

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 Instinet Canada Cross Limited (ICX) – Notice of Completion of Staff Review – ICX Initial Operations Report

INSTINET CANADA CROSS LIMITED (ICX) NOTICE OF COMPLETION OF STAFF REVIEW

ICX INITIAL OPERATIONS REPORT

On February 11, 2011 Instinet Canada Cross Limited (ICX) announced its plans to begin operations as an Alternative Trading System (ATS). An Initial Operations Report was published for comment in accordance with OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*. One comment letter was received, and a summary of that comment letter and a response prepared by ICX is included at Appendix A to this notice.

OSC staff have completed their review of the Initial Operations Report and have no further comments. ICX will publish a notice indicating the intended launch date.

APPENDIX A

INSTINET CANADA CROSS LIMITED (ICX) SUMMARY OF COMMENTS AND RESPONSES

INITIAL OPERATIONS REPORT

Summary of Comments Regarding Proposed ATS

The CNSX letter expresses their views about dark pool marketplaces in general and concludes that any new initiative that does not conform to the CSA/IIROC stated views would appear to be premature. Their letter reflects their bias towards visible marketplaces such as the ones operated by them, implies that ICX might not conform to CSA/IIROC stated views on dark pools and reads into the National Marketplace Instrument principles that are not present in it. The letter misconceives how ICX will actually operate. Since the VWAP and BLX cross products to be offered by ICX are designed to execute large orders while also allowing participants the benefits of minimal market impact and price improvement, in our view ICX will in fact conform with the policy objectives set out by the Joint CSA/IIROC – Position Paper 23-405 – Dark Liquidity in the Canadian Market.

Cost/Benefit Analysis

The suggestion that a careful cost/benefit analysis be undertaken prior to the introduction of ICX is not supported by the principles of the National Marketplace instrument or any evidence that dark liquidity has had a negative impact on the Canadian capital markets. Also, dark pools in Canada represent a very small percentage of trading in Canada.

Use of “Cross” Terminology

The term “cross” is often used to refer to pre-arranged trades not done on a continuous auction basis. Our use of “cross” or “crossing” in ICX’s name and products reflects the idea of two brokers meeting to put up a trade outside of a continuous auction market and is consistent with how the term is used by operators of dark pools in global markets. In the numerous meetings with potential subscribers of ICX no concerns have been raised regarding the usage of “cross” terminology.

BLX Cross

The concern is raised that allowing small orders and with pricing occurring within a 10 second window once a size threshold is met is the marketplace equivalent of a dealer withholding a number of client orders from the marketplace in order to bundle

everything as a cross. This analogy is flawed and misleading. When an order is entered into ICX's BLX no one is withholding the order from a marketplace. On the contrary, the broker has determined that entering the order on ICX is in keeping with its best execution and client order exposure obligations.

Once the size threshold is met, the trades on both sides are locked in and will be priced within 10 seconds. The 10 second pricing window has been implemented as an anti-gaming measure. Order size and price improvement requirements on ICX will adhere to regulatory rules.

General

The VWAP and BLX cross products are designed to execute large orders while also allowing participants the benefits of minimal market impact and price improvement. In our view ICX's VWAP and BLX offerings achieve the public policy objectives set out by Joint CSA/IIROC – Position Paper 23-405 on Dark Liquidity in the Canadian Market. The introduction of the ICX cross products will enhance Canadian markets by introducing innovation, enhancing competition and offering choice to Canadian Investors.

If you have any questions please do not hesitate to contact me.

Very truly yours.

K.J. Klepacki CA, CFA
Chief Operating Officer
Instinet Canada Cross Limited