

## **Latest report from Forefactor sheds light on Canada's dark pool debate**

### ***Examines opportunities for new entrants in the marketplace***

Toronto, March 2, 2011 -- The arrival of Alternative Trading Systems (ATs) has sparked vigorous debate about the positive and negative consequences for Canada's market micro-structure, as well as the viability of different market models. In its latest report, Forefactor, the independent market research and strategic consulting firm, explores the current status of dark, grey and lit pools of liquidity in Canada and asks whether there is room for growth in the Canadian dark market.

Renée Colyer, Forefactor's founder and CEO, says: "There are plenty of U.S. and European players paying close attention to the regulatory environment that surrounds dark pools in Canada so they can assess the potential benefits of expanding the presence of their Canadian subsidiaries. We feel that the larger and more important question is whether or not the Canadian marketplace has the capacity for more dark pool entrants. We have set out to explore these issues in our new report which examines trading venue market share for the six ATs in Canada: three lit markets – Pure Trading, Omega and Alpha; two dark markets – Match Now and Liquidnet; and one grey market – Chi-X."

Colyer points out: "Aggregating all dark trades across the marketplaces shows that dark liquidity accounted for less than three percent of the total market in 2010 (not including the 'upstairs' market which is estimated at 20 percent of Canadian volume). Our report outlines the challenges and opportunities that dealers should consider when contemplating launching a dark pool in Canada. In addition, it analyzes the impact that decisions made by Canada's regulating bodies could have on the process."

The report indicates that there may be opportunities for new entrants wishing to offer low market impact to the buy-side by crossing their orders with internal retail or proprietary flow before sending an order to the lit market. If permitted, this will offer the broker-dealer the ability to realize internal efficiencies as well. Of course, the emergence of the new "dark regime" will drive the proliferation (or not) of dark pools in Canada.

Colyer continues: “Brokers’ internal matches are currently permitted in Canada but are subject to exchange pricing and price improvement. Conversely, internalization engines at the market level (i.e. marketplaces) are not permitted. Goldman Sach’s SIGMA X and Credit Suisse’s Crossfinder are two such engines (out of many) that are not restricted by these rules in the U.S. There are heavy indications that regulators will maintain existing legislation with respect to internalization. We believe that regulators will be taking the wrong path toward regulating this marketplace if they choose to become more prescriptive in their approach to trade regulation. Canada has always prided itself on its principles-based method of regulating.”

The Forefactor report concludes by offering a summary of the joint Canadian Securities Administrators (CSA)/Investment Industry Regulatory Organization of Canada (IIROC) position paper entitled, “*Dark Liquidity in the Canadian Market*”. The questions addressed are as follows: under what circumstances dark pools or marketplaces that offer dark orders should be exempt from the requirements of pre-trade transparency; under what circumstances dark orders should be obligated to provide meaningful price improvement over the National Best Bid/Offer (NBBO); the meaningful level of price improvement; and whether visible orders have priority over dark orders at the same price on the same marketplace.

The report, “*Dark Pools in Canada – Is there Room for Growth?*” is the latest in a growing library of syndicated research reports. Forefactor’s reports cover a variety of topics and are designed to provide clients with the intelligence needed to better understand their operating environments and the events that directly impact their business performance, competitive positioning and ongoing strategic development.

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#### **About Forefactor**

Forefactor is an independent market research and strategic consulting firm solely focused on global capital markets. It combines experience in the design and execution of market research with in-depth knowledge of the entire investment cycle from front-office portfolio management and order entry, to back-office clearing and settlement. Its team of professional consultants continually challenges conventional thinking and provides clients with critical insights and a disciplined approach to every project.

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