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Market Regulation Branch
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RE: NEW EXCHANGE PROPOSAL BY AEQUITAS INNOVATIONS INC.

CIBC World Markets Inc. ("CIBC") thanks you for this opportunity to comment on the proposed marketplace application by Aequitas Innovations Inc. and Aequitas Neo Exchange Inc. ("Aequitas"). Our specific comments to the issues posed are attached. We also take this opportunity to briefly outline our position.

CIBC is wholly supportive of industry initiatives which promote an efficient and competitive marketplace and we applaud innovation to the extent that it makes our markets better. We re-iterate from previous comments that the need to compete globally for capital has required Canada to provide high quality capital markets driven by the price discovery process, which concentrates liquidity to the benefit of the investor. We support competitive marketplaces which provide benefits to the trading community without introducing excessive complexity and cost. Accordingly, we are supportive of certain aspects of the Aequitas proposal which align with existing market structure principles.

As market complexity facing clients and brokers has been a growing concern, particularly in relation to trading venues, we ask the regulators to contemplate the growing market access cost burden facing the industry. Specifically, is it appropriate for dealers to be obligated to connect to a proliferation of order books, each of which is potentially held to different regulatory standards?

CIBC also believes compliance with Fair Access rules to be of the utmost importance for maintaining integrity in the Canadian marketplace. A free market is defined as an economic system in which prices are determined by unrestricted competition between businesses, and a fair marketplace is one in which all users are afforded the right to participate according to the same set of rules. In our view, a fair and competitive market is made up of a variety of participants with diverse trading objectives and trading strategies, all contributing to a healthy and balanced marketplace. Regulations should be focused on ensuring broad accessibility to all trading venues and to the liquidity that resides in them.

DIRECT REQUEST FOR COMMENTS

We provide feedback to the specific issues below.

(i) MARKET MAKING MODEL

Market making is a critical component of a healthy market. The Designated Market Maker's (DMM) commitment to liquidity provision is particularly important in periods of market stress, and for less liquid securities. We applaud initiatives designed to encourage liquidity provision through the proper alignment of benefits to obligations.

Aequitas' proposed model pursues this alignment by rewarding the DMM with increased trading rights, rather than economic rights (rebates) or informational rights (specialists). The DMM will be incented through trade participation and, as currently stated, the DMM for the security will be allocated a specified percentage of traded volume. This may be appropriate, however we request further clarity on the proposed allocation methodology as it applies to DMM participation. For example, we note that a DMM, at a current allocation on 15% of ADV, may have the ability to disproportionately influence the market for a period of time. Specifically, the choice to participate at a given time/price level may afford DMMs the opportunity to crowd out retail and traditional institutional clients' ability to compete in the market for up to 15% of ADV.

With respect to liquidity provision in the dark, Market Making is a defined term applying to participants who provide a quote, contributing to the price discovery process. It has never been recognized as adding liquidity in dark facilities. We do not believe that the benefit of trading priority in a dark facility is aligned with an obligation to provide a quote.

Finally, we request further detail on aspects we believe important to the market making program proposed by Aequitas. For example, we would expect full transparency on the process outlining how securities will be assigned to a DMM.

In general CIBC is supportive of more "permanent" liquidity provision with balanced obligations and benefits as opposed to transient liquidity. We applaud the initiative and would like to see TMX also bolster its market making system.

(ii) APPROPRIATE APPLICATION OF THE ORDER PROTECTION RULE

a. Application of OPR to the Neo Book

b. Application of OPR to new marketplaces

In the context of the application of Order Protection to the Neo Book we note the following:
Neo will have 3 different fee schedules, a standard rate schedule, a retail only (reduced rate) schedule and an LST (increased rate) schedule. Neo will also impose 2 separate matching algorithms – one that is a real time fill and a second that has a random 3-9 millisecond delay. We note that a randomized delay on trade matching could positively impact the marketplaces by reducing gaming around time-priority, yet the industry requires more information on whether the proposed randomization is set at the matching or market data level, as a misapplied delay could have negative consequences.

In our view, marketplaces should have the ability to set higher standards and restrict access based on objective measures. For example, Aequitas speed thresholds and higher fee schedules will apply to all participants exceeding a specified order to trade threshold, and all co-located participants will experience a speed delay. In this respect, customers are held to the same standards and the marketplace has the ability to impose restrictions based on measurable standards without introducing greater costs to the community.

However, restricting access through execution limitations or through rules imposed on certain participants by a trading venue is a practice that has the potential to further increase costs and complexity to our market structure. Specifically, we are concerned that a model of customer segmentation adds an additional layer of complexity for brokers to build into trading technology and compliance programs around best execution.

The Canadian regulators correctly recognized the need for amendments to OPR to better align costs and benefits, so that new marketplaces coming to market must deliver a real value to the community prior to being awarded status as a protected quote. We are of the opinion that OPR changes should be finalized prior to the approval of any new marketplaces that would require additional technology development and investment by brokers. We also believe that, if the Neo Book has a demonstrable value as a trading venue, participants will vote with their shares and flow will migrate there as a result - irrespective of order protection.

CONCLUSION

Competition creates efficiencies, encourages greater market participation and leads to a more competitive capital market, while regulation creates the appropriate framework for this competition to thrive. We are supportive of innovation and competition within the markets to the extent that our regulatory framework continues to be based on objective measures which factor cost and complexity in the decision making process.

Thank you for the opportunity to provide our comments on the Aequitas proposal. Please feel free to contact us with any questions or requests for clarification.

Sincerely,

"Thomas Kalafatis"
Managing Director and Head, Prime Services Group
CIBC World Markets Inc.