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Market Regulation Branch  
Ontario Securities Commission  
20<sup>th</sup> Floor  
20 Queen Street West  
Toronto, ON M5H 3S8



Dear Sirs.

I write today both in response to the request for comments related to the Application for Recognition of Aequitas Innovations Inc. and Aequitas Neo Exchange Inc. as an Exchange and, more broadly, on the issue of high-frequency trading.

As is well known, the electrification of capital markets and a variety of regulatory actions undertaken in the late 1990s designed to spawn competition have today given rise to a new and dominant class of short-term players known as high frequency traders (HFTs). A defining characteristic of these parties is that they have little interest in stocks as investment vehicles yet keen interest to leverage speed through technological advantages to earn their daily keep.

Some claim these players have unequivocally improved markets – typically such pundits point to increases in volume, posted liquidity and narrowed spreads to support such assertions. However, there is clear evidence that “improvements” in these metrics have given rise to a host of problematic companion trends.

The cancellation rates of HFTs have been found in a variety of studies to well exceed 90%. Studies have likewise revealed these parties consume liquidity nearly as often as they provide it. Many knowledgeable participants also alleged both these activities too often tend to take place at near the same time as investors attempt to access the brittle liquidity of today’s equity markets. Taken together, these facts call into serious question the extent to which these parties really provide liquidity and how often they are simply trading ahead of real investors.

Many believe the aforementioned developments have undermined markets in a far more fundamental way through increased short-term price volatility. For years countless in the trading community have observed this anecdotally and recent studies published by RBC looking at both Canadian and US equity markets now validates these observations. All of this casts doubt as to the fairness of the prices that investors observe in today’s markets and suggest a hollowness to the win of narrow spreads. Finally, let’s not forget to contemplate the extent to which these changes are likely to have contributed to serious (in fact potentially systemically catastrophic) market-wide disruptions – again adding to a lack of trust and confidence in equity markets.

Regulators and lawmakers in Canada and other jurisdictions seem to be slowly realizing that the above are serious and legitimate concerns. This despite the flagrant campaign of misinformation waged by those with too little regard for the needs of investors and issuers – seemingly blinded by the prospect of short-term profits found in the status quo.

In Canada the CSA recently released proposed changes to the Order Protection Rule. In that document they explicitly acknowledged some of these same issues. Yet, with much of the above the unintended result of regulators, one questions whether the newly proposed remedies will resolve these issues and to what extent they may serve to create new ones. Much of their proposals appear to focus on the costs of participants but do little to directly address the behavioral issues many associate with HFTs. This brings us to the Aequitas proposal.

At its most basic, what Aequitas proposes seems grounded in the belief that there can and should exist a viable business model that prioritizes the needs of investors and issuers. For well over a year Aequitas has worked transparently and in good faith with regulators and the community at large to refine its proposals to fit the confines of the very framework that the CSA now seems intent to change. I believe Aequitas should be commended for the approach they have taken to devise meaningful solutions to the problems faced in today's markets.

The request for comment poses some specific questions on Aequitas – the most critical of which relate to two areas that I now address:

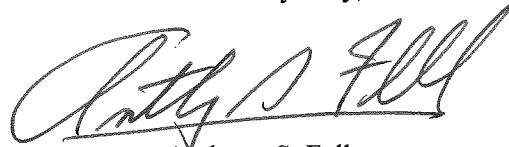
Benefits, obligations and commitments of market makers – A key principal lost in today's markets is a fair tradeoff between rights and obligations for intermediaries. Many would agree that HFTs today benefit from access to a host of services tailored to their needs that serve no practical use to investors. The model proposed by Aequitas is clearly designed as a comprehensive solution to foster reliable displayed liquidity through benefits and obligations across its "books". It is apparent that there has been genuine thought put into striking a balance between these two important ingredients. Undoubtedly the balance in this system will need fine-tuning over time. However, as a system that acknowledges the need for balance in the first place, it is plainly superior to those which dominates today – a set of business models which, under the flimsy façade of technically legal fair access, offer benefits only practically useful to a subset of participants at the expense of investors with no obligations, no accountability, no sense of balance but clear financial incentives to continue to tilt the tables towards excess intermediation. Aequitas should be permitted to proceed with and fine-tune its proposed market maker program subject to reasonable regulatory oversight.

Application of the Order Protection Rule – Regulators have asked if the Order Protection Rule should apply to the "Neo Book" for all market participants and if Aequitas should be forced to proceed on its business model without enjoying protection because marketplace thresholds for protection are part of the remedies the CSA has proposed for OPR. As to the former, the request for comment implies differentiated fees and a "speed bump" for "Latency Sensitive Traders" (HFTs) do not unreasonably restrict access – a sensible view. Given that the Neo Book fits the definition of a protected marketplace in every way under existing rules, I see no justification for a class of participants to be exempt of their obligation to displayed orders or the market in general. On the latter, it seems unfair to prejudice the consideration of Aequitas (or any new marketplace for that matter) by holding it to rules still subject to comment and approval – uniquely in the case of Aequitas as it is the first proposed marketplace in Canada to come forth with a clear vision to address issues that were in part created by securities regulation including OPR. Aequitas' proposals should be viewed against existing rules until such time as proposals are implemented through due process.

On the Aequitas proposal generally it proposes useful technological tools, marketplace functionality and pricing to achieve its objectives. Perhaps more importantly, it is clear that significant thought has been put into its governance model, ownership structure and stated mission. It is predominantly in this and the ongoing stewardship of its shareholders that I place my trust and confidence in Aequitas to refine its model over time to continue to do what's right to support investor and issuer participation in Canada's equity markets.

While I do not question for one moment the good intent of our regulators it has been my experience that good intent in laws or regulations are no substitute for innovative and customer-centered vision informed by sound business ethics. In this regard, I believe Aequitas has fashioned a sound plan that I hope will serve as a catalyst for more productive competition to flourish in the years to come.

Yours very truly,

A handwritten signature in black ink, appearing to read "Anthony S. Fell". The signature is written in a cursive style with a horizontal line underneath the name.

Anthony S. Fell