

March 1, 2019

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Government of Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Service NL (Newfoundland and Labrador)
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Department of Justice, Government of Nunavut

Attention:

The Secretary
Ontario Securities Commission
comments@osc.gov.on.ca

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Consultation-en-cours@lautorite.qc.ca

Re: Proposed Trading Fee Rebate Pilot Study

Citadel Securities Canada¹ appreciates the opportunity to provide comments to the Canadian Securities Administrators (“CSA”) on the proposal to establish a Trading Fee Rebate Pilot (the “Proposed Pilot”).²

The Proposed Pilot acknowledges that due to the interconnected nature of the Canadian and U.S. securities markets, it is essential to implement significant market structure changes in a coordinated manner to the extent practicable.³ While we have strong reservations about certain aspects of the U.S. Securities and Exchange Commission’s transaction fee pilot for NMS stocks – including significant concerns relating to the practical impacts of a zero-rebate test group – we nevertheless urge continued coordination and alignment as the CSA considers finalizing and

¹ Citadel Securities is a leading global market maker across a broad array of fixed income and equity securities. In partnering with us, our clients, including asset managers, banks, broker-dealers, hedge funds, government agencies and public pension programs, are better positioned to meet their investment goals.

² http://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20181218_23-323_trading-fee-rebate-pilot-study.pdf.

³ Proposed Pilot at page 1.

implementing the Proposed Pilot. Therefore, in addition to the feedback we provided on the proposed U.S. transaction fee pilot,⁴ we provide below several recommendations designed to better harmonize the Canadian and U.S. pilots.

First, the zero-rebate test group included in the final U.S. transaction fee pilot contains an exception for exchange market maker programs. Specifically, exchanges are permitted to adopt new rules that provide “linked pricing” to registered market makers in consideration for meeting rules-based market quality metrics.⁵ We recommend the CSA provide a similar exception in the Proposed Pilot. Otherwise, the balance between benefits and obligations would be significantly altered for market makers operating on Canadian exchanges, which could adversely impact the current trading dynamics for interlisted securities included in both pilots.

Second, given the significant trading volumes in interlisted securities, we recommend that these securities be included in the initial implementation phase of the Proposed Pilot, which should coincide with the start of the U.S. transaction fee pilot. Non-interlisted stocks could be covered by the Proposed Pilot either at the same time or during a second phase. We believe that applying the Proposed Pilot to non-interlisted stocks first, or to interlisted stocks prior to the start of the U.S. transaction fee pilot, will increase implementation costs for market participants and raises the very same concerns that led the CSA to decide in 2016 not to move forward with a pilot unless a similar study was undertaken in the U.S.⁶

Finally, we encourage the CSA, in advance of any pilot, to leverage currently available market data in order to study the impact of transaction fees and rebates on order routing, execution quality, and market quality. This research would help to establish a baseline for evaluating the impact of the Proposed Pilot and inform how to design the optimal pilot structure.

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We appreciate the opportunity to provide comments on the Proposed Pilot. Please feel free to contact the undersigned with any questions regarding these comments.

Respectfully,

/s/ Mark Wilkinson
President, Citadel Securities Canada ULC

/s/ David Archer
Head of CES Canada

⁴ See our letter dated May 25, 2018, available at: <https://www.sec.gov/comments/s7-05-18/s70518-3712479-162477.pdf>.

⁵ Transaction Fee Pilot for NMS Stocks, 84 Fed. Reg. 5202, (Feb. 20, 2019) at 5222, available at: <https://www.govinfo.gov/content/pkg/FR-2019-02-20/pdf/2018-27982.pdf>.

⁶ Proposed Pilot at page 1.