BMO Financial Group

September 5, 2014

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

Subject: AEQUITAS EXCHANGE APPLICATION

BMO Nesbitt Burns Inc. (BMO) is pleased to provide comments on the OSC's Notice and Request for Comment regarding the Aequitas Exchange Application.

As we noted in our pre-filing comment letter dated October 4, 2013, BMO supports marketplace and regulatory initiatives that increase competition, introduce innovation, and improve the competitiveness of the Canadian marketplace. We believe that Aequitas addresses a number of these key principles. We also appreciate that Aequitas has been responsive to the issues raised during the previous comment period and has addressed many of these in its Application. We temper these comments with concerns about additional complexity being introduced to the marketplace and the potential unintended consequences that may result.

At a high level, we are concerned that the creation of four separate order books with unique matching priorities, fee models, and order types will not only add to the complexity mentioned above, but may actually lead to further market fragmentation. However, we realize that one of the unfortunate realities of our existing market structure is the prevalence of maker/taker fee models. As such, we reluctantly recognize the need for Aequitas to establish two lit marketplaces, differentiated primarily by price, in order to attract both active AND passive natural investors.

Following are some general comments regarding other various trading-related features of the Aequitas application:

- We recommend Aequitas' extend its benefits to all its books, which we believe will simplify its offering. If the proposed benefits are fundamentally sound in nature, there is no reason why these should not apply to all books, specifically:

- We believe the speed bump should be applied across all books (currently only on Neo);

- We suggest that passive preferencing of 'Neo' orders should happen across all books (currently only on Lit);

- We recommend that 'bypass' orders be introduced on both Lit and Neo books to allow participants to sweep visible books when putting up crosses through the quote;

- We suggest consolidating the Lit book's quote at the price level to prevent information leakage of Neo order preferencing;

Below are BMO's specific responses to each of the questions posed in the *Request for Comments*.

(i) Benefits and obligations of market makers

Staff request specific comment on whether it is appropriate to have obligations with respect to the Dark Book and dark pools generally and whether it is appropriate to have benefits in the Dark Book but no obligations.

As we see it, the primary role of the market maker is to provide liquidity via 1) contributing to price discovery and 2) tightening spreads when needed. In the case of the Dark Book, there is no price discovery process; consequently, 1) is not applicable. As market makers will have obligations in the Lit/Neo books, which should effectively contribute to tightening spreads in the Dark Book, we do not believe that explicit market maker obligations are required in the Dark Book.

(ii) Market makers' commitment (MMC)

Staff request specific feedback on whether the MMC feature provides too great an incentive to the market maker at the expense of the existing orders in the book.

We believe the MMC represents a means for market makers to manage hidden price limit orders in order to mitigate price volatility and provide price improvement. Therefore, we do not believe it to be an unreasonable incentive. As noted above, we would like to ensure that 'bypass' orders can be used to bypass MMC orders when required.

(iii) Listings and Cross-Listings of Investment Products

Staff request specific feedback on the listing requirements for Investment Products.

We agree that all necessary steps should be taken to ensure regulatory arbitrage opportunities are minimized. We believe that listing requirements for Investment Products should generally be consistent across marketplaces and we support a protocol that assesses suitability in a streamlined and timely manner.

(iv) Emerging Market Issuers - Gatekeeper Concerns

Staff request specific feedback on the elements that should be included in Aequitas Exchange's requirements or procedures for EM Issuers.

We agree that enhanced due diligence should be undertaken when considering the listing of EM Issuers to address the inherent risks associated with these. We also believe that listing requirements should generally be consistent across marketplaces for different classes of issuers; therefore, we would encourage Aequitas to consider aligning its policies with other listing exchanges.

(v) Application of the Order Protection Rule

(a) Application of OPR to the Neo Book

Staff request comments on whether it is appropriate for a market to be protected where it systematically treats one class of participant differently than another; that is, whether OPR should apply to the Neo Book in these circumstances.

We acknowledge the concerns about whether the Neo Book should be protected when marketplace access and fees vary by participant. Our view is that marketplace access is not substantially impacted by the speed bump. We believe that marketplace latency differences already exist today therefore this should not be a concern. We would make the same comment regarding trading fees, whereby fees already vary across marketplaces and are not a factor when it comes to satisfying the current OPR obligation. In this circumstance, we believe it is appropriate for the Neo Book to have protected status.

(b) Application of OPR to new marketplaces

Staff request comments on specific benefits to the market or costs and complexities that this approach would introduce.

We believe the OPR should apply to all existing and new marketplaces that are in operation prior to the Proposed Amendments coming into effect. This will avoid any undue confusion about which markets are protected and which ones are not.

We are however mindful of the increased burden and costs for participants in the form of connectivity and market data fees. We would therefore propose an interim moratorium on fees whereby marketplaces will only be permitted to charge connectivity and market data fees once they meet an established marketshare threshold of 5%. We believe this will offer new marketplaces the benefits of order protection but at a modest cost and until such time that new marketplace is deemed viable.

We believe the Proposed Amendments to NI 23-101 (OPR) have broad implications to market structure in Canada. We will provide our perspectives on this in our subsequent comment letter on this topic.

The issues facing the industry are increasingly complex and we appreciate that Aequitas has developed innovative solutions to address these. We thank the OSC for engaging the industry and for giving us the opportunity to provide feedback on this Application.

Yours truly,

James Ehrensperger, CFA
Managing Director, Equity Products
BMO Capital Markets
1 First Canadian Place, 3rd Floor Podium
Toronto, ON M5X 1H3
T: 416-359-4351
james.ehrensperger@bmo.com

Rizwan Awan, CFA
Managing Director, Equity Products
BMO Capital Markets
1 First Canadian Place, 3rd Floor Podium
Toronto, ON M5X 1H3
T: 416-359-5195
rizwan.awan@bmo.com