

NEWS RELEASE

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Next stage to study impact

IIROC publishes study of High Order-to-Trade (HOT) activity on Canada's equity markets

December 12, 2012 (Toronto, ON) – The Investment Industry Regulatory Organization of Canada (IIROC) today published the first two phases of a comprehensive [report](#) it has undertaken on trading activity related to high-frequency trading (HFT) in the Canadian equity markets.

The High Order-to-Trade (HOT) Study is part of an ongoing analysis, which when completed, will help Canadian and global regulators and market participants better understand the nature and impact of HFT and related trading.

“This study leverages the rich set of consolidated regulatory data from IIROC’s real-time multi-market surveillance technology,” said Susan Wolburgh Jenah, IIROC’s President and Chief Executive Officer. “The study supports IIROC’s mandate to foster fair and efficient markets and bolster investor confidence in their integrity.”

“The results of this study will help to inform IIROC’s work with other Canadian regulators to determine the most appropriate response in the context of global regulatory developments.”

The HOT Study objectively identifies a study group of traders and offers a detailed, statistical analysis of their activity. The study focuses on the activity of traders who were responsible for a high number of orders, compared to the number of trades they actually completed between August 1, 2011 and October 31, 2011 on Canadian equity markets.

The third phase of the study will assess the impact of HFT and related activity on Canadian market quality and integrity from multiple perspectives, such as liquidity, price formation, volatility and overall market confidence. To assist in the third phase, IIROC has issued for comment a [Request for Assistance](#) for a 30-day period to obtain feedback from all interested stakeholders.

The HOT Study found that 11% of all traders were HOT traders and that this group accounted for 22% of the total share volume traded in Canada and 94% of order messages. The study also found that HOT traders were responsible for 36% of Canadian share volume traded in US inter-listed securities.

The research will complement other initiatives already adopted by IIROC and the Canadian Securities Administrators to govern electronic trading. Examples include revised electronic trading rules and guidance, proposed third-party electronic access rules and guidance, and proposed guidance on manipulative and deceptive trading.

Related Documents:

- IIROC Notice – [Provisions Respecting Electronic Trading](#), December 7, 2012
- IIROC Notice – [Guidance Respecting Electronic Trading](#), December 7, 2012
- IIROC Notice – [Proposed Provisions Respecting Third-Party Electronic Access to Marketplaces](#), October 25, 2012
- IIROC Notice – [Proposed Guidance Respecting Third-Party Electronic Access to Marketplaces](#), October 25, 2012
- IIROC Notice – [Proposed Guidance on Certain Manipulative and Deceptive Trading Practices](#), July 17, 2012

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The HOT Study Backgrounder and Highlights

About IIROC and the Study

- IIROC oversees all Canadian equity trading under a single set of rules.
- Through its Surveillance Technology Enhancement Program (STEP), IIROC is able to effectively conduct surveillance of all equity markets on an intra- and inter-market basis.
- As a result, IIROC has a rich repository of regulatory market data consisting of all orders and trades executed on all national equity markets. We are using this

data to help us analyze and understand trading patterns in the Canadian equity markets.

- In 2011, IIROC created an in-house Analytics team dedicated to proactive and reactive market analysis to inform policy decision-making. The team began its preliminary work on Phase I of the study in late 2011 and the statistical analysis for Phase II was initiated in Spring 2012.
- Preliminary results from this analysis were presented at the joint IIROC/OSC Market Structure Conference in June 2012 and made available on IIROC's web site.
- There is no universally accepted definition of HFT.
- The HOT Study does not attempt to define HFT. Rather, IIROC statistically identified an outlier group of trader user IDs with a high order-to-trade ratio (one of the key characteristics commonly associated with HFT activity) to establish the study group (the HOT User Group). The HOT User Group encompasses a wide range of participant types including clients who directly trade electronically on the markets through a Direct Market Access (DMA) arrangement with a Canadian dealer, dealers engaging in proprietary trading, dealers trading on behalf of their clients, and dealers engaging in specialist trading/market making for Exchange Traded Funds and Notes (ETFs/ETNs) and other listed securities.
- Using the data to determine the study group and drive the analysis allowed us to view all types of trading activity in an unbiased manner.
- The study covers the prevalence, activity and characteristics of HOT traders. It includes all trading activity on exchanges and most alternative trading systems in Canada in the period studied (August 1, 2011 to October 31, 2011).
- During the study period:
 - Share volume, value and trades all declined, particularly in October 2011.
 - Canadian activity in US inter-listed securities represented 23 % of volume, 59 % of value and 55 % of trades.
 - Canadian activity in S&P TSX 60 securities represented 27 % of volume, 59 % of value and 49 % of trades.
 - 5 % of all trading in Canada was dark trading (including dark markets and order types).

Key Findings of Phases I and II -- Trading by the Study Group

- HOT traders:
 - represent 11% of User IDs
 - account for 22% of trading volume, 32% of dollar value, 42% of trades and 94% of all order messages sent
 - trade 36% of all Canadian share volume traded in US inter-listed securities
 - trade 60% of all Canadian trading in ETFs and ETNs
- HOT users trade:
 - a larger percentage of total dark activity than displayed market activity

- anonymously more often than other market participants
 - passively approximately 66% of the time
 - over 90% of their activity through seven IIROC Dealer Members
 - 23% of their volume within the same broker¹ – generally more than retail users and less than other users (excluding retail)
 - predominantly liquid TSX-listed securities priced over \$1.00
 - more in TSX 60 Index securities than in other TSX-listed securities
 - primarily outside of the Opening or Market on Close trading sessions
- HOT Users earned \$250,000 more per day in rebates than they paid in fees². All other participants earned more rebates than HOT Users; however these other participants paid \$462,000 more per day in fees than they earned in rebates².
- 40% of HOT Users were identified as DMA (as opposed to non-DMA).
- HOT DMA Users:
 - were responsible for the majority of trading by all HOT Users
 - that were categorized as “Fast” (44% of HOT DMA Users) were responsible for 91% of HOT DMA Users’ share volume
 - have lower order-to-trade ratios when compared with non-DMA HOT Users
- Average order-to-trade ratio is higher in ETF trading for all HOT Users, but particularly for the non-DMA groups.
- By all measures, HOT clients (DMA and non-DMA) are more active in common shares and HOT non-DMA (inventory and other) are more active in ETFs/ETNs.

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

¹ Same-broker trading encompasses both intentional and unintentional crosses.

² Over the study period for the securities included in the trading fee sample.

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.