13.2   Marketplaces

13.2.1   Omega Securities Inc. – Notice of Proposed Fee Model Change and Request for Comment

OMEGA SECURITIES INC. (OSI) PARENT OF LYNX ATS

NOTICE OF PROPOSED FEE MODEL CHANGE AND REQUEST FOR COMMENT

OSI is publishing a Notice of Proposed Changes relating to a proposed fee model change (Fee Model Proposal) for Lynx ATS as requested by OSC staff. Market participants are invited to provide the Commission with comments on the Fee Model Proposal.

Staff request for specific comment

OSC staff request comments on the Fee Model Proposal. Specifically, we request feedback in relation to the costs and complexity to subscribers of Lynx ATS and other market participants that may result from the Fee Model Proposal that involves a changing fee structure that would be applied to individual securities. We are also seeking comment on any potential impact of the Fee Model Proposal on the Canadian market structure. In addition, under OSC Staff Notice 21-706 *Marketplaces' Initial Operations and Material System Changes*, a marketplace is expected to conduct an assessment of the amount of time required to accommodate a material system change so that marketplace participants and their service providers have a reasonable amount of time to complete the necessary work and testing following the approval of the change. Currently, this period has been set for 30 days. Please provide feedback as to whether this represents a reasonable amount of time to complete all necessary work and testing to accommodate the Fee Model Proposal.

This request for comment is not intended to establish a precedent for publishing fees for comment. However, OSC staff believe that the Fee Model Proposal could potentially have broader impacts on Canadian market structure, and that it is important to solicit stakeholder input.

Submissions of comments

Comments on the Fee Model Proposal should be in writing and submitted by January 17, 2014 to:

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

And to:

Richard J Millar
Chief Compliance Officer
Omega Securities Inc
133 Richmond St. Suite 302
Toronto, Ontario
M5H 2L3
416-646-2764
Email: Richard.millar@omegaats.com

Comments received will be made public on the OSC website. Upon completion of the review by OSC staff, and in the absence of any regulatory concerns, a notice will be published to confirm the completion of Commission staff's review and, if applicable, to outline the intended implementation date of the Fee Model Proposal.

OMEGA Securities Inc. (OSI)

Lynx Dynamic Pricing by Monthly Average Daily Volume:

A.   Description of the Proposed Fee Model:

Lynx ATS is proposing an innovative Maker/Taker fee model. We at Lynx ATS have found that there is an issue in the maker/taker pricing structure that has become so popular in Canada. Highly liquid securities that require little or no incentive to provide price discovery are treated the same as illiquid securities that need the maker/taker incentives.

There is no need for an excessive liquidity incentive to be provided for highly liquid securities, this is in fact an unneeded fee placed upon the active side. Excessive liquidity incentives are incentives for traders to execute a market order on a highly liquid stock to either execute in the dark or cross border.

SUPER DOLLAR

Lynx ATS intends to deploy a dynamic pricing model for all **SUPER DOLLAR (trading at or above ONE DOLLAR)** equity trades, creating several pricing tiers based on the average daily trading volume of a given security during the previous month. Average daily volumes across all Canadian marketplaces will be calculated by Lynx ATS on the 15th day of each calendar month. Lynx ATS will gather the total volume of all shares traded across all Canadian marketplaces for the period spanning the close at 5:00 PM on the 16th of the previous month to the close at 5:00PM on the 15th of the present month, using the IRESS Technologies data base. Lynx will derive the average trading volume using the number of active trading days in that period.

Once calculated, a list of all securities eligible for Lynx's lower passive/active tiers will be distributed to all subscribers, vendors, and trading participants. This list will contain the symbol, the Calculated Average Daily trading volume, and the price tier. The list will be provided as a CSV file to be emailed, posted to our website and will also be available on a secure FTP site. Lynx ATS has designed the pricing model to make it easy for participants and vendors to maintain the pricing changes. Our vision is for our users to maintain two tables, one table with the list of symbols with a tier level (A, B, C, D, E) and a second table with the tier level and the corresponding price. This will allow for the least amount of updates and can be an automated process. Lynx ATS is encouraging this to be automated so that there should be little to no costs to maintain these changes.

The proposed tiers and volumes are as follows:

	Lynx Super Dollar ATS Pricing Tiers		
	Volume	Passive	Active
A	6.5mm+	-0.0006	0.001
B	2.5mm - 6.49mm	-0.0011	0.0015
C	0.5mm - 2.49mm	-0.0021	0.0025
D	0 - 0.49mm	-0.0031	0.0035

Every tier, save the highest, would be at a discount to the rate already approved by the OSC. Less liquid securities are more likely to have wider pricing increments, securities that trade in higher numbers of shares a day trend to both tighter spreads and more diverse trading venues at each price level.

SUB-DOLLAR

	Lynx Sub-Dollar ATS Pricing Tiers		
	Price	Passive	Active
E	Trading < $1.00	-0.0001	0.0004

Trades in equities trading sub-dollar will be charged at **Tier E (-0.0001/0.0004)**, Lynx ATS is aware of the large number of sub dollar equities trading at average daily volumes of less than 500 000 shares, and is concerned that the volume based tiers would have a disproportionate impact on thinly traded "penny" stocks.

The Tier E level would be in line with many of the sub-dollar structures found in other Canadian marketplaces.

Like all other Sub-Dollar/Super Dollar pricing structures, participants will have to be concerned with only 2 possible trading fees for an equity every month. Every equity whose price falls to less than one dollar REGARDLESS of the trading tier established by volume in the previous month, will trade at the Tier E level. Should the price return to one dollar or more, the shares will resume trading at the tier established by the previous months volume.

B.   Expected Implementation Date:

OSI will implement Lynx Dynamic Pricing (pending approval) on the first billing day of the month following the end of a 30 day testing period.   The 30 day testing period would commence upon publication of OSC approval of the proposed Fee Model Change.

C.   The rationale for the proposal, and analysis:

We at OSI have found that there is an issue in the maker/taker pricing structure that has become so popular in Canada. Highly liquid securities that require little or no incentive to provide price discovery are treated the same as illiquid securities that need the maker/taker incentives.

There is no need for excessive liquidity incentives to be provided for highly liquid securities, this is in fact an unneeded fee placed upon the active side.

D.   The expected Impact of the proposed Fee Change on Market structure for Subscribers, Investors and capital markets:

We believe that the fee structure would remove the unnecessary charge applied to the active trading of highly liquid stocks. This would encourage the trading of domestic liquid names, while not removing the rebate that brings liquidity providers to less liquid names.

E.   The proposed Fee Change's effect on the systemic risk in the Canadian financial system:

None

F.   Expected impact of the Fee Change on Omega Securities compliance with Ontario securities law and the requirements of fair access and the maintenance of a fair and orderly market:

All participants will be treated equally. We believe that this form of tiered pricing is superior to the conventional tiered pricing structure. All participants without regard to their size or volume traded can take advantage of lower fees for liquid stocks. It promises participants rates discounted from Lynx ATS' already approved highest rate.

G.   Consultation Details:

In the last few years we have heard from market participants that to pay a liquidity provider a large rebate to purchase or sell a highly liquid stock is unfair. There is no need to incent liquidity where liquidity is apparently endless. The high liquidity incentive has a negative effect on the trading of major Canadian corporations.

We have discussed this proposal with several participants and have had a positive response.

Smaller less sophisticated participants have stated their intention of using the highest possible Super Dollar/Sub Dollar rate as a baseline for calculation and router arrangement. Treating discounts achieved on Super Dollar equities as rebates for the purpose of reconciliation.

Participants with more sophisticated systems will embrace the ability to route individual equities in order to enjoy the tailored fees.

OSI intends to prepare and provide a monthly invoice, blotter and statement. The monthly information package will allow all Participants to reconcile activity on all shares traded at all levels. All billing information will be routed to participants and can be broken down by firm as a whole, individual trading ID, by tier, by share at each tier, and by active versus passive.

H.   Estimated time for Subscriber and Vendor system modifications for implementation of the proposed Significant Change:

It is difficult to address the internal costs for any individual Subscriber or Vendor. The management of data based information has been a part of the industry for decades. Margin eligibility, new listings, corporate actions, delisting, and dividends, are managed on a daily basis.

Omega ATS already has a multilevel tiered price system based on the volume of shares traded by the individual participant in a particular month. Lynx ATS' Dynamic Pricing is a variant on such a structure with the tiers applied to individual stocks. The Monthly Daily Average pricing table will be available to all participants two weeks prior to the beginning of each month.

Although this pricing model is slightly more complex than what is currently offered by other Canadian marketplaces, the model does not interfere with current routing structures.

Any participant who has programmed their system to account for the rebates available in Omega ATS Break Point will be able to account for Lynx ATS' Dynamic Pricing as rebates from the highest possible fee, and set their router accordingly.

Participants with more sophisticated systems will be able to route individual equities for individual fees.

OSI will communicate monthly with our subscribers using three methods to disseminate the Calculated Monthly Daily Average report. Lynx ATS will prepare the report on the 15th evening of each month. Once the report with the symbols, average daily volume and tier level is generated, it will be emailed to all participants. On the same evening, or the next morning, Lynx ATS will place a copy on our website, as well as providing a copy of the report to an FTP site. Participants and Vendors will then be able to automate access to the report.

Our intention is to generate this report in a program readable comma separated value format. Participants and Vendors would have sufficient time to generate the report, and to run this into any system able to populate a table of symbols with the correct pricing.

Lynx ATS has designed the pricing model to allow participants and vendors to easily update the pricing changes. Our vision is for our users to maintain two tables, one table with the list of symbols with tier level (A, B, C, D, E) and a second table with what the tier level and the corresponding price. OSI is encouraging this to be automated, there should be little to no costs to maintain these changes.

In order to simplify reconciliation and billing, Lynx ATS intends to prepare and provide a monthly invoice, blotter and statement. The monthly information package will allow all Participants to reconcile activity on all shares traded at all levels. All billing information will be routed to participants and can be broken down by firm as a whole, by individual trading ID, by tier, by share at each tier, and by active verses passive.

I.   A discussion of any alternatives considered;

Omega Securities Inc. has discussed several pricing models for Lynx ATS and have already been approved for a maker/taker model. We have heard the complaints that surround the conventional maker/taker model and are seeking to provide a system that will provide the maker/taker incentive only where needed.

While out of the ordinary this surgical approach will free Lynx ATS of many of the flaws that are found in Canadian marketplaces, and provide participants with lower pricing.

J.   Whether the proposed Fee Change would introduce a fee model that currently exists in other markets and other jurisdictions.

No we do not believe that this model exists elsewhere, but NYSE ARCA and BATS have much more complex volume based fee structures that use percentages over and under a benchmark month to establish multiple tiers. Omega ATS already has a multilevel tiered price system based on the volume of shares traded by the individual participant.

Lynx ATS' Dynamic Pricing is a variant on such a structure with the tiers applied to individual stocks but based on Calculated Monthly Daily Average, discounts will be available every month. All active participants will be able to enjoy lower costs on liquid stocks regardless of trading one hundred or one hundred million.