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VIA ELECTRONIC DELIVERY

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RE: REQUEST FOR COMMENTS – BULLETIN 26-0066 – PROPOSED AMENDMENTS RESPECTING CLIENT DELIVERY OBLIGATIONS (the "Proposed Amendments")

Dear CSA/CIRO:

Virtu Canada Corp. appreciates the opportunity to provide our perspective on the Proposed Amendments and their potential impact on Canadian capital markets. Virtu Canada Corp. is the Canadian investment dealer arm of Virtu Financial ("Virtu"), a leading global provider of financial services and products that leverages cutting-edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to its clients.

Virtu and its subsidiaries operate as a market maker across numerous exchanges in Canada, the U.S. and elsewhere globally. Virtu's market structure expertise, broad diversification, and execution technology enable it to provide competitive bids and offers in over 25,000 securities, at over 235 venues, in 36 countries worldwide. Additionally, Virtu's Execution Services business has long provided execution and workflow solutions to buy-side and sell-side clients, offering a robust suite of technology-driven services that support seamless and integrated market access, trade execution, workflow technology and analytics. These solutions, built to optimize Virtu's own trading infrastructure, have been leveraged globally by institutional clients on emerging and developed markets alike.

Discussion

As a threshold matter, we continue to hold the view that the available data on short selling and settlement failures does not support the need for additional regulation. As we expressed in our prior comment letter related to the proposed Mandatory Close-out Requirements[1]: the empirical data (including the failed trade data previously published by IIROC) indicates that short sales account for only a small share of CNS fails, and that settlement failures are concentrated in less liquid, junior securities rather than being symptomatic of widespread abusive short selling. Accordingly, we reiterate our prior belief that any further rulemaking be grounded in updated, empirical findings shared publicly with the industry.

[1] Virtu Canada Corp. response to Request for Comments Notice 25-0001 – Proposed Amendments respecting Mandatory Close-Out Requirements, April 7,2025; https://virtu-www.s3.us-east-1.amazonaws.com/uploads/documents/Virtu%20Canada%20Corp.%20-%20April%207%2C%202025.pdf

Support for a Principles-Based, Conduct-Based Approach

Notwithstanding our views above, we appreciate CIRO's decision to move away from the previously proposed prescriptive mandatory close-out proposal in favour of a principles-based framework focused on the policies and procedures that dealers already use to manage credit and settlement risk. This approach better reflects the operational realities of investment dealers and aligns with settlement processes that firms already maintain.

Circumstances Beyond the Dealer's Control and Standard Operational Delays

In our experience, delivery failures frequently stem from factors that lie outside a dealer's direct control. These include interactions between custodians, transfer agents, issuers, and foreign intermediaries. Settlement friction is most common not in domestic institutional client trades but in multi-party, cross-border transactions where securities must move between different depositories and settlement systems or where several intermediaries across jurisdictions are involved.

Because our markets are increasingly globally connected, some delays in securities settlement are expected in the normal course of operations, for example where a dealer's immediate counterparty is itself a dealer or foreign broker-dealer transacting further down a chain of intermediaries. Delays can occur in these situations even where every party is acting diligently and in good faith. Certain specific securities present similar timing considerations, for instance where non-resident holders may need to complete transfer agent paperwork before their securities can be delivered in settlement-eligible form, a process that can extend past the standard cycle without indicating any genuine settlement risk.

For these reasons, we encourage CIRO to provide additional guidance on expectations, if any, around routine operational delays. Practical guidance, including illustrative examples of acceptable practices and reasonable controls, would improve clarity around compliance expectations, promote consistency across firms, and help distinguish genuinely problematic conduct from legitimate operational constraints.

Questions and Responses

We have provided direct responses to select questions posed in the Bulletin below.

<u>QUESTION #1: In addition to the actions set out in section 2.3 of this Bulletin, are there any other steps that we should consider that an investment dealer should take when a client has failed to deliver shares as expected?</u>

Answer:

We believe the actions set out in section 2.2 (buy back on a marketplace, requiring the client to deliver borrowed shares, loaning shares to the client, or borrowing shares from a third party) are appropriate, in addition to working with the client, client’s custodian or other third parties to resolve any administrative matters that may be causing the settlement delay.

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QUESTION #2: (Assignment of responsibility to the investment dealer with the client relationship.)

Answer:

We agree with the proposed approach of assigning responsibility to the investment dealer with the client relationship.

QUESTION #3: Do you agree with the proposed timeline of five business days past settlement date as the period within which investment dealers must commence action to address a client failure to deliver where the failure relates to a short sale? Why or why not?

Answer:

In line with our comments above we have not identified a systemic issue within our marketplace which would necessitate a mandatory action timeline. That being said, as short sales represent a minor portion of failed trades today, we do not believe the proposed five business day timeline would be overly onerous to implement and manage.

QUESTION #4: Should the timeline for extended failed trade reporting be shortened to align with the proposed timeline of five business days following settlement date for short sales under the Proposed Amendments? Currently the extended failed trade reporting timeline is ten trading days past settlement date under UMIR 7.10.

Answer:

Rather than shortening the extended failed trade reporting (EFTR) timeline, we recommend removing the EFTR requirement altogether. When the proposed five business day mandatory action provision comes into effect to complement the existing Reasonable Expectation of Settlement Requirement, we believe the current EFTR requirement adds unnecessary administrative burden and provides limited incremental surveillance value.

QUESTION #7: (Implementation period of no less than three months.)

Answer:

We believe the proposed three month implementation period is sufficient.

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Virtu appreciates the opportunity to provide our perspective on these proposals and would welcome the opportunity to answer any further questions from CSA and CIRO staff.

Respectfully submitted,

Brandon Boyd
Chief Compliance Officer
Virtu Canada Corp.