

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 Lynx ATS – Notice of Completion of Staff Review of Lynx ATS Initial Operations Report

LYNX ATS

NOTICE OF COMPLETION OF STAFF REVIEW OF LYNX ATS INITIAL OPERATIONS REPORT

On April 18, 2013, Omega Securities Inc. (OSI) announced its plans regarding the operation of its second Canadian trading facility, Lynx ATS. The description of the proposed operations of Lynx ATS (Proposed Amendments) was published for comment in accordance with OSC Staff Notice 21-706 – *Marketplaces' Initial Operations and Material Systems Changes*, and pursuant to an order requiring OSI to comply with the *Process for the Review and Approval of the Information Contained in Form 21-101F2 and the Exhibits Thereto* (ATS Protocol). Two comment letters were received. A summary of and responses to those comments prepared by OSI is included at Appendix A to this notice.

The OSC has approved the Proposed Amendments pursuant to section 8 of the ATS Protocol applicable to OSI. OSI will publish a notice indicating the intended launch date of Lynx ATS, which will not be earlier than 90 days from the publication of this notice.

APPENDIX A

LYNX ATS

SUMMARY OF COMMENTS AND RESPONSES

Issue	Commenter and Comment	OSI Response
Omega's classic market share is very low	ITG Canada Corp. – the Omega Classic trading venue (Omega ATS) has very low market share, and even lower contribution to the NBBO.	Omega ATS with its "Free to Take" model is a niche player offering a service that is sought by 3-5% of the market at best, comparing it to overall market share is not relevant. We have seen in the last few months both Select and CX2 move to a taker/maker model with a rebate.
Lynx/Omega Lacks Innovation	<p>ITG Canada CORP – while Omega is suggesting that Lynx will offer up “innovative solutions our industry requires”, we fail to appreciate how another slightly altered version of maker taker or taker maker pricing is deemed to be necessary innovation.</p> <p>TD Securities - recent new marketplaces have brought no new innovation in terms of market efficiency and have primarily been created to add a new make/take fee level for the marketplace operator.</p>	<p>Having both Omega and Lynx is intended to provide for OSI two platforms upon which we are able to tailor services to the varied needs of the market place. Omega ATS was the first market to offer an inverted price model offering the lowest possible cost to the active retail order.</p> <p>Omega ATS is the only market to have an OPR protection system that prevents both locked markets, and trade through. Omega ATS has been approved as the only ATS with an odd lot book, and will offer the only odd lot book that will allow trading in single shares. Lynx will be the only ATS with no data fees, no connectivity fee, no subscriber fee. All innovative and all beneficial to our subscribers and the industry in general.</p> <p>In the future, Omega Securities Inc intends to diverge our two marketplaces and develop each marketplace with more original services that will benefit the unique users of the respected markets.</p>
The make/take fee model is inconsistent with Canadian fair market principles	TD Securities – Marketplace operators have an incentive to create as many make/take fee levels as possible to span a range of sub-penny prices and to offer payment-for -order flow to both active and passive participants. We see the make/take fee model as being inconsistent with Canadian fair market principles since it is equivalent to sub-penny pricing and payment-for-order flow	<p>As we have addressed in question two Omega Securities Inc, has always followed the path of continuous change and innovation.</p> <p>The question of Maker/Taker is a question of regulation and market structure, and beyond the scope of of this commentary on the launch of Lynx ATS.</p> <p>Maker/Taker is the de facto pricing structure of the Canadian Equity Markets, with 95% of all trades occurring under this pricing model. The TMX group that controls 75% of all trading in Canada operates three Maker/Taker markets alone.</p>

Issue	Commenter and Comment	OSI Response
<p>Omega Securities Inc underestimates the costs of connecting to a new market</p>	<p>ITG Canada Corp – we believe Brian Crew OSI management is drastically underestimating both the real cost, and the opportunity cost of setting up connectivity and exhaustively testing a new marketplace.</p>	<p>OSI acknowledges there will be some costs associated with developing systems and networks to connect to Lynx ATS, and it is with this foremost in mind that OSI has done everything in its control to make the launch of Lynx ATS as low cost as possible. With no subscription fee, no market data fees, no connection fee, and no drop copy fee, Lynx will be the first and only strictly “pay as you go” marketplace. All connections to Omega ATS can be used for Lynx ATS thus reducing infrastructure demands on the market participant.</p> <p>OSI has chosen to keep new functions to a limit as it introduces Lynx ATS, allowing users to integrate Lynx ATS to their present systems with the lowest cost. It is our hope that without additional fees participants will be able to recoup their costs in a short time.</p>
<p>Maker/Taker creates a lack of transparency</p>	<p>TD Securities – The make/take model also creates a lack of transparency since the payments are not included in the displayed price and are not uniformly passed to the end client.</p>	<p>Different pricing models are a component of a competitive landscape.</p> <p>All pricing is very transparent and can be calculated easily. Moreover, the varied market prices give the trading community the tools to select the trading venue that best fits its needs.</p> <p>Omega and Lynx ATS offer a fully programmable free smart order router that can be set to achieve the lowest cost for you and your client.</p>
<p>Market fragmentation is harmful to market quality, and reduces the likelihood of passive orders being filled.</p>	<p>TD Securities – Fragmentation is harmful to market quality as it creates an unnecessary level of intermediation based on rebate arbitrage and reduces the likelihood of passive orders to be filled.</p>	<p>Omega Securities Inc is presently competing with rivals that control several marketplaces, the TMX group alone controls four lit markets and one dark market. We have seen in the last few months both CX2 and the TMX group move into the inverted price niche.</p> <p>Competition is fragmentation and with it has come the tightest spreads, lowest trading fees and continuous competitive innovation. Omega Securities Inc is the only independent Canadian marketplace, the Lynx ATS market will provide us with the tools necessary to continue serving our subscribers.</p>

Issue	Commenter and Comment	OSI Response
<p>Increased market participants increase risk and complexity</p>	<p>TD Securities – Most participants have multiple connection points to marketplaces through a variety of vendors and/ or in-house systems. As new marketplaces are added, connections must be established to each vendor and in-house system, which rapidly multiplies the number of connections that must be supported and makes vendor co-ordination, system testing and change deployment exceptionally complex.</p>	<p>An increased number of market places mathematically increases the risk of an issue, but it also increases the rewards of multiple marketplaces such as, improved trade quality, lower costs and greater competition. Moreover, the multiple marketplace environment plays a key role in reducing systemic risk. As the TMX Group consolidates many of the key functions of the markets they acquired, they have increased the systemic risk created by the purchase of the TMX and its consolidation with Alpha, and Select.</p> <p>Lynx ATS will add to the trading community another marketplace separate from the larger groups, one that has being an ATS as its only focus.</p>
<p>The increased number of marketplaces increases the rate of change for gateway upgrades, matching engine enhancements, order type programming, and general infrastructure maintenance.</p>	<p>TD Securities – Increasing the number of marketplaces also increases the rate of change for gateway upgrades, matching engine enhancements, additional order types, data centre migrations and infrastructure maintenance.</p>	<p>Although we agree that the addition of a new marketplace would result in some additional changes for enhancements, we at OSI also believe in offering features that would appeal to different segments of the broker dealer community. Historically, OSI has minimized the number of mandatory upgrades, preferring to introduce enhancements that are optional, targeting users that would use these features. It has, and continues to be our intention to minimize the amount of work required by the broker dealer community to receive value enhancing features.</p>