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September 25, 2013

Ontario Securities Commission

Attention: Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Fax (416) 595-8940
Email: marketregulation@osc.gov.on.ca

Dear Sirs and Mesdames:

Re: OSC Staff Notice and Request for Comment regarding Proposed Structure of Trading Facilities for a New Exchange Proposed to be Established by Aequitas Innovations Inc.

CI Investments Inc. ("CII"), is pleased to have this opportunity to respond to the request by the Ontario Securities Commission (the "OSC") for comment regarding the proposed structure of trading facilities for a new exchange proposed to be established by Aequitas Innovations Inc. ("**Aequitas**").

CII is supportive of the new trading facilities proposed by Aequitas and in particular the use of innovation and new technologies to improve market fairness and restore confidence in the capital markets. The introduction of competition will also be beneficial to participants in the marketplace.

Set out below are our specific responses to the questions posed in the OSC request for comment:

Question 1: *Should OPR apply to all visible markets and to all orders displayed on those markets, or are there circumstances where the application of OPR should be limited?*

The OPR rule is intended to encourage market participants to send limit orders to lit markets, with the expectation that in a multi-market environment, the better bid/ask takes priority. To the extent that the Hybrid market proposed by Aequitas is only partially lit at the NBBO, but essentially a dark market, the OPR rule does not need to apply to this book, therefore the Hybrid market should be an unprotected market. Ultimately, the market participants in the Hybrid market will decide if losing the order protection would

compensate for the benefits of participating in the Hybrid market. The existence of the dark and lit order books on Aequitas provide the alternative that matches the current regulatory environment where the OPR rule applies to lit markets and the Dark rule applies to dark markets.

Question 2: *Should OPR apply to Hybrid? Should it continue to apply at least with respect to active non-SME orders that are not restricted from accessing the best-priced displayed orders on Hybrid?*

Based on the high-level information provided in the Aequitas proposal and our interpretation of the purpose of the Hybrid market, the OPR rule should not apply to the Aequitas proposed Hybrid market, consistent with the answer to the previous question. Since the Hybrid market proposes a segmentation of the ability to remove liquidity based on the SME marker as defined by IIROC, it is expected that the non-SME orders would be participating in the NBBO (the lit aspect of the Hybrid market) and the OPR rule would be applicable to non-SME orders on Hybrid, like any other existing lit markets. Generally, we believe that the access segmentation in the Hybrid market has the potential to enhance overall market integrity with minimal impact to the intended purposes of the OPR. However, in order to better understand and quantify the tradeoff, monitoring and reporting would provide ongoing evaluation of potentially unintended consequences.

Question 3: *If Hybrid is implemented as proposed, how should the best-priced displayed orders on Hybrid be treated for the purposes of consolidated display requirements, and why?*

The best-priced displayed orders on Hybrid become visible at or around the NBBO. It is expected that these orders are displayed for all market participants and tradable to non-SME. As such, the virtual majority of traditional investors (institutional and retail) with natural liquidity outside the Aequitas marketplace will benefit from the available liquidity on Hybrid provided by all Aequitas market participants (traditional investors, market makers and SMEs).

Question 4: *What should the appropriate reference price be for determining whether a dark order on any other market has provided minimum price improvement as required under the Dark Rules – the Away NBBO or the NBBO that includes a Hybrid best bid and/or Hybrid best offer? Does the answer to this question depend on whether or not OPR applies to Hybrid?*

Since the Hybrid market's best bid and offer would participate in the NBBO, pegged dark orders in other markets would have to provide a minimum price improvement as required under the Dark Rule. We understand that under the Aequitas proposal there are no changes or negative impacts for non-SME investors, as the Hybrid market would behave as a regular lit reference market in this case. It is difficult to evaluate how the segmentation of order flow may affect pegged dark orders for SMEs, but we believe that the minimum price improvement under the Dark Rules should apply, regardless of the dark market's awareness of the segmentation of orders by SME marker. In addition, the applicability of the OPR rule to the Hybrid market should be independent of the Dark Rule to the extent possible.

Question 5: *How should fair access requirements be applied with respect to access to visible marketplaces?*

While fair access certainly is a matter of judgment, it is necessary to recognize that capital markets participants have significantly large variations in their objectives and expectations. Existing predatory practices in the marketplace raise the question of fairness in general and fair access in particular. We believe that fair access requirements should be applicable only to those market participants that provide utility to the capital markets, not at the expense of other types of market participants. Visible markets exhibit pervasive predatory trading practices that don't promote investor confidence and remain unchecked. One of the core objectives of the Aequitas proposal is to identify and restrict negative behaviors, similar to the segmentation of flow in certain dark markets, while offering transparency characteristics of the lit markets. The fundamental challenge is to ensure that the proposed order flow segmentation is restrictive of detrimental behavior while supportive of beneficial activities. From definition to implementation, we anticipate that the fair access requirements can be met with an appropriate monitoring and reporting framework.

Question 6: *Should visible markets be fully accessible or, like dark pools, should access restrictions be permitted? Why? What are the criteria that should be used to determine if the differences in access are reasonable? What impact, if any, could restricting access to the best displayed price have on confidence and market integrity?*

Dark and lit markets address different needs in the marketplace and are currently governed by different regulatory rules, with distinct benefits and drawbacks. Visible markets offer transparency, but have also attracted predatory trading practices that have damaged confidence and market integrity for long term traditional investors. Dark and lit market access restrictions that are well targeted could have the effect of restoring investor confidence in the market structure. The opposite is true if legitimate liquidity providers are restricted from markets, based on perceived intentions. However, any attempts to identify, reduce or eliminate proven predatory practices could only restore investor confidence in the long run.

Question 7: *Are the access restrictions proposed for Hybrid consistent with the application of the fair access requirements?*

Based on the intentions of the access restrictions for the Hybrid market proposed by Aequitas, the spirit of the fair access requirement would be preserved. From a purely technical interpretation, access restrictions of any type are in contradiction with the fair access requirements in force for the lit markets. If restrictions are reasonably targeting active predatory strategies in existence, we consider that all market participants will benefit from redefined fair access requirements, irrespective of the Hybrid market being considered a dark or a lit market.

Question 8: *Is the SME marker an appropriate proxy to identify the behaviours Aequitas seeks to restrict?*

While UMIR does have a definition for "high frequency traders", the IIROC definition of the SME marker exhibits a high correlation to the attributes of market participants that have employed predatory trading practices. The use of the SME marker for the

segmentation of order flow creates the precedent of empowering the exchange to filter out detrimental practices, placing added responsibility on the regulators to ensure accurate and appropriate use of the market. It is foreseeable that the SME market use would evolve to be used in conjunction with other indicators of predatory practices, such as high order-to-trade ratio or excessive message traffic market participants. It is important that a framework is created to address false positives and false negatives while taking into consideration continuous changes in predatory practices (for example recent HFT moves from intra-day strategies).

Question 9: *What, if any, is the impact on market quality and market integrity if market makers are provided matching priority (after broker preferencing)?*

The market makers matching priority in the Dark and Hybrid markets compensates for market making obligations that are not completely specified in the Aequitas proposal. Therefore, it is difficult to evaluate if market makers are over or under compensated for the risks they undertake relative to their obligations. The maker/taker fee model widely adopted today places the retail investors at a structural disadvantage, since they are predominantly liquidity takers. The proposed fee/fee model for market making in the Dark and Hybrid market could attract retail order flow if they provide a lower cost structure. At the same time, market making rebate loss is mitigated by matching priority, as an alternative form of compensation for the market making responsibilities. Provided that the market making responsibilities are clearly stated and fulfilled on an ongoing basis, this form of compensation does not appear unreasonable.

Question 10: *In light of the details of Aequitas' proposed market maker program, is it reasonable to provide the benefit of priority to a market maker in the Dark and Hybrid books when the market maker's corresponding obligation is limited to the Lit book? If not, should there be market making obligations in Aequitas' Dark or Hybrid books?*

The extent of the market making obligations, in conjunction with the ability to monitor and ensure compliance with the stated policies, we view as an important part of the market making program of the Aequitas proposal. The scenario in which investor order flow is too far down the priority list is possible and should be addressed as part of the market makers obligations.

Question 11: *Should market making benefits accrue with respect to obligations for market making in non-Aequitas listed securities? If so, why and if not, why not?*

While we consider it to be beneficial to have market making obligations across the marketplace, standardized policies could be difficult to implement and fulfill, particularly in differentiated market places. We envision that the main challenge would arise from conflicting economic models derived from markets with less than harmonized structures.

Question 12: *Should DEA clients that are not subject to the direct regulatory authority of the securities regulatory authorities, IIROC and/or the exchange be permitted to act as market makers? Why or why not? How would the following facts affect your response: (i) the DEA client market maker must be sponsored by an IIROC member and (ii) the DEA client market maker must be a member of a self regulatory organization such as FINRA or*

otherwise subject to appropriate regulatory oversight?

It is our view that DEA clients permitted to act as market makers should be under the direct regulatory authority of the securities regulatory authorities, IIROC or at the very least sponsored by an IIROC member. We question the ability to enforce market maker obligations where DEA client market makers are subject to other regulatory oversight.

Question 13: *Will an un-level playing field be created between DEA client market makers and registered investment dealers that also seek to become market makers on Aequitas' proposed exchange? If so, what are the potential implications in terms of fairness or market integrity?*

Based on the stated preference and concerns from the previous question, this would potentially be avoided.

Question 14: *How might Hybrid impact the quality and integrity of the visible market as a whole?*

While the impact of the Hybrid market cannot be entirely anticipated, to the extent that the Hybrid market acts as a lit market at or around the NBBO, it is not unreasonable to assume that it would be a net benefit to the quality and integrity of the visible markets. The concept of the Hybrid market attempts to tackle a multitude of issues, challenges and distortions that have negatively impacted investor confidence, modified business models and continue to transform and challenge the status quo. Considering that competition without innovation or alternative will do little to address these issues, we view the Hybrid market proposed by Aequitas as a step in the right direction.

Question 15: *Please comment on whether the potential benefits of Hybrid for the marketplace participants in Hybrid outweigh any potential risks to the market as a whole? Please identify the relevant benefits and risks.*

The Hybrid market proposal creates options for traditional investors (retail and institutional). It is arguably this category of investors that have been at a technological and structural disadvantage to other market participants who provide no economic value and in fact increase the costs of the system. A proposal that restores this balance going forward is needed in the marketplace and we believe that the model proposed by Aequitas has the potential to do so. Some of the key benefits are: protecting natural liquidity from predatory trading, utilization of a latency equalization smart order routing, compelling market making conditions, increased transparency and liquidity, efficient price discovery and lower data costs.

The main risk the Hybrid poses to the marketplace is that if the overall trading volume in the other lit markets shifts to Hybrid in a significant way, price formation and price discovery could be affected in the long term. However, that would also convey that the Hybrid market is addressing real needs in the marketplace.

Question 16: *How should the principles of the current regulatory framework and any potential for changes to that framework impact the OSC's consideration of Hybrid? For example, should Hybrid go forward on a pilot basis and be reevaluated based upon some criteria or threshold? What type of criteria or threshold might be appropriate to minimize potential negative impact?*

There is little doubt that the proposed Hybrid market poses certain challenges to the existing regulatory framework. Some of the regulatory rules have been implemented because of changes in the market place, such as the OPR rule designed to address a multi-market environment or the Dark Rule, when dark pools became part of the marketplace. The Hybrid market appears to be constructed to address real issues in the lit and dark markets in existence today, such as market making pay structures, HFT predatory algorithms and data costs. The compounded potential impact of the Hybrid model to the overall market quality and integrity are difficult to predict, however we believe that allowing Hybrid to go forward as proposed by Aequitas is the only real way in which to test this impact.

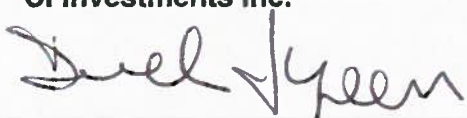
Question 17: *Alternatively, should Hybrid be required to be modified to fit clearly within the established regulatory framework for either visible or dark liquidity? If so, how?*

We believe that there is little to be gained by simply adding another competitor in the Canadian Market without permitting that competitor to introduce innovation and change. In order to justify the added complexities and costs of a new market these must be surpassed by the added value of new ways of addressing industry challenges. We believe that industry innovation and regulatory oversight are the catalysts for improving market structure and integrity and restoring investor confidence in the long run. We strongly support the innovation proposed by Aequitas and encourage the regulators to permit it, through granting the necessary exempting orders or amending the regulatory framework to permit this innovation.

Thank you for the opportunity to provide comments with respect to this proposal. If you have questions or wish for us to clarify any comments, please contact Darie Urbanky at (416) 681-6659 or durbanky@ci.com.

Sincerely,

CI Investments Inc.



Derek Green
President