



The Secretary
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Me Anne-Marie Beaudoin - Corporate Secretary
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Kevin McCoy - Vice President, Market Regulation Policy
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May 28, 2019

Dear Sirs/Mesdams:

Re: Joint CSA/IROC Consultation Paper 23-406 Internalization within the Canadian Equity Market (the “Consultation Paper”)

Acumen Capital Finance Partners Limited (“Acumen”) appreciates the opportunity to comment on the important issues raised in the Consultation Paper.

Acumen does not object to the practice of internalization for large orders, to reduce market impact. However, we do object to the practice of internalizing a significant portion of trade flow, such that an ever-decreasing number of orders can be interacted with in the order book by other participants, reducing liquidity, transparency, price discovery and fairness. We believe that the key market attributes of liquidity, transparency, price discovery and fairness, are critical to market integrity and are not supported by internalization that is not confined to large orders and are not supported by broker preferencing.

The common good must trump the individual good. We have woven this into our daily lives in countless ways and our capital markets take this as a fundamental principle. We risk fair and efficient markets when “the system” allows certain participants to benefit on an on-going basis at the expense of other participants and confidence in the marketplace as a whole.

As a smaller, independent dealer, Acumen is not able to undertake broker preferencing in any meaningful way, as we do not have a sufficient number of orders to match on real-time, ahead of other orders in the queue. As a result, our firm and our clients are at a disadvantage on a structural level, as our clients’ orders may have delayed execution as broker preferred orders are not subject to order time priority. We note that the Consultation Paper states broker preferencing pre-dates modern electronic marketplaces and was an incentive to encourage dealers to commit orders to the order book. With the evolution of the electronic trading structure,

broker preferencing should no longer be necessary and appears to be in place today to advantage dealers with large retail liquidity pools, primarily bank-owned dealers.

In respect of broker preferencing, Acumen believes orders that are created solely to take advantage of existing orders are not appropriate. Acumen supports banning broker preferencing as a whole and supports strict time and price priority to ensure fairness. Exposing orders on a marketplace should come with an opportunity for all to have a chance to trade with the order. As orders are exposed on the marketplace and all dealers are allowed to trade with it, liquidity will be created. Where orders are intercepted without an opportunity for others to trade, the added value to the market is limited. When smaller firms are providing price discovery through providing the quote and are not able to interact with the flow on a fair basis, the perception of the market as a fair and desirable place to trade is diminished. We believe that segmentation, fragmentation, broker preferencing and routine internalization has degraded the quality of the market, and that the more this is permitted, the more orders in the market lose the benefits of being competed for. The perception that the market is unfair may ultimately undermine investor confidence, diminishing the vitality and integrity of the Canadian market in general.

We recognize that dealers with large retail liquidity pools have a strong incentive to maintain broker preferencing and these firms are likely to attempt to replicate the results of broker preferencing in other ways to protect their structural advantage. Strategies and mechanisms to replicate broker preferencing in other ways could harm some of the six key market attributes and result in an increase in market segmentation and fragmentation. Should the CSA/IIROC decide to reform broker preferencing or ban broker preferencing, we request that the CSA/IIROC consider what actions these firms may undertake to ensure the regulatory objectives of any reforms undertaken are achieved.

Yours very truly,

Acumen Capital Finance Partners Limited



Brian Parker
President & Chief Executive Officer



Myja Miller
Chief Financial Officer & Chief Operating Officer