



Canadian Securities
Administrators

Autorités canadiennes
en valeurs mobilières

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Canadian Securities Regulators Articulate Concerns on Routing Retail Equity Orders to U.S. Dealers

Toronto – Members of the Canadian Securities Administrators (CSA) today set out their concerns with respect to the practice of routing retail equity orders to U.S. dealers.

Retail orders are an important part of the Canadian market ecosystem, and the CSA continue to support the existing rule framework, which emphasizes the importance of these orders to the quality of the Canadian equity market, including the price discovery process.

It has come to the attention of the CSA that a number of Canadian investment dealers have entered into, or are considering entering into, arrangements to route Canadian retail investor orders on a broad basis to U.S. dealers for execution.

Under these arrangements, retail orders are not typically executed on U.S. exchanges, but instead are executed by U.S. dealers off-marketplace. Canadian investment dealers may receive payment or other benefits for sending these orders to the U.S. dealers.

These retail orders are being executed by U.S. dealers without consistently meeting the minimum price improvement requirement set out in the dark liquidity regime implemented in 2012, and codified in Rule 6.6 of the Investment Industry Regulatory Organization of Canada (IIROC's) Universal Market Integrity Rules (UMIR).

More broadly, the CSA have public interest concerns regarding this practice. Specifically, the CSA are concerned that widespread routing of retail order flow to U.S. dealers will negatively impact the quality of the Canadian market, and may affect the quality of execution achieved for investors.

The CSA is supportive of IIROC's publication of guidance in relation to the definition of "Foreign Organized Regulated Market" as defined in UMIR, and are working with IIROC to evaluate and develop appropriate regulatory measures to ensure the continued quality of the Canadian equity market.

The CSA, the council of the securities regulators of Canada's provinces and territories, coordinates and harmonizes regulation for Canadian capital markets.

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