



August 18, 2014

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

Dear Sir/Madame:

Re: OSC Staff Notice and Request for Comment regarding application of Aequitas Innovations Inc. and Aequitas Neo Exchange Inc. as an exchange

RBC Global Asset Management ("RBC GAM") thanks you for the opportunity to provide you with our comments regarding the above Proposal. With offices in Canada, the United States, Europe and Asia, RBC GAM provides a comprehensive range of investment solutions and services to both individual and institutional investors. RBC GAM group of companies manage CAD \$335 billion in assets worldwide (as of April 30, 2014).¹

(i) *Benefits and obligations of market makers*

RBC GAM welcomes Aequitas' innovative approach in creating a list of market makers' benefits and obligations. We believe that one of the key deficiencies with the current market structure is the lack of clear obligations for market makers across venues. To ensure a stable market and to avoid unexpected events such as the flash crash, it is important that there are clear obligations for market makers that they are expected to honour at all times. For example, market makers must be required to stay in the market at all times rather than enter and exit at their own discretion. In our view, however, market makers should only be required to provide quotes in lit markets. We are not particularly concerned by the lack of obligations for market makers in the dark market as we do not expect formal market making activity in dark pools. In addition, we expect that the market makers will have to provide price improvement and incur a fee (given a take-take fee structure) which could be considered as an obligation.

(ii) *Market makers' commitment (MMC)*

Market maker volume seems an appropriate incentive to compensate market makers for their assigned obligations. In order to incent market makers to maintain a fair and orderly market and achieve reasonable price continuity and liquidity, some level of benefit should be offered. We also share staff's

¹ RBC GAM is owned by Royal Bank of Canada. RBC's subsidiary, RBC Dominion Securities Inc., has an ownership interest in Aequitas. The comment letter has been prepared without any involvement from RBC or RBC Dominion Securities.

concerns whether incentives provided to market makers in the dark pools are so great that they can create a risk of pushing more volume to the dark markets and away from lit. As long as the market makers' quotes will not take priority in the order queue over others at multiple price levels and in varying quantities, we would view the proposed incentives to market makers as appropriate.

(iii) *Listings and Cross-Listings of Investment Products*

We agree that the OSC should minimize the opportunity for regulatory arbitrage by recommending that a specific process or protocol be put in place to inform Staff of listing or cross-listing applications. This will allow Staff to assess whether it has in the past recommended or would recommend a receipt for a similar investment fund product offered by prospectus in Ontario.

(iv) *Emerging Market Issuers - Gatekeeper Concerns*

We are pleased to see that Aequitas has proposed corporate governance requirements above and beyond those contained in the listing requirements of the TSX, Canada's leading exchange. We believe that it can be a competitive advantage for an exchange to lead the way in best governance listing requirements.

As a member of the Canadian Coalition for Good Governance (CCGG), we echo its comments on Aequitas' listing requirements and emphasize that the same listing rules should apply equally to emerging market issuers. There should also be additional listing requirements designed for emerging market issuers to address the inherent risks posed by them. For example, ensuring that the Canadian management and directors of emerging market issuers actually have the means to test the information being provided to them from their foreign operations would be an important fraud prevention tool.

(v) *Application of the Order Protection Rule ("OPR")*

It appears that the launch of Aequitas would happen before the implementation of the Proposed OPR amendments. Given that the current OPR rules are under review by the Regulators and have not been finalized, we are of the view that the current Aequitas application should be covered by the existing OPR rules. As a result, all orders generated on the Aequitas Lit Book and Neo Book should be protected under OPR.

We thank you again for the opportunity to provide you with our comments. If you have any questions regarding the above, please feel free to contact me at dan.chornous@rbc.com or 416.974.4587.

Yours very truly,

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management