



BC Notice 2015/07

Notice of results of research on HFT in the Canadian venture market

In recent years, representatives of issuers, investors, and dealers that are frequent participants in Canadian public venture markets (the venture markets) have expressed concerns that the market is in crisis. In the past three years, the TSX venture exchange (TSXV) has experienced sharp declines in both trading activity and in the market capitalization of its issuers. Trading volumes in recent months are about half of the trading volumes in the first half of 2012. The S&P/TSX Venture composite index has fallen to less than one-third of its value from its 2012 peak.

In response, the TSXV, together with the Investment Industry Regulatory Organization of Canada (IIROC), the Alberta Securities Commission (ASC), and the British Columbia Securities Commission (BCSC) formed the Public Venture Market Working Group (the working group) to consider whether regulation is one of a number of potential factors that have contributed to the venture markets' challenges and whether changes to regulation may help to alleviate the situation.

The working group has consulted with the representatives of venture market participants to identify specific concerns. One area of specific concern related to the impact of high-frequency traders (HFTs) on the venture market. In particular, the representatives indicated that they were concerned that HFTs were:

- causing increased price volatility in venture market securities
- conducting short selling activity after the release of positive news that limited the increase in the price of a security

BCSC staff, on behalf of the working group, conducted research to test these concerns. This research resulted in a report that is being published today on each of the working group's websites.

The report

The report includes a description of the methodology used to conduct the research. The TSXV and IIROC provided the data for the research. In addition, the ASC, TSXV, and IIROC provided substantive comment about the report's content to BCSC staff as it developed.

The methodology includes descriptions of:

- the factors used to identify specific trader identification numbers (trader IDs) as having trader activity similar to the types of activities that commonly associated with HFTs (HFT IDs) during our sample years of 2011 and 2013

- how we measured price volatility
- how we assessed the impact of short selling activity by HFT IDs in periods after positive news releases

The report also concludes that, in general, the sample data did not support the concerns expressed by the representatives of venture market participants. The report provides a discussion of all conclusions resulting from the research.

The report can be viewed in full at:

https://www.bsc.bc.ca/Securities_Law/Policies/PolicyBCN/PDF/Research_on_HFTs_in_the_Canadian_Venture_Market_October_14_2015/

Questions

You may refer questions to:

Michael Brady

British Columbia Securities Commission

(604)899-6561

(800)373-6393 (toll free across Canada)

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