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Dear Sirs/Mesdames:

ITG would like to thank the TMX Group for this opportunity to comment on the application of the proposed changes to the Required Insider Reports.

Since the various provincial Securities Commissions first mandated these reports, in September 2006, much has changed in our marketplace. Among the most notable changes has been the improved ability for regulators, and IIROC in particular, to monitor trading activity in real time and recognize suspicious activity. This increased capability, along with zero evidence of any non regulator ever using the Required Insider Report to evidence actual insider trading, suggests the benefit of these reports is at best questionable. On the other side of the coin, we have long argued that such reporting is harmful to insiders looking to either create or unwind a large insider position over multiple days. As such, we are in favour of eliminating the existing reports, or at the very least delaying the data by several days.

Our answers to the specific questions in the RFC are set out below:

Question 1: Are the Required Insider reports useful for investors? If so, please explain why they are useful and how the Required Insider Reports are used

We think the TMX is asking the wrong question. Without doubt there are investors who gain value from these reports, by making decisions based, at least in part, on information around insider activity. It is common in many jurisdictions for investors to use insider activity to determine underlying sentiment amongst the most informed investors as an



input. Much of this value would not be greatly reduced by delaying the dissemination of this data – as is the norm in most developed markets.

Currently most major trading desks, as well as many prop trading and hedge fund firms subscribe to these reports. A high touch trader is expected to inform large clients if a name they hold is being acquired or sold in size by an insider. It is typically considered good coverage to inform a client entering a new order, that the name they are buying (selling) was being sold (bought) in size the previous day by one or more insiders. This information is often used to determine the urgency of competing on contra side orders in a tactical fashion – likely improving their own execution costs to the detriment of the insider that is attempting to build or unwind a large insider position.

Typically prop firms and hedge funds will use the data to create trade ideas. When seeing reports of a large insider trading in the previous day, they will look for early evidence that the insider is back (quote strength, reappearance of the previous day's biggest broker in the name) and then trade “along” with the insider in an attempt to scalp a short term profit. Again one “investor” gains value, but an equal or greater value is lost by the insider.

Question 2 Does the public dissemination of the required Insider reports on an end-of-day basis result in the potential harms to large security holders of issuers identified above? Are there other concerns and issues we have not identified?

Without a doubt the insider report results in potential harm to large security holders. Consider the not uncommon case where a large insider sells 1 million shares of XYZ. The following morning traders across Bay Street inevitably look at the holdings list and conclude only one insider own such a large position – and in fact that investor holds 10 million shares. They are then armed and ready to short said stock given even reasonably evidence the insider is continuing to sell stock. This amplifies the trading cost of insiders, and greatly disincentivizes the creation of insider positions in the first place. Such strategic investors are of great value to corporate issuers, and their mistreatment by the Canadian marketplace – at least relative to other markets – can only harm both strategic investors and corporate issuers.

In a day and age of broker dealers having an extremely close eye on all expenses, we are unaware of any dealer that has stopped subscribing to this data – despite the TMX increasing the costs again in January. This alone should highlight the value being derived by this data, from folks beyond the insider (who presumably already knows about the trade),



Question 3 Should information regarding trading by insiders continue to be provided through the Required Insider Reports on a more timely basis than is currently publicly available through SEDI? If it should be delayed from the current end-of-day reporting, what length of delay is appropriate to balance between any benefits and issues associated with the current end-of-day reporting? For example, would delaying publication until T+3 achieve that balance?

We can fathom no good reason to continue with these reports. The initial imperative was to help with the detection of illegal trading activity. Since 2006 IROC has greatly improved their monitoring capabilities. To the extent that they will still be able to see all insider markers in real time – and lacking evidence of even a single instance where a user of the daily insider report resulted in an insider trading conviction – we believe the report does not satisfy the macro prudential driver for its creation. Given our above statements about it causing real harm to insiders and corporate issuers, we don't believe the report should persist.

Question 4: If the Required Insider Reports are considered to be valuable to the public, do you agree that similar information should also be made available from all marketplaces? How would this be best achieved? Is there a benefit to having the information be provided on a consolidated basis?

While we strongly urge the OSC / TMX to do away with these reports, we do find it odd that such an asymmetry exists. If there is some real value in making insider trades transparent on a T+1 basis, it would seem that this should apply to all markets. This does highlight another concern, currently we have clients who will trade such orders in the U.S. market, for interlisted names, just to avoid the market impact these reports potentially drive. As such, the reports actually harm the competitiveness of the Canadian market as a whole

Thank you for allowing us the opportunity to comment on this proposal. As always, we would be more than happy to answer any questions, or expand upon our thoughts as desired.

Sincerely,

Doug Clark
Managing Director,
ITG Canada

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