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Market Regulation Branch
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and

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ITG Canada (ITG) would like to thank the Ontario Securities Commission (OSC) for this opportunity to comment on the proposed new exchange from Aequitas Innovations (Aequitas). In the spirit of full transparency and disclosure, as you are no doubt aware, ITG has an investment in and holds a board seat on Aequitas. Our investment is based on a belief that a marketplace solution to some of the shortfalls of our current market structure is a more positive solution than regulatory edicts.

ITG's thoughts on this proposal, and all market structure matters, will be largely influenced by our overall views on the benefits to our natural customers of fostering healthy competitive markets and a positive, dynamic market structure. To that end we feel it is instructive to briefly outline those views before wading into the specifics of the Aequitas proposal.

In a similar vein to the OSC, ITG firmly believes that markets should be fair, competitive, transparent and practical in order to attract the greatest possible participation of natural investors. These are some of the hallmarks of robust Capital Markets.

In terms of fairness, and competitiveness, we believe that regulators should take adequate steps to ensure a level playing field for beneficial competition within groups of investors, dealers and marketplaces. Should the systems, either through regulation or excessive barriers, prevent or degrade such competition, we risk a market that may lack the confidence of both providers and consumers of capital, to achieve their full potential. The end result could be a weakened Canadian Capital Markets, thus putting us at a disadvantage when competing for issuers and investors who have more options globally.

With this is mind, ITG would like to focus its comments on the following issues:

1) Fair Access issues that may be raised by speed bumps and varying access fees in the Neo book
2) Issues resulting from market maker obligations and benefits in the various trading books
3) The impact of proposed OPR rule changes on Aequitas, and the potential application of new rules before they are finalized for other markets
4) Issues resulting from the definition of significant shareholder, and the obligations that come with this designation
5) The nature of market place competition in Canada, both in the present and future

<u>Fair Access</u>

ITG Canada believes that the Fair Access rules are one of our markets biggest strengths. When comparing our Market Access Rules to those outside Canada, this rule alone stands out as a protector of the interests of Natural Investors. Thus it is vital that we protect both the equal access to like participants, as well as the transparency around rules, fees, order types and matching logic.

That said, within these rules there have been some blurred lines that, while onside with the letter of the law, might cause some investors to question spirit of the implementation. For instance, we have allowed for markets to cater to the needs of different sets of participants, as long as they treated those within the set uniformly. For example, , dark pools have been able to limit access to only retail players, or strictly institutional players, while lit markets have been able to offer pricing advantages to High Frequency Trading (HFT) participants, market makers or retail traders. There have been many examples of past marketplace offerings - including IntraSpread, the TMX Electronic Liquidity Provider Program (ELP), the initial TMX collocation services and various Liquidnet offerings – that have treated segments of the marketplace differently., ITG is aligned with the subset of these offerings that foster more efficient markets, limit overall investor costs and reduce excessive intermediation.

Having reviewed the Aequitas proposal, we believe that Aequitas has sufficiently outlined the purpose for both the speed bump and pricing differentials in the NEO book, and that both features are designed to level the playing field for natural investors, and limit the reward for pure speed. As such we are in favour of the features as proposed, and would go so far as to ask why they aren't also being proposed for the classic lit book. We would note that allowing a market to tailor its operations in such a way as to compress the latency delta between differing classes of participants should not be seen as a precedent to do the exact opposite,that is offer up features that bestow latency advantages on intermediaries.

Market Makers

There has been much discussion, in both the regulatory proposals and participant comments, around the market maker proposals by Aequitas. We are sympathetic to Aequitas' argument that market making has been largely reduced to odd lot facilitation on all but the most liquid, and lucrative, of issues. Arguably the dearth of reliable market making – due to the diminished economics versus increased obligations – have been detrimental to Capital Markets. As such, ITG welcomes the Aequitas proposal to offset fairly the benefits and obligations for formalized market makers. The system that is being proposed is not entirely different from the existing NYSE system. We appreciate the questions set forth by the OSC around benefits in books without obligation, but respectfully suggest that in a truly competitive market, dealers and buyside participants can, have, and will vote with their feet. Should a given matching logic be deemed to reward market makers excessively, the participants will place their passive flow on others venues to avoid lower rates of spread capture. This will force Aequitas, or any other market, to tune their market making program to offer more attractive features to natural participants. We appreciate street concerns around the benefits relative to the obligations, and we shall carefully analyze our own trade data to ensure the various Aequitas books aren't overpaying market makers for the provision of liquidity.

Applying OPR to Aequitas before existing markets

ITG Canada has long argued for a need to protect dealers from the requirement to connect to all new markets, without said market first achieving some level of success or offering some unique and compelling value proposition. ITG truly appreciates the implicit and explicit cost and burden, both in real dollars and opportunity costs that accompany the connection to new markets. Consequently,, we are fully supportive of the various Aequitas books not being OPR protected if new rules are enacted prior to Aequitas' opening, that would prevent such protection. Having said that, we are concerned that the regulators are considering the potential of requiring Aequitas to open without OPR protection, prior to the finalization of any market wide rules on order protection. To do so would undermine the OPR comment process, and strongly suggest to the industry that the comment letters should be treated separately, and thus not have an impact upon the ultimate OPR rules. Further, to ask Aequitas to operate without OPR protection, while other nascent markets continue to be protected, would be putting Aequitas on unequal footing with its competitors.

Further we note that the Information Processor, as currently constructed, disseminates the Canadian Best Bid and Offer (CBBO). As defined by Canadian regulators in the multiple Order Protection Rule proposals, lit orders from unprotected markets would not be considered part of the CBBO. As such, Aequitas would be asked to open for operations as the only lit venues whose quote was not a part of the IP's CBBO quote. This would result in significant issues around the pricing of pegged and reference price matches on all Canadian venues. Additionally, thanks to proposed UMIR 5.3 Client Priority rule changes, Aequitas would be deemed an inferior market for agency order flow, relative to all other lit venues currently operating in Canada.

It should be noted that while many market participants have voiced concern around the cost of connecting to new markets, and these rules would help contain such costs, they would not in any way control the costs associated with larger markets implementing costly, and controversial, changes to their data and trading platforms. The recent, and continuing rollout of the Quantum XA trading engine for all of the TMX trading books is most certainly a greater drain on resources than the start up of a new market like Aequitas – even with it's multiple books. Should we proceed with the proposal in its current form, the industry still needs to address the ability of dominant markets to unreasonably force unwanted changes on market participants.

Finally we note that the rush to implement a non-finalized rule is anathema to prevailing regulators precedent. When many Canadian dealers expressed concern around regulatory arbitrage opportunities being exploited by non Canadian dealers using exempt market dealer status, the regulators clearly stated their desire to change the rule by unwillingness to bypass the near two year process despite the asymmetrical treatment of participants that was harming Canadian dealers. If the regulators were not willing to bypass the process on the exempt market dealer issue, we don't understand why they would be willing to do so with the order protection rules.

Significant Shareholder

The recognition order for Aequitas Neo Exchange, sets forth requirements for "significant shareholders", to ensure they properly manage any inherent conflicts that arise from such ownership. We appreciate the need to ensure that large shareholders do not preference markets based on ownership economics, rather than the best interest of their clients. But we respectfully suggest that the recognition order is at odds with the requirements put on other market ownership groups, with the exception of the Maple Acquisition Corp members. In the spirit of Fair Access, such rules should be applied equally. To wit, other marketplaces currently consist of dealer and proprietary trading firm participants that, as far as we know, have no such obligation to avoid preferencing markets based on ownership economics. The result of this inconsistency is to create a system that further incents new markets to cater to intermediary prop firms – who will not endure the costs of compliance to such regulatory obligations – rather than markets that cater to natural investors. If dealer and buyside ownership in a marketplace comes with added regulatory costs, it is only fair that proprietary trading firms taking similar ownership positions should bear similar costs. Otherwise we create an asymmetry that incents new markets to seek investment from, and cater towards such proprietary trading firms.

We believe the current best execution rules exist to ensure that dealers, and buy side participants route in a manner that is in the best interests of end clients. The impact of duplicative regulation in this area is to limit the ability of smaller, resource constrained dealers to participate in the ownership structure. We take issue with the notion that a dealer can buy 5% of the TMX in the open market without being subject to these restrictions, but another dealer purchasing a far smaller notional value in Aequitas will be subject to tighter reporting requirements.

As a founding shareholder in Aequitas, we are more than comfortable in meeting the obligations set out in the recognition order, but suggest that smaller dealers buying 5% of a given class of voting shares – and potentially far less than 5% of the total float in all classes - shouldn't be subject to what we deem to be unnecessary regulatory obligations.

The Nature of Marketplace Competition in Canada

Much of the recent work done by regulators on OPR is aimed at providing meaningful incentives to build innovative platforms in the equity matching space, and discouraging costly fragmentation built around slightly different versions of rebate driven pricing models. We applaud this effort, both for its desire to bring needed competition to the Canadian markets, and its attempt to limit costly new markets that don't provide real competition with sustainable value. We believe such efforts can only be successful if the landscape allows for markets that cater to more than just intermediaries to achieve success. While MatchNow clearly demonstrates that truly innovative markets can achieve real success without the regulatory subsidy of OPR, we do have concerns that the current OPR proposals will create a landscape where new markets will have significantly greater opportunity for success catering to HFT players, instead of providing attractive value to traditional longer term investors.

New lit markets, absent trade through protection, will not be able to compete for the majority of passive agency flows, due to the proposed new client priority rules. As such, the ability of a new lit market to achieve success under the proposed order protection rules, is severely limited. While we will be submitting a separate letter on the OPR proposals, we do suggest that if regulators wish to enhance the ability of investor focused lit markets to succeed they need to consider the impact that such rules will have on their ability to attract flows.

Conclusion

In conclusion, ITG Canada chose to invest in the Aequitas initiative based on a belief that commercial solutions to market problems are preferable to regulatory ones, where possible. We believe that Aequitas has clearly highlighted the types of predatory behaviours that they wish to limit, or eliminate from our marketplace and have offered up potential commercial solutions. This is exactly the kind of problem based innovation that all markets should aspire towards. While various industry participants, including ourselves, will no doubt have issues around some of the details of the exact matching logic, pricing or market making benefits on offer, we believe that at a high level Aequitas is offering solutions to the problems that investors have been complaining about; as such ITG is very supportive of this initiative. We believe Aequitas' submission is consistent with both letter and spirit of existing rules, and appreciate a market that is working to lower, rather than increase, the levels of intermediation.

ITG Canada looks forward to working with the regulator as we move forward on both Aequitas, and the separate OPR initiatives, and are available for further discussion on both matters are desired.

Sincerely

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ITG Canada Corp.