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BY EMAIL

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Dear Sirs/Mesdames:

Re: CSE Notice 2016-14 – Significant Change Subject to Public Comment – Amendments to Trading System Functionality & Features – Notice and Request for Comment (the “Notice”)

We are pleased to have the opportunity to provide our comments on the CSE’s proposed amendments to its trading system functionality and features. The Notice describes two changes: market/mid-point pegs and market maker participation. Our comments relate to the latter.

Aequitas NEO Exchange (NEO Exchange) is an advocate for fairness for all trading participants. A number of mechanisms in place at the NEO Exchange are intended to assist the long term investor, and we have worked hard to keep our solutions in line with our vision of a more level playing field, which is the foundation of our value proposition. It is for that reason that we are providing these comments.

With the proposed market maker participation functionality, the CSE is seeking to allow market makers (in assigned symbols) to auto-execute up to 40% of any incoming order that is GMF-eligible, up to the maximum participation volume pre-set by each market maker. While we have no issue with the CSE’s rationale in proposing the participation functionality (to decrease costs, increase trade execution size, reduce the risk of adverse selection, and encourage greater liquidity), we are concerned with the fairness implications relating to the functionality in the context of the current market regulation rule set.

We submit that both the proposed CSE participation feature and the TSX’s similar Registered Trader (RT) participation are inconsistent with the current Canadian dark trading rules (“dark rules”) as outlined below. We ask that consideration of this proposal include whether it is appropriate in light of the dark rules, and also whether the TSX’s existing functionality should remain in place, now that there is an opportunity to review participation functionality against the changes that have occurred since it was initiated. As market structure evolves, fairness dictates that if a new proposal raises issues, it should be dealt with in the context of all similar, existing functionality and in consideration of the existing rule set in its entirety. Further, we understand that the

participation benefit is viewed as offsetting the obligation to provide minimum fills, which is argued to justify the non-compliance with the dark rules. Although we are big believers in market makers getting benefits if they have obligations, those benefits still need to be provided within the context of the regulatory environment. We also believe that in order to receive any kind of benefit, there has to be some level of transparency around the market making program so that it is possible to assess if obligations and benefits are balanced. This is not the case for either TSX or CSE currently.

The dark rules (section 6.6 of UMIR) require that an order that trades with a non-displayed order must either receive price improvement, or be large in size (50 standard trading units or a value of more than \$100,000). The CSE's proposed market maker participation as well as TSX participation functionality, if turned on, allows market makers to auto-execute up to 40% of eligible incoming orders at the NBBO. Since the market maker need not have orders visible in the book for the participation to take effect, the participation "orders" are dark and they execute against incoming orders that are small in size (according to the defined size in the dark rules), without price improvement. Both these functionalities are technical violations of UMIR section 6.6.

As commenters to our recent market making proposal noted, segmentation is a growing concern. We ask regulators to be mindful of the increased segmentation that proposals of this nature may result in. The CSE is proposing that only incoming orders that are GMF-eligible, i.e. small, mostly retail orders (as defined by the CSE), to interact with the market maker. This ensures that the market maker only interacts with "uninformed" flow, and can step ahead of posted visible liquidity to do so 40% of the time. Institutional traders will see their posted (visible) orders on the CSE not only be stepped ahead of, but will also leave them exposed primarily to more "informed" flow, as the market maker now has the ability to segment away the retail flow. The RT participation feature on the TSX is similar to what the CSE is proposing, but with one key difference: the version on TSX is open to orders from all participant types, so long as they meet the MGF-eligible size requirement. While the TSX's participation feature also allows dark orders to step ahead of visible liquidity (also without price improvement), it allows both retail and other types of orders to participate on the contra side.

We acknowledge that under our formal market making program, our Designated Market Makers (DMMs) may receive a benefit of queue priority for up to 15% of the day's traded volume in an assigned symbol through our Market Maker Volume Allocation (MMVA), but there are stark differences to our MMVA versus the benefits the CSE/TSX offer. Our DMMs can only receive queue priority if they have visible orders posted in the order book and they cannot receive the benefit if they do not meet their obligations. Second, we do not distinguish or segment the incoming order; it can originate from any trading participant.

In summary, we emphasize that, although we cannot fault the CSE for proposing functionality based on precedents from competitors, as there has to be a level playing field, we feel the onus is on the regulators to be consistent in deciding on all proposals that conflict with existing rules or contribute to trends, such as segmentation of order flow, which may be argued to be to the overall market's detriment. Equally important is that previously approved, existing functionality should be considered in light of any issues uncovered by new proposals so that all are held to the same standards. Once again, we thank you for the opportunity to comment on the Notice.

Yours truly,



Joacim Wiklander
Chief Business Officer
Aequitas NEO Exchange Inc.