RBC Capital Markets®

RBC Dominion Securities Inc.
Royal Bank Plaza
2nd Floor, South Tower
200 Bay Street
Toronto, Ontario M5J 2W7

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Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Via email to: marketregulation@osc.gov.on.ca

Cindy Petlock
Head of Legal, Regulatory and Compliance
Aequitas Innovations Inc.
155 University Avenue, 4th Floor
Toronto, ON M5H 3B7
Via email to: cindy.petlock@aequin.com

Re: Notice and Request for Comment: Application for Recognition of Aequitas Innovations Inc. and Aequitas Neo Exchange Inc. (collectively "Aequitas") as an Exchange

Dear Mesdames and Sirs,

We write today on behalf of the institutional division of RBC Dominion Securities Inc. ("RBCDS") in response to the above noted request for comment. RBCDS welcomes the opportunity to provide comment on this application. RBCDS responds to this notice not only to address the specific questions posed by Staff, but also due to the need for regulators to hear perspectives from a diverse array of stakeholders on the issues we face in today's markets.[1]

We stand today nearly one year after the completion of the initial comment process on the pre-filing for Aequitas. Through this process Aequitas has approached its dialogue with industry stakeholders with an unprecedented degree of transparency. Much industry debate has occurred over the ensuing months – both as it relates to Aequitas and in relation to the state of our industry in general. Of course, little of this dialogue is new – however, one cannot help but sense our industry is approaching a turning point that will have important and lasting impact on its long-term health and well being.

[1] In the interest of full disclosure it should be noted that RBC Dominion Securities Inc. is a minority stakeholder in the Aequitas Innovations Inc.

Collectively the Canadian Securities Administrators ("CSA") recently announced plans to reform of National Instrument 23-101 Trading Rules ("NI 23-101") – specifically in relation to the framework of the Order Protection Rule ("OPR"). In this document Canada's securities regulators set forth a series of remedies they hope will address "costs and inefficiencies" associated with OPR.

The Aequitas application stands in contrast to the proposed OPR changes as a comprehensive commercial offering designed to bring practical solutions through its market structure and technological tools, price competition in the listings and market data space and a plan to foster more reliable and accessible liquidity. More fundamentally, it stands as an organization formed through a shared belief in the viability of a differentiated business model that treats investors and issuers needs as paramount.

We commend the CSA for its efforts to review the above noted regulatory framework. That said we believe the utmost care should be taken to balance these remedies against the need for a framework where healthy innovation and competition can flourish. Implicit in this is the understanding that regulations are not a substitute for innovation and competition but can certainly stifle it. Today the need for innovation and competition to restore balance in service of investors and issuers has never been greater. It is with this perspective in mind that we offer our comments.

The request for comment outlines questions in five areas which we will now address:

Benefits and Obligations of Market Makers

The plans Aequitas has put forth to incent liquidity in its marketplace stand in stark contrast to the model which prevails today. Today's marketplaces have (in most cases) indiscriminately heaped various incentives and tools (rebates, proprietary market data feeds, co-location, exotic order type functionality and telecom services) in a claimed bid to 'attract liquidity' to their markets. They position these inducements as necessary to support liquidity and narrow spreads while entirely de-emphasizing the positive impact this arms race has on their bottom line. Finally they position the parties who most often take advantage of these services as, in effect, the new market makers.

Naturally, these trends have given cause for concern to many participants. Such parties typically point to the inherent bias of the obvious application of these services. They also worry about the collective impact that these services have on market behavior and perceptions of fairness. The textbook legal reply of course is that these services are (individually) offered 'fairly' and that any participant *could* avail themselves of these same services. Unfortunately this is where legal and regulatory notions of fairness fail us – by missing the forest for the trees of what is technically or legally 'fair' versus practical notions and perceptions of fairness with the context of the bigger picture.

As a stakeholder we are acutely aware of the careful planning that Aequitas has put into the features of its market-making program. Its proposal is the product of not only an unprecedented and transparent pre-filing comment process, but also extensive consultation with various user committees and stakeholders. Stepping back though, our ultimate reasons for faith in the program are: (a) that it strives to restore a sense of balance between benefits and obligations which has faded

into irrelevance in today's markets; (b) empowered by its governance structure, we believe Aequitas stakeholders (the majority of which are buy-side) will demand change if the program fails to achieve balance in its initial form; and (c) that regulators in fulfillment of their duties will similarly maintain reasonable oversight of the program to ensure it is functioning as advertised.

As proposed, the benefit of priority with a capped participation rate in dark is being offered as a tool to assist market makers in fulfillment of their obligations to post two-way liquidity in Lit and Neo. A posting obligation in Aequitas Dark would make no sense as dark neither contributes to price discovery or perceptions of liquidity in a security. The idea here is to offer a mechanism that assists market makers to passively unwind positions assumed in fulfillment of meaningful lit quoting obligations. Notably, market maker use of this functionality would generally entail giving up one tick or half the spread as price improvement and incurring a fee rather than winning a rebate – as such, this will not be a functionality utilized without concession.

As to the technical question of benefits in Aequitas Dark without accompanying obligations in the same book, we fail to see this as a valid concern. Looking at benefits and obligations in such a compartmentalized manner (by book) is not, in our view, productive. In fact it can be argued that similar compartmentalized decision making in relation to individual marketplace services without the context of the bigger picture was a big part of what has led us to the industry challenges we face today.

Market Makers' Commitment ("MMC") for Aequitas Listed Securities

Aequitas has proposed functionality in the form of a specific Market Makers commitment for Aequitas listed securities – similar to the Capital Commitment Schedule offered by NYSE. Staff has asked if this feature provides an incentive to market makers at the expense of existing orders in the book. We note that as designed the MMC would only participate once at one price level and that it will yield to all other visible and non-visible interest at that level. As such, it seems that this mechanism is beneficial to the market as it would be volatility dampening in nature. Given these factors it is difficult to see what concerns Staff has with regards to fairness towards other orders in the book for a given security.

Application of the Order Protection Rule

We firmly agree with Staff that the proposed treatment of LST ("Liquidity Sensitive Traders") does not constitute unreasonable restriction on their access to the Neo Book. Differential fees for specific parties has precedent in the Canadian marketplace (an example being the TMX ELP program) and the proposed "speed bump" acts as an equalizing curb on the ability of LSTs to execute active predatory strategies.

Those vested in the status quo will predictably argue that any impedance of speed will undermine the efficiency of arbitrage and market making activity. On the contrary, we believe the speed-based ability to execute active orders is the common denominator of the unproductive behaviors these participants exhibit on other marketplaces. This is both detrimental to the formation of more reliable

liquidity and an important part of the feedback loop that increases intraday price volatility – by definition a decrease in market efficiency.

Having voiced our support for the proposed mechanisms of the Neo Book, we underscore that this position was reached by carefully weighing the remedies against the marketplace problems they are targeted to solve – specifically over-intermediation.

We agree that under the existing requirements of National Instrument 23-101, OPR will apply to the Neo Book. This treatment under OPR was clearly established in the extensive debate around the "Hybrid Book" which was part of the initial pre-filing of Aequitas. With this in mind and having established our view and agreement with Staff that the restrictions proposed on LST are not unreasonable, these parties should be under the same responsibility to respect the orders displayed on this marketplace as any other participant. This is the only reasonable interpretation of the existing Instruments.

It should be emphasized that investors, despite facing technological disadvantages enabled by marketplace offerings, continue to be forced to engage quotes on other markets. Notably these challenges of fragmentation will not be solved under the proposed changes to OPR. By contrast, the mechanisms proposed for the Neo Book seeks only to level the playing field. As such we see no reason that LSTs should be relieved of their obligations under OPR.

As we conveyed in our introduction, we support the CSA's efforts to examine OPR but feel these efforts should be approached very carefully and with due process so as to not create further unintended consequence or stifle competitive innovation. We are of the view that any changes to OPR should be carefully aimed at curbing the generic forms of competition (catering to intermediation through speed, functionality and fees) that dominate today. With this in mind, we are concerned with the apparent willingness of regulators to consider prematurely applying proposed rules without due process of rulemaking.

Having already submitted to a lengthy path towards recognition to reconcile its solutions to regulations the CSA now believes to be flawed, we believe Aequitas should be permitted to bring its solutions to market. Prejudicing the treatment of this or any other proposal based on nascent regulatory reform aimed at addressing many of the same issues Aequitas proposes to address through a commercial solution would, in our view, set an extraordinarily bad precedent for rulemaking. We would note the regulators have posed no less than thirty-nine questions related to their proposed change to OPR – a clear indication of the complexity around these issues. Bypassing this process would run counter to standards of due process, transparency and public participation in rulemaking.

Listings and Cross-Listings of Investment Products

We agree with the need to have a clear process in place to ensure regulators are properly informed of listing and cross-listing applications to prevent opportunities for regulatory arbitrage. That said, this process should strike a balance such that it is (a) streamlined in such a way as it does not unreasonably impede the ability

to bring products to market; and (b) should allow marketplaces to customize their approach to comply with process standards set forth by the regulator.

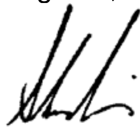
Emerging Markets Issuers and Gatekeeper Concerns

We are certainly supportive of Staff efforts to improve standards of quality for emerging markets issuers seeking listings on Canadian exchanges. We also agree with Staff that they should allow sufficient flexibility for Aequitas and other exchanges to develop their own targeted response to addressing this important initiative. Until such time as these processes are in place we agree that Aequitas should not accept applications to list securities of emerging markets issuers.

Some have questioned if Aequitas is truly capable of helping restore balance across our markets. On the contrary, we believe new approaches that seek to restore balance between intermediation and the needs of investors through choice are absolutely critical to restoring balance – this is something regulation simply cannot offer. It is equally reasonable to consider the complexity and cost associated with the solutions that Aequitas has proposed. As we have argued today's markets are a highly complex and fragmented patchwork of technologies and solutions – Aequitas is in fact a differentiated and holistic answer to the cost and complexity posed by these markets.

As well intended as they may be, we believe there is a material risk of further unintended consequence through regulatory reform – particularly if it is rushed without due process. For this same reason we cannot count on regulation to evolve quickly enough to adapt to ever-changing market realities. In fairness it is not reasonable to expect regulators to "fix" markets. So long as we continue to have faith that competition in marketplace operations can serve investors and issuers we should continue to encourage competitive innovation for solutions to today's challenges.

Regards,



Stephen A. Bain
Managing Director – Global Equities
RBC Capital Markets