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A DIVISION OF OMERS ADMINISTRATION CORPORATION

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8

Dear Sirs:

RESPONSE TO OSC STAFF NOTICE AND REQUEST FOR COMMENT REGARDING APPLICATION FOR RECOGNITION OF AEQUITAS INNOVATIONS INC. AND AEQUITAS NEO EXCHANGE INC. AS AN EXCHANGE

As one of Canada's largest institutional investors, OMERS manages over 65 billion in assets, and is a fiduciary responsible for the savings of over 440,000 plan members. Our mission is ensuring the people who serve our communities – our stakeholders – can retire confident that their pensions are secure and sustainable over the long term. The rapid pace of innovation in the Canadian equity market has necessitated an evolution in the microstructure of the marketplace. From data consolidation, market access and best execution, to the order protection rule (OPR) and dark trading the landscape of our capital market is continuously changing. To their credit, regulators set a precedent early on to solicit feedback from all stakeholders before adopting new policy. We commend this approach as when all stakeholders have a voice in the development of our market ecosystem it helps nurture confidence and promotes a fair and efficient capital market.

The existing market microstructure built around maker-taker pricing, riskless intermediation and speed, implicitly favours the wants of market intermediaries over the needs of long-term participants, namely issuers and investors. The Aequitas proposal for the Neo Exchange is an innovative, market-based solution that seeks to restore balance to the Canadian marketplace.

OMERS believes in the principal of fair access to the lit marketplace. Fair access encourages diversity and this diversity allows the pricing mechanism to better reflect all known public information. Diversity may include the type of participant, time horizon, investment decision-making process, and even the microstructure of the venue itself (e.g. lit vs. dark book). However, OMERS also believes a realignment of the incentive structure is needed to encourage higher quality market making and liquidity.

The concept of segmentation within our marketplace, whether it is across participants, venues, or any other characteristic, ought to be examined with caution. Segmentation in the lit market will set a precedent in Canada. However, the application of a reasonable incentive structure could accomplish similar ends without violating any fundamental principles (e.g. fair access). The difference between segmentation and incentives is a matter of degree. Reasonable judgment is required to determine the difference. It is

OMERS belief that distinguishing between reasonable incentives versus prohibitive access and marketplace segmentation is best left up to the regulators. In this case, the burden of proof was placed upon the party bringing forward the proposal. It is OMERS opinion that the Aequitas offering creates a system of incentives that will better serve the needs of the long-term investor.

Our responses to the OSC's questions are provided below. Should you have any further inquiries, please do not hesitate in contacting me directly.

Yours truly,

Brent Robertson
Director, Trading, Beta Portfolio Management

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RESPONSES TO THE OSC REQUEST FOR COMMENTS

(i) Benefits and obligations of market makers

Long-term Investors may be willing to pay a premium to avoid short-term latency sensitive intermediation in favor of higher quality market making. A market making regime that better balances the benefits with firm obligations will be to the advantage of all investors. Specifically, long-term investors would be better served by a regime where the market makers have an incentive to hold risk. Market making that merely facilitates riskless intermediation between two parties that would have otherwise naturally met is of low quality. Market making that provides true liquidity bridges investors' time horizons and risk tolerances and is significantly more valuable. Perhaps, an interesting metric to examine market quality could be the average holding period of risk positions (in addition to quoting requirements, spread, volatility etc.)

In the Aequitas application, market making obligations in the lit and NEO books are balanced against the benefit of priority. However, the priority benefit extends across all markets, while the obligations are limited to the lit books. While it could be argued that each book operates independently, it is our opinion that there exists a significant degree of interdependence amongst the books. The Aequitas offering is best understood as one integrated ecosystem rather than four separate books. For example, if there is recurring volume trading on the dark book, that volume has information content. It is reasonable to assume this post-trade information will feed back into the lit and NEO venues, impacting the liquidity provisioning across the other venues and potentially (although indirectly) even the National Best Bid and Offer (NBBO). Thus, a holistic, cross sectional view, is required to truly appreciate the inter-dependencies of multiple order books.

Aequitas proposes giving market makers execution priority on 15% of the average daily volume. This benefit is difficult to quantify. Regulators should work with Aequitas to create a robust review process that is fair, frequent and objective.

(ii) Market makers' commitment (MMC)

It is our understanding that market maker participation will be prioritized only up to 15% of the average daily volume. *The MMC essentially provides the market maker with a free option to help stabilize the quote by providing liquidity. The cost of market maker priority and optionality in the MMC volume is balanced against the benefit of a more stable Aequitas BBO.*

(iii) Listings and Cross-Listings of Investment Products

Regulators should attempt to limit the potential for regulatory arbitrage.

(iv) Emerging Market Issuers - Gatekeeper Concerns

If possible, Aequitas, the TSX, TSXV and any other future listing exchange should coordinate their policies and procedures to create a consistent national standard for the Canadian marketplace.

(v) Application of the Order Protection Rule

If Aequitas launches its exchanges before the proposed OPR amendments are finalized, it may benefit from a short term OPR subsidy. However, ultimately we would expect best execution to dictate where orders are routed and continue to be routed in spite of any OPR changes.

(a) Application of OPR to the Neo Book

The application of OPR to NEO is consistent with fair access principles, and does not unreasonably limit a latency sensitive trader's (LST) ability to execute trades. LST orders that take liquidity on NEO will be systematically forced to pay a higher fee and absorb a randomized delay. All else being equal, this ought to discourage LST active order flow from trading on the NEO book. This incentive structure implicitly assumes passive order flow on NEO will value liquidity from non-LST orders more favorably than LST orders (otherwise a passive order displayed on NEO would not give up the potential for a fill). Such a hypothesis is worth testing. If participants demonstrate a preference to post their passive orders on NEO, in spite of the forgone liquidity, then it may provide evidence that all volume is not of equal value – especially to the long-term investor who aims to provide liquidity rather than take it.

(b) Application of OPR to new marketplaces

OPR should continue to apply in its current form until any changes to NI 23-101 are finalized.