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Madam or Sir,

I am writing on behalf of Davis Rea Ltd. in response to the request for comment issued June 27, 2014 by the OSC on the Application for Recognition of Aequitas Innovations Inc. and Aequitas Neo Exchange Inc. as an Exchange.

Davis Rea is a leading Canadian wealth management firm founded in 1997 through the merger of D.A.C. Davis Investment Counsel Inc. and Lewis-Rea Ltd. Since the Aequitas initiative was announced in 2013 Davis Rea has been broadly supportive of their plans to inject new competition into the Canadian exchange landscape.

It remains the concern of both Davis Rea and many of our investors and industry colleagues that modern-day exchanges exist for their own right – with too little incentive to focus on the needs of investors and issuers. Rather, their focus has been on catering to the needs of HFTs while neglecting the concerns of many participants and these actions are having a negative impact on investor and issuer participation in secondary markets. Not only that, most have engaged in lobbying efforts aimed at convincing the investor community and regulators that markets have never been better. Of course this is understandable. Selling preferred market access and inducing volumes driven by excessive intermediation makes for good business.

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The typical argument in support of the need to encourage HFT is that they add liquidity and narrow spreads. Naturally one needn't look far to find holes in this argument. Cancellation rates on resting orders are almost as high as they have ever been – and so too is short-term price volatility. Also notable, HFTs are well known to often compete for the same liquidity they claim to provide. We believe that these trends are a clear sign that today's liquidity comes at a cost.

More damaging than these trends is the growing perception of investors that the market is somehow stacked against them. Of course, as fiduciaries it is our duty to investors to find ways to execute investment strategies to the best of our ability despite the aforementioned trends – a duty we take seriously. It's with equal conviction that we take our duty to stand up and voice our support for a business model that aims to compete by restoring emphasis on the investor.

Recently announced efforts by the CSA to offer their own solutions to investor concerns are without a doubt well intended, but come with the risk of unforeseen consequence. It is important to remember that many of today's challenges were in fact enabled by previous regulatory changes. In our view these proposals are insufficient to address the real problems in today's markets. Nor do we believe that this should be the role of the regulator.

What we see in Aequitas is a unique opportunity to help restore confidence in Canada's equity markets. The Aequitas solution has been transparently refined over a long road and with the open opposition of those with a clear vested interest in the status quo. We believe this demonstrated commitment has been the result of the Aequitas mission statement, governance and investors – the majority of which, like our firm, are focused directly on serving long-term investors.

These are our views broadly. We will now address specific areas of inquiry put forth by the OSC in its request for comment:

Market Making

One main concern with the initial Aequitas application relates to a lack of detail regarding its market making program. Having reviewed the detailed proposal - supported by conversations with Aequitas management - we are of the view that the proposal as it stands strikes a reasonable balance between the rights and obligations of Aequitas market makers. To the specific questions posed:

- We are not concerned with benefits being offered in the Aequitas Dark Book without obligations in the same book. The key should be to ensure that obligations are being won somewhere in the Aequitas solution and that there is a reasonable balance. It is apparent that the Aequitas books and the Aequitas Market Maker Program are a suite of solutions designed to address issues that Aequitas has identified. Aequitas should be given leeway to further monitor, refine and optimize this mix in the management of the market maker program.

- Contrary to the concerns expressed in the request for comment, as proposed we think the commitment of liquidity at multiple price levels for Aequitas listed securities should serve to dampen volatility. On this basis there appears to be a tradeoff of benefit for a service offered. Again, Aequitas should be given leeway to refine this functionality over time to ensure it serves its intended purpose.

Looking at the market making program holistically, there are two factors that give us confidence that Aequitas is on the right track. First, is that there is a notion of a balance between benefits and obligations. Compare this to the solutions that prevail today with various benefits offered to HFTs in the form of fee/rebate schemes, co-location and order types – all with no ask in return. Second, is the belief that both Aequitas and its shareholders are broadly aligned to ensure that the program is a success and does strike a reasonable balance.

Application of the Order Protection Rule to Aequitas

With regards to the Neo Book, so long as it is a displayed book we believe that orders in this book should enjoy protection as would any other limit order. Exempting Liquidity Sensitive Traders from the obligation to respect these orders would undermine the intent of the Order Protection Rule. In our view the controls that Aequitas proposes to place on active LST orders in the Neo Book simply serves to curb what has been facilitated on other marketplaces – active predatory HFT activity.

On the proposed changes to the Order Protection Rule, we are very concerned with the notion that regulators would seek to prematurely apply a set of proposed rules to a marketplace. This would seem to run counter to the spirit of due process – which is especially concerning given that Aequitas seeks to address some of the same issues that the changes to OPR are, to our understanding, aimed to address. To reiterate, we do not believe that the proposed changes to OPR go far enough – nor are we confident in the regulators ability to solve all the issues. We strongly believe that investor-focused competition offers the best prospect to address the problems that we face today.

Emerging Market Issuers

We are supportive of the view that Aequitas should be given discretion to develop its own response to concerns related to Emerging Market Issuers. The approach taken should, as with other marketplaces, be judged against the objectives articulated in OSC Staff Notice 51-719. Broadly we support efforts to improve the quality of issuers which trade on Canadian markets generally and are confident that the stated intents of Aequitas are consistent with this goal.

Listings and Cross-Listing of Investment Products

This is not a product area in which our firm is heavily engaged. However, we agree there should be a clear protocol in place to inform staff of listings or cross-listing applications. Care should be taken to ensure that this process strikes a balance that does not unduly impact the ability to bring value-added investment products to market while still mitigating the risk for regulatory arbitrage.

In closing, while we support plans to refine regulations, including the Order Protection Rule, we believe this should be done carefully, with due process and consultation. It is clear to us that today's problems will not be solved through regulation alone. As long as we collectively maintain faith that marketplace competition remains the best way to serve investors, the OSC should embrace a proposal aimed at addressing the troubling trends that have emerged in recent years.

Please contact the undersigned should you wish to discuss further.

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