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***VIA ELECTRONIC DELIVERY***

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RE: REQUEST FOR COMMENTS NOTICE 24-0213 – PROPOSED AMENDMENTS RESPECTING  
NET ASSET VALUE ORDERS AND INTENTIONAL CROSSES

Dear CSA/CIRO:

Virtu Canada Corp. appreciates the opportunity to provide our perspective on the Proposed Amendments and their potential impact on Canadian ETF trading and other market making activities. Virtu Canada Corp. is the Canadian investment dealer arm of Virtu Financial ("Virtu"), a leading global provider of financial services and products that leverages cutting-edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to its clients.

Virtu and its subsidiaries operate as a market maker across numerous exchanges in Canada, the U.S. and elsewhere globally. Virtu's market structure expertise, broad diversification, and execution technology enable it to provide competitive bids and offers in over 25,000 securities, at over 235 venues, in 36 countries worldwide. Furthermore, Virtu operates an extensive ETF market making business, providing deep ETF block liquidity to institutional clients around the globe.

Prior to the publication of this proposal, Virtu participated in a working group along with other market participants and CIRO in order to provide feedback on necessary market structure changes primarily to facilitate ETF market making activities. We commend CIRO on this initiative and are overall pleased with the resulting proposed amendments which we expect to result in meaningful improvements in the opportunities for other dealers to access ETF block liquidity.

## Discussion

### Net Asset Value (“NAV”) Orders

The ability for institutional clients to access ETF liquidity at the ETF's NAV is an important component of many portfolio manager's investment objectives. Managers may be attempting to track a benchmark and NAV referenced trades result in better tracking to that benchmark, improving their ability to meet their mandates. Market makers like Virtu provide an important role in facilitating this trading, which is often sizeable and if undertaken solely in the secondary market (near closing for example) could result in suboptimal dislocations as closing prices diverge from benchmark prices.

An important topic on NAV orders is whether the price provided to the client must be precisely at NAV or rather a price referenced to NAV +/- some other factors. As discussed with CIRO staff, Virtu believes it is critical that NAV orders continue to be permitted to occur at NAV +/- NAV orders are typically accompanied by the market maker undertaking a creation or redemption with the ETF issuer in order to facilitate the order. Facilitating the order then incurs costs to perform the creation or redemption which must be considered in the end price to the client. Examples of costs incurred when undertaking NAV trades include:

- Fixed costs charged by the ETF issuer for the use of the creation or redemption process.
- Stamp taxes, financial transaction taxes, and other regulatory levies charged by governments globally.
- Costs associated with FX transactions and hedging including FX spreads inherent in the prices available to hedge at.
- Broker execution fees of underlying components traded on international exchanges. For example, dealers may not be an executing broker or have executing affiliates in all countries where the underlying components trade. In these instances, you must use a local executing broker that charges their own fees for the trade.
- Platform fees, such as those charged by TradeWeb or Bloomberg. Firms are typically charged a markup or markdown on the transaction facilitated through these platforms.
- Interdealer broker fees for trades done OTC. These are typically priced in basis points.
- Costs of market risk where orders are received past cutoff times for creations and redemptions on that day, where risk is then carried into the next trading day.
- Interest costs of carrying positions over the weekend, depending on settlement timelines.
- For fixed income components, spreads inherent in the bond prices available to trade at.

We further note that trading at NAV +/- is already an international standard, conducted in both the United States and Europe. Any prohibition of this activity in Canada could result in meaningful harm to the robustness of our capital markets and their attractiveness to foreign investment.

### “Jitney” Intentional Crosses

As CIRO noted in the rule proposal, the current definition of intentional cross excludes the use of a jitney order and originates from rules put in place over 20 years ago at a time when Canadian market structure was considerably different from the present day. The current prohibition on intentional crosses between two dealers is an unnecessary restriction and unfairly disadvantages originating participants from accessing liquidity of the executing participant. The alternative of routing two jitney orders to interact separately on exchange introduces unnecessary risk and operational complexity with no clear benefit or purpose.

With respect to ETFs, the inherent nature of the creation and redemption process, the related operational complexities and the industry's continued growth in the number of ETFs favours the consolidation of activity at only a few dealers. The technology infrastructure required to track the underlying holdings, NAVs, and creation/redemption procedures for every ETF trading in Canada is generally only available to larger firms that have invested considerable resources in building out the processes. The cost and usage of capital also favours larger dealers and is a significant limitation for smaller dealers looking to start offering this service. Accordingly, limiting the ability of smaller dealers from accessing the liquidity of ETF market makers unfairly disadvantages clients of these dealers and the prices they may receive on their orders.

Virtu strongly supports the proposal to allow “jitney” intentional crosses and, through our conversations with other industry participants, we understand this is a clear industry consensus.

## **Questions and Responses**

We have provided direct responses to the questions posed in the following pages:

**QUESTION #1:** *Should we impose any restrictions on the entry of a Net Asset Value Order? (e.g., should we restrict the entry of a Net Asset Value Order to orders greater than a minimum size?) If so, please explain why and set out what the minimum size should be.*

**Answer:**

We do not support any regulatory restriction on a minimum size for NAV orders.

We are concerned that a minimum size would result in an arbitrary bifurcation in execution quality between larger and smaller sized orders. The nature of the execution process (i.e. a trade today at an unknown future price) already sufficiently distinguishes NAV orders from secondary market orders. Furthermore, a restriction on the size of NAV orders would result in unnecessary complexity in dealer and client workflows for no clear benefit.

We note that Canadian Depository Receipts (“CDRs”) share similar creation and redemption mechanisms with ETFs. We submit that the NAV order type should also be permitted for CDRs to improve liquidity for market participants.

**QUESTION #2:** *Should we impose any restrictions on the use of an intentional cross with jitney? (e.g., should we impose a minimum size threshold that would apply when entering an intentional cross with jitney on one side of the trade?) If you believe a minimum size threshold is appropriate, please explain why and set out what the threshold should be.*

**Answer:**

We do not support additional regulatory restrictions, including a minimum size threshold, on jitney intentional crosses.

Similar to our response to Question #1, a minimum size threshold would result in unnecessary complexity and result in the set of orders below the threshold likely receiving poorer execution quality with no clear benefit. Intentional crosses with principal liquidity are already subject to a number of other requirements in UMIR such as Order Exposure and Price Improvement requirements which result in these client-principal crosses occurring only when it is beneficial for the client.

**QUESTION #3:** *While CIRO would generally expect that a Net Asset Value Order should be executed as soon as is practical after publication of NAV by the issuer of the ETF, should this be directly included as a requirement for entry of a Net Asset Value Order (i.e., where NAV is published after trading hours have ended on all Canadian marketplaces, should Participants be required to execute those trades as soon as trading hours begin on a Canadian marketplace the following trading day)?*

**Answer:**

With recent amendments to settlement cycles in North America (notably the move to T+1), we believe there already remains an effective market mechanic that result in NAV trades occurring no later than the following trading day – primarily because NAV orders are generally settled on the same day that they are entered to a marketplace.

However, should CIRO decide to pursue a restriction in this area, it would not be burdensome to require that the order be entered to a marketplace on the subsequent trading day prior to the publication of next NAV for that day. We see no compelling reason to require the order to be entered as soon as trading hours begin given the proposal to add a new order marker will allow market participants and CIRO to clearly distinguish NAV orders from other types of orders.

**QUESTION #4:** *The Proposed Amendments would add a new designation of a “Net Asset Value Order” in UMIR 6.2(1)(b) that would be required to be applied with the entry of a “Net Asset Value Order” on a marketplace, and which would be required to be disclosed for display by the marketplace on which the “Net Asset Value Order” is entered. Have you identified any concerns with public disclosure of an order that is a “Net Asset Value Order”?*

**Answer:**

We have not identified concerns with public disclosure of the NAV order designation. Informed participants can generally already identify these transactions occurring in the pre-market and the delayed nature of the transaction (i.e. entered on a marketplace well after NAV is known) further limits a potential negative impact.

We note that NAV orders should still be permitted to be entered as “anonymous” to ensure client requests for anonymity can be accommodated.

**QUESTION #5:** *The definition of a “Net Asset Value Order” as proposed does not require the execution price to be the exact NAV as published by the issuer of the ETF, but instead at a price that references the published NAV. This reference price may include fees incurred by the executing Participant and/or commissions embedded in the execution price. Please identify any concerns with this proposed approach.*

**Answer:**

As noted in the discussion above, it is critical that the rule allow for NAV orders to be executed at NAV-referenced prices instead of the actual NAV. Limiting the ability of dealers to set their pricing in order to cover their costs incurred will likely result in a significant contraction in liquidity in this market. Please see our discussion above on NAV orders.

**QUESTION #6:** *Have we identified all the material impacts on clients, issuers, Participants, Access Persons, marketplaces or CIRO as a result of the Proposed Amendments? If not, please list any other impacts that you believe will materially impact one or more parties and why. In particular, please provide comments on the potential costs associated with the proposed introduction of a Net Asset Value Order, and associated designation requirements under UMIR 6.2*

**Answer:**

While the introduction of a new order designation will certainly result in additional costs for market participants, we do not feel the new requirements are onerous and do not expect significant technical complications in accommodating the new designation. The materiality of these costs will vary from participant to participant, in particular participants that rely on vendors for their related order routing technologies versus participants that use in-house developed systems.

One solution to help mitigate potential costs could be to use an existing FIX tag, for example the CrossType tag, used to denote Specialty Cross types.

**QUESTION #7:** *Overall, do you agree with CIRO’s qualitative assessment that the benefits of the Proposed Amendments are proportionate to their costs? Please provide reasons for your views.*

**Answer:**

While we encourage CIRO to work with Execution Management System (“EMS”) vendors to identify the most effective way to capture the new designation, overall, we believe the benefits of the proposal (and in particular the proposal to allow jitney intentional crosses) is proportional to potential costs.

As noted above, we expect these proposals as written to result in meaningful improvements to liquidity in this market for the ultimate benefit of the end clients.

**QUESTION #8:** *Would 90 days for implementation be sufficient time for:  
Participants and marketplaces to undertake required systems changes to support the new “Net Asset Value Order” designation, and  
Participants to update their processes and policies and procedures to ensure the use, and supervision of, the new “Net Asset Value Order” designation as appropriate?*

**Answer:**

While a 90-day implementation time would likely be sufficient for Virtu, we believe some vendors may need additional time to accommodate the new designation and allocate resources for necessary development.

We encourage an approach similar to the client identifier designation changes, namely a period where the new markers may be used by those who are ready but not yet enforced by CRO. This could be accomplished by an interim requirement to file corrections in the RMCS system.

\* \* \*

Virtu appreciates the opportunity to provide our perspective on these proposals and would welcome the opportunity to discuss further with CSA and CRO staff on potential alternate approaches to improve market quality and increase order competition.

Respectfully submitted,

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