

**90 Winchester St.,  
Toronto, ON  
Canada M4X 1B2**

2014-08-13

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8  
marketregulation@osc.gov.on.ca

Aequitas Innovations  
155 University Avenue, 4th Floor,  
Toronto, Ontario M5H 3B7  
info@aequin.com.

Dear Sirs/Mesdames

The impact of the Aequitas Innovations Inc. application for recognition of Aequitas Neo as a stock exchange has, simply by its submission, already had a measurable and salubrious impact on the structure of capital markets in this country. The approval of the Aequitas application will have a further useful and important effect on the functioning of Canadian capital markets improving the appetite for provision of capital by investors, nationally and internationally, with important benefits to users of capital and, consequently, the wealth of the nation.

This letter urges the prompt recognition of the Aequitas Neo Exchange.

The writer was a Governor of the Toronto Stock Exchange when that organization was owned by its members prior to its demutualization which latter has led, as it must and as it inevitably has, to where the interests of the organization may not square with the purposes of a national stock exchange – the fostering and promoting of capital formation, the provision of speedy and cost-effective access to capital for industry, and fair treatment for investors. It is evident that the current national stock exchange is importantly different, to the disadvantage of Society, than its member-owned predecessor.

It is timely, and important, that the Aequitas proposal provides a current and proposed shareholding structure that results in restoring the valuable structure that was replaced by the demutualization of the TMX and the establishment of the alternative will permit regulators, and those charged with public policy, to measure the difference. The ownership and governance

structure that Aequitas has proposed in its submission will ensure that issuer, investor and facilitating broker/dealer interests are all represented in a balanced and fair manner.

It is, equally, timely that regulators promptly approve the recognition of an alternative stock exchange which specifically identifies issues that should be of great concern to regulators and policymakers in this country – the change of focus of important numbers of members of the financial community from provision of capital to self-serving high-frequency trading producing no value to issuers or investors – solely to self-interested participants benefiting from an absence of prohibitive regulation. Not only does the Aequitas proposal identify those self-serving anomalies but its proposals specifically deal with them. In addition, it is extraordinary to consider that Canada, with a history of one of the world's most sophisticated capital markets, should harbour a single stock exchange - a concept of monopoly that is more reflective of the 19<sup>th</sup> century than the 21<sup>st</sup>. Intentional or not, such a monopoly situation must, by definition, lead to an excessive cost of capital and the absence of any reason for innovation.

With respect to the various questions raised in the OSC notice, I respond as follows:

- 1) Market makers with obligations are critical to the liquidity of the markets and the role they play benefits both investors and issuers. The Aequitas proposal to provide benefits across all its books while only imposing obligations in its displayed books seems appropriate to me. It is in the displayed books that price discovery takes place and where liquidity can be observed; obligations in a dark book are irrational. If benefits in a dark book help to promote better quality market making in displayed books it should not only be appropriate but be supported.
- 2) Features such as the Aequitas Market Makers' Commitment are innovative to the Canadian market while having proven their benefits elsewhere. This feature can help prevent large and unusual price fluctuations and should, therefore, be supported. That it leads to a market maker having priority over orders that would not have traded were it not for the out-of-the-ordinary price fluctuation is not an issue considering the role this feature can play in maintaining stability and, thus, confidence in the markets.
- 3) There is a fundamental need in Canadian markets for differentiated competition in the listings space. This is what Aequitas brings with a listings requirements approach for Investment Products and Corporate Issuers that is innovative and acknowledges the needs and differences between the different types of issuers. I do agree, however, that regulatory arbitrage should be prevented whether in the case of Aequitas or any other Canadian exchange.
- 4) The Order Protection Rule (OPR) was designed to promote investor confidence. Not applying it to the Neo-book, where resting orders are, for a very short period of time, protected from market participants that may deploy predatory trading strategies,

contradicts the intent of the rule. Obliging market participants with a systematic speed advantage to systemically consider the Aequitas price, restores fairness currently missing in the markets and which must be of great concern to regulators. Furthermore it counters a number of predatory trading strategies. For regulators to consider it inappropriate for a market participant with a speed advantage to be submitted to a higher fee and a speed bump that slows it down for a period that is between 1/100th and 1/50th of the time it takes to blink, is to condone and encourage high-frequency trading.

- 5) Applying to Aequitas draft OPR regulations that are still going through a comment process would surely be ethically questionable since doing so rests on the presumption that the proposals are final, which I don't believe to be the case and, in any event, is not equitable treatment. It is reasonable to anticipate that only established self-interests will drag a red herring across the costs and complexities that derive from the establishment of a competitive marketplace since such would provide a net benefit to the community of issuers and investors for whom our regulations must necessarily, and principally, be designed to serve.
  
- 6) With respect to the Emerging Market Issuers, I am fully supportive of the fact that Aequitas should develop its own procedures and that a standardized approach proposed by the TSX and TSX-V should be avoided. I further submit that the adoption of useful policies and administrative practices by the TMX to foster and support domestic capital formation, in particular for SMEs that are the engine of employment and growth in this nation, is a considerably more important issue from a public policy perspective than the issue of whether or not EM securities should be listed in this country. EM issuers will be little interested in Canadian listings with the international marketplaces clearly established in the US and Europe.

This letter is written to you in my personal capacity but I support the observations above on the basis of a 50-year experience as a senior executive in the financial community, as the founding and sunset chair of the Market Access Implementation Committee of the TSX that designed and implemented policies that had an important and measurable impact on the creation of capital formation for SMEs in Canada, as an Industry Director and CEO and Trading Officer of a TSX member and senior officer and board member of a number of other TSX-member firms, and as Chairman and CEO of a number of Canadian issuers listed on TSX/TSX-V NYSE-MKT and LSE-Aim and a board member of others. The financial community career included variously heading government finance, corporate finance and investment research departments at larger Canadian investment dealers as well as being President of the Bond the Traders' Association in Toronto and being a Governor of the Toronto Stock Exchange. The writer is a former member of the Awards Selection Committee for the Networks of Centers of Excellence in Canada, is currently a member of the board

of Life Sciences Ontario, the industry organization, and is the recipient of the 2012 Industry Leadership Award from the Canadian national life-sciences industry organization, BioteCanada.

Sincerely

A handwritten signature in black ink, consisting of a large, sweeping loop on the left that extends under the rest of the signature, followed by several sharp, vertical strokes and a horizontal line at the end.

David G P Allan