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August 26, 2014

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

**Re: Application for Recognition of Aequitas Innovations Inc. and  
Aequitas Neo Exchange Inc. as an Exchange - Notice and Request for  
Comment**

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The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to submit the following general comments regarding the application for Recognition of Aequitas Innovations Inc. ("Aequitas") and Aequitas Neo Exchange Inc. (the "Aequitas Exchange") as an Exchange - Notice and Request for Comment (the "Aequitas Application").

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. In addition to this primary registration, some firms are dually registered as investment fund managers and/or exempt market dealers or other registration categories but generally 70% of their income is derived from portfolio manager registration to be members of PMAC. PMAC was established in 1952 and currently represents over 180 investment management firms that manage total assets in excess of \$800 billion (excluding mutual fund assets). Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. For more information about PMAC and our mandate, please visit our website at [www.portfoliomanagement.org](http://www.portfoliomanagement.org).

**General Comments**

As stated previously, PMAC supports the efforts of Aequitas to build a new stock exchange in Canada that protects the interests of all investors and reflects the fundamental purpose of the markets: the efficient allocation of capital between issuer and investor as a central force driving the Canadian economy. We believe in the principles of using innovative technology and market structure design to promote liquidity, fairness, cost savings and economic growth. In our view, competition in the marketplace will ensure a robust future for Canada's marketplace. In order to achieve all of these objectives, we believe there needs to be flexibility in the design of the Aequitas Exchange.

Our submission includes our general observations as we do not propose to respond to specific questions included in the Notice. Set out below are our comments on certain aspects of the Aequitas Application.

## **Ownership and Governance**

PMAC supports the current and anticipated broadened ownership structure proposed in the Aequitas Application as it ensures that all key participants are represented while the buy-side and non-dealer issuers retain majority ownership. However, the expansion of the ownership base in the future may be hindered by the current definition of “significant shareholder” which places terms and conditions on shareholders who may not be in a position of influence. We believe that broadening the ownership base is an important feature of the proposal and would further align the interest of the Aequitas Exchange with market players.

PMAC also supports governance that meets best practices standards in the industry. Thus, we believe that the Aequitas Exchange should have, at a minimum, a majority of independent board members, which would be more in line with corporate governance standards in the industry and would facilitate confidence in the exchange and its ability to foster innovation, competition as well as transparency.

## **Trading and Transparency**

PMAC has been monitoring the developments in the market over the last several years with respect to trading practices such as high frequency trading. As a result of this type of predatory trading strategy, there has been an erosion of meaningful liquidity which has led to decreased investment opportunities for Canadian investors with impact on portfolio managers generally. PMAC believes that some of the solutions included in the Aequitas Application will address our concerns about high frequency trading strategies. In this regard, we support more transparency in the marketplace and agree with Aequitas’ direction of more liquidity but query how liquidity will be obtained and how the quality of liquidity will be managed. In order to understand how transparency will be achieved and how to manage the quality of liquidity, we believe more information should be provided to the market and the proposal should clearly set this out.

Finally, in our view, the designated market making program is critical to improving meaningful liquidity and we applaud Aequitas’ intention and innovative approach to strike the right balance between market makers’ obligations and benefits.

## **Listing**

We support the listing principles put forth by the Aequitas Exchange and believe the listing approach will foster quality listings and promote transparency.

We note in the proposed Aequitas Exchange Listing Manual (“Listing Manual”) requirements under the *Minimum Listing Standards for Exchange-Traded Funds and Continuous Listing Requirements – ETF*<sup>1</sup> pertaining to an intra-day indicative value (“IIV”)<sup>2</sup>. While we acknowledge that certain other jurisdictions have requirements mandating the calculation and publishing of IIVs, we don’t believe that exchange-traded funds are well-suited to such requirements given their unique, composite structure. For example, many international ETFs in Canada hold foreign securities

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<sup>1</sup> See *Minimum Listing Standards for Exchange-Traded Funds* (2.04) and *Continuous Listing Requirements – ETF* (3.03) in the Listing Manual.

<sup>2</sup> IIV is defined as “the estimated fair value of underlying securities and/or reference assets published by the Reporting Authority” [which, in turn, refers to Aequitas, an affiliate of Aequitas, or a person designated by Aequitas as the official source for calculating and reporting information].

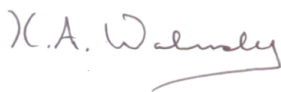
whose underlying exchanges may close at different times, rendering real-time valuations stale and outdated. As a result, IIVs would become less meaningful and potentially confusing for investors as they diverge from the real time trading prices of the ETF which reflect dynamic price discovery on the underlying assets. Similarly, given the opaque and fractured nature of fixed income markets, sourcing reliable bond pricing data can be challenging; a challenge which would be compounded by an obligation to source reliable real-time, intra-day bond portfolio valuations for inclusion in an IIV. Furthermore, we believe that the relatively mature Canadian ETF market functions efficiently and effectively without the need for IIVs. Indeed, the introduction of a requirement where one has not existed before will likely confuse market participants. As a result, we have concerns with the inclusion of any calculation or publishing requirements for IIVs in the Listing Manual.

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If you have any questions regarding the comments set out above, please do not hesitate to contact Katie Walmsley at (416) 504-7018 or Julie Cordeiro at (416) 504-1118.

Yours truly,

**PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA**



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