disseminating IOIs. Traditional IOI mechanisms rely on dealers broadcasting indications, which are exposed to the buy-side regardless of whether any given firm has opposing trading interest. Cboe BIDS Canada would balance this approach somewhat by ensuring that an IOI sent by a dealer would only be exposed to clients whose blotter reflects an opposing interest –

meaning that information on a dealer's trading interest is exposed only to those clients which are likely to be a trading counterparty.

This information-management feature inherent in the Cboe BIDS Canada proposed model is useful for IOIs that are directly related to sensitive positions and trading risk from pre-existing facilitation positions. We support mechanisms that allow dealers to protect their information from leakage, just as we believe it is appropriate for the buy-side to protect its information from leakage to the broader Street.

Second, existing IOI mechanisms are operated by software vendors, with the complete IOI dissemination chain typically involving multiple vendors. These vendors are not marketplaces, are unable to conduct order matching on their own, and are therefore fully constrained to be a communication mechanism and workflow tool. This means that the IOIs are truly indications and not orders; to effect a trade a dealer must take a further step of converting a response to an IOI to a bona fide order. While this workflow is technically preserved in the Cboe BIDS model, all it takes for an IOI on Cboe BIDS to effectively act as an "order" rather than an "indication" is an automated firm-up on the dealer side.

Cboe Canada's proposal would blur the line between IOIs and orders and also introduce a mechanism for participants to choose which participants they wish to face on potential trades. Cboe Canada's proposal contemplates a marketplace acting on participants' instructions on which other participants may be interacted with, creating the possibility of multi-tier markets and uneven outcomes between different participants, or different classes of participants. In such arrangements, some participants are granted an advantage over others. In the Canadian market paradigm, the ability to tailor business models to specific customers or segments is reserved for dealers, while marketplaces must provide fair access to all, for the benefit of the entire trading community. Cboe Canada's introduction of counterparty-selection at the marketplace level would create an important precedent and blur the line between the respective roles of marketplaces and dealers.

We believe that any approval of a feature which allows dealers to dictate which participants a marketplace may face could be used as a precedent for marketplaces being able to further segment order flow, and therefore could erode multilateral access to order flow within the Canadian market in a way not contemplated by Cboe Canada's narrow proposed scope. In other words, we are concerned that Cboe Canada's proposal could be used as the "narrow edge of the wedge" towards more controversial marketplace proposals.

We note that the Cboe Canada's own proposal cites precedent from another marketplace, where a certain degree of segmentation has been permitted and which is also a user of blotter scraping. If the precedent used justifies the current proposal, but the current proposal is seen as inappropriate on a stand-alone basis, then we believe the precedent should be overturned and the relevant business model modified to fit the level playing field established for all.

Overall, we support Cboe Canada's intent to introduce a feature that allows dealers to better manage information on outbound IOIs. However, we would like to see this feature come to exist without creating the potential for others to leverage Cboe Canada's approval towards a more segmented and less multilateral market model.

### Answers to Specific Questions

*Question 1 In your view, is the proposed Directed IOI functionality consistent with the fair access requirement?*

The basic premise of Canadian market rules is that marketplaces offer a level playing field for all participants, and may automate order matching, while dealers are able to manage information and offer differentiated services without systematic and non-discretionary matching of buyers and sellers. Under current rules, there are aspects of this proposal that we consider at odds with fair access requirements.

Specifically, Cboe Canada's proposal for directed IOIs would permit a combination of non-discretionary methods for order matching combined with counterparty selection, which combines elements of each side of the marketplace vs. dealer divide.

We acknowledge that a grey area exists today in practice wherein dealers are permitted to engage in automated and non-discretionary methods for interacting as principal with certain sources of flow, without tripping the requirements of the definition of a marketplace. This has been considered an extension of the "market making" paradigm. We believe that if the Cboe BIDS Canada directed IOI model was restricted to purely market-making/client facilitation activities, and directed IOIs sent through Cboe BIDS Canada were exclusively representing a dealer's principal trading interest, the "market making" paradigm may be applicable and a potentially impactful precedent may be avoided.

*Question 2 Would users of Directed IOIs have an informational advantage over other market participants since they would have information, including the nature of the counterparties, that is not available to other market participants?*

Yes. The combination of counterparty selection on the sending dealer's part, with blotter scraping by Cboe BIDS Canada to expose IOIs to likely counterparties, creates an information advantage for the counterparties which hold in hand contra orders. This is intentional, and may be considered by some to be a feature, as it prevents information on trading activity from being exposed to participants which are not likely to be counterparties, and in fact may use this information to their own advantage.

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