



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**  
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Market Regulation Branch  
Ontario Securities Commission  
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Dear Mesdames/Sirs:

**Re: OSC Request for Comment re: Omega Securities Inc. (OSI) Parent of Lynx ATS - Proposed Fee Model Change**

The Canadian Security Traders Association, Inc. (CSTA), is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 traders nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee (the "Committee"), a group of 23 appointed members from amongst the CSTA. This committee has an approximately equal proportional number of buy-side and sell-side representatives with various areas of market structure expertise, in addition to 2 independent members. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members or the opinion of all members of the Trading Issues Committee.

The CSTA appreciates the opportunity to comment on the proposed fee model change by Omega Securities Inc. We agree with the OSC that this Proposal could have broader implications for Canadian market structure than what is currently presented in the Omega proposal.

We believe that varying the fee structure on an individual security basis creates unparalleled complexity to what currently exists. The costs to build and implement the new functionality for both smart order routers and accounting

departments (for corporate internal controls and fee reconciliation) will be significant for most of our members, and in particular the smallest members. While it is possible that the benefits of Omega’s approach could eventually outweigh the costs (since dealers would potentially save on take fees with the new structure), these benefits are theoretical – they assume significant market share at Lynx ATS. On the other hand, the costs borne would be direct and concrete. Based on the current maker/taker pricing structure in Canada and the parent organization’s market penetration to date, we fail to see how the concept of eventual significant benefits could be demonstrated probabilistically.

More generally, a significant number of contributors to this response were concerned with the practice of marketplace-driven changes requiring significant integration work by both the Street and its vendor community. In practice, we believe the Street’s technology resources are currently heavily utilized by marketplace-driven changes, the costs of which are not borne by marketplaces. Furthermore, the opportunity cost to the Street is in reduced resources allocated to product enhancement and other business needs. We believe that, more broadly, and notwithstanding the proposal by Lynx ATS in question, marketplace changes that require third party technology work should be subject to a cost-benefit analysis prior to approval.

Within the sections of the Proposal that address the estimated time for Subscribers/Vendors to implement the proposed changes and within the section that indicates whether the proposed changes currently exist in other markets, Omega tries to compare the complexity of having (1) a tiered pricing structure based on volume (i.e. a participant getting a discount on its fees if they execute a certain minimum amount of shares) to (2) a pricing structure where single securities all have different fee structures based on overall volume executed in the previous month. In addition, Omega states: *“Although this pricing model is slightly more complex than what is currently offered by other Canadian marketplaces, the model does not interfere with current routing structures.”*

In the case of (1), a participant cannot know with absolute certainty the number of shares that will be executed in a given month, thus the “discounts” afforded to those that trade a relatively large amount of volume are only known once a final end of month tally is received. A “volume discount” does not affect the routing schedule that must be considered by all other participants; the new proposed fee structure does.

Omega also states: *“Smaller less sophisticated participants have stated their intention of using the highest possible Super Dollar/Sub Dollar rate as a baseline for calculation and router arrangement. Treating discounts achieved on Super Dollar equities as rebates for the purpose of reconciliation.”*

We believe it is reasonable to assume that make/take structures and rebate levels influence smart router choices, and thus the level of rebate and take fee will – broadly – influence the probability of a passive fill by influencing smart router activity. In that context, to imply that a participant can simply assume the “worst rate” is short sighted, since the differentials in the proposed tiers range from one end of the pricing structure spectrum to the other, thus implying completely different fee based queue positioning. These comments would suggest that all passive participants that wish to know their fee based queue position within the consolidated book are “sophisticated”. Under the assumption that a significant portion of flow is routed based on make/take economics, we would argue that all participants should be able to understand their fee based queue position without having to incorporate security specific logic that isn’t directly accessible.

To make the integration process easier for this type of fee model, we would suggest the following measures be taken by Omega Securities Inc. (Lynx ATS), before implementing the proposed fee structure:

1. Every fill should have the make/take fee attached in a private feed to make it easier for accounting departments to consume the data for reconciliation purposes. If tiered volume discounts were to eventually be applicable, the non-discounted tier price could be provided to give the direct ability to categorize the security in its appropriate “Average Daily Volume” price class.

2. The data describing security-specific fee levels should be in both a CSV format as well as a tag on the data feed to allow for easier consumption by smart order routers. This would be a security-level descriptive element. Note: if this approach is adopted, we believe that the dissemination of marketplace fee structures via market data broadcast feeds merits regulatory attention for all marketplaces to ensure consistency and appropriate dissemination.
3. Omega should demonstrate that they have recruited the cooperation of major data vendors (Bloomberg, Thomson Reuters) to have a new “fee tag” disseminated to users to ensure that participants can easily understand their fee based queue position within the consolidated book. Similarly to above, non-discounted prices could be provided if ever tiered volume discounts became available under this new fee structure.

We recognize that Omega is attempting to address an important issue within our marketplace (the one size fits all approach to maker/taker). We do not believe that the proposal, as presented, addresses the issue in a fashion that would be beneficial to the majority of participants, since Lynx ATS would simply be one marketplace in an ecosystem of others. If every marketplace in Canada were to adhere to a classification system based on volume traded, then we could potentially assess a value in such a methodology. In isolation, the benefits of the proposal are limited.

Additionally, given that the CSA is currently undertaking a holistic review of the costs borne by market participants (including a review of maker/taker), we believe that a proposal of this nature – requiring a complete overhaul of all participants’ routing logic – cannot be warranted at the moment. We therefore ask that the fee structure by Lynx ATS be denied at this time.

Finally, we cannot comment specifically on the amount of time to complete the necessary work to integrate the new proposed Fee Model as it would differ greatly from one participant to another. However, we do believe that most of our members would not view a 30 day implementation period as adequate lead time for the added complexity that this Fee Model brings to the current market structure.

We appreciate the opportunity to comment on this matter.

Respectfully,

*“Signed by the CSTA Trading Issues Committee”*

c.c. to:

**OSC:**

Mr. Howard Wetston, Chair and CEO  
Ms. Maureen Jensen, Executive Director & CAO  
Ms. Susan Greenglass, Director, Market Regulation  
Ms. Tracey Stern, Manager, Market Regulation

**AMF:**

M<sup>e</sup> Anne-Marie Beaudoin, Secrétaire générale

**BCSC:**

Ms. Sandra Jakab, Director, Capital Markets Regulation

**IIROC:**

Ms. Susan Wolburgh Jenah, President and CEO  
Ms. Wendy Rudd, SVP, Market Regulation & Policy  
Mr. James Twiss, Vice President, Market Regulation Policy  
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy  
Mr. Mike Prior, Vice President, Surveillance