

April 30, 2018

Dear Sir/Madam:

TriAct Canada Marketplace LP ("TriAct") is pleased to have the opportunity to comment on the Aequitas NEO Exchange Request for Comments Trading Policies Amendments – Dated March 29, 2018.

TriAct (a wholly-owned subsidiary of ITG Canada Corp.) is an Alternative Trading System that operates MATCHNow®, Canada's leading dark pool for Canadian listed securities. MATCHNow® is a broker-neutral, fully confidential trading book where order information is not visible to other traders and buy and sell orders are matched using a combination of frequent call matches and continuous execution opportunities.

TriAct supports healthy competition in the Canadian equity market. However, we are concerned that the proposed Aequitas changes will further advance an already unfair market structure. We have several concerns with the proposed changes.

**1) NEO Trader and Latency Sensitive Traders (LST) are loosely defined, subjective, and allow Aequitas NEO Exchange to select winners and losers in matching priority.**

Since inception, Aequitas NEO Exchange has facilitated segmentation through NEO Trader and LST Trader classifications. Classification as a NEO Trader or LST Trader critically impacts matching priority and has evolved with limited transparency and regulatory oversight.

For example, when a new Trader ID is added, classification for NEO Trader and LST Trader is based on the Aequitas NEO Exchange market participant's classification. This leads to several questions on the classification process:

- a) How did the Aequitas NEO Exchange market participant determine the classification? How was the classification qualified by NEO Exchange? The rules and criteria for this determination are not public or transparent.
- b) How does Aequitas NEO Exchange monitor the classification? What criteria is used?

- c) How frequently are NEO Traders and LST Traders reclassified by Aequitas NEO Exchange?
- d) If a NEO Trader or LST Trader is incorrectly classified, is their trading activity unfairly advantaged or disadvantaged during the incorrect classification period?

To ensure market integrity and fairness, we believe there should be greater regulatory oversight and transparency on Aequitas Neo Exchange's NEO Trader and LST Trader classification processes.

**2) Without greater regulatory oversight and transparency on Aequitas Neo Exchange's NEO Trader and LST Trader classification process, prioritizing NEO Trader orders over Designated Market Markers (DMM) orders will further contribute to segmentation and internalization.**

Industry concern on internalization practices are very prevalent. On December 5, 2017, the Canadian Securities Administrators and Investment Industry Regulatory Organization of Canada stated they "are aware of concerns among certain stakeholders that raise issues about the internalization of order flow"<sup>1</sup>. On January 31, 2018, TMX held the "Industry Roundtable on Internalization in Canada's Equity Markets"<sup>2</sup>.

Prior to introducing more changes and complexity to already subjective matching process, we believe regulators should ensure that programs used to internalize order flow and that exhibit LST Trader characteristics are correctly classified as LST Traders, and not masked as a NEO Trader and unfairly advantaged.

**3) The proposed Contra Election in NEO Exchange's separate dark book (NEO-D), is in violation of the principles of fair access and will result in further segmentation.**

The proposed "(b) Implementation of a separate dark book (NEO-D)" further extends the use of the above classifications and matching priorities and

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<sup>1</sup> [http://www.osc.gov.on.ca/documents/en/Securities-Category2/sn\\_20171205\\_23-319\\_internalization-in-the-canadian-market.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category2/sn_20171205_23-319_internalization-in-the-canadian-market.pdf)

<sup>2</sup> <https://www.tsx.com/resource/en/1676>

introduces "Contra Election" that will permit orders from "executing against all orders, against only Liquidity Taking Orders or against only Liquidity Providing Orders". "Contra Election is not available to orders originating from LST accounts, which are limited to entering Liquidity Provider Orders only". Allowing counterparty election and limiting LST's to only providing (not taking) liquidity in NEO-D will result in further segmentation and is in violation of fair access. The same concerns expressed in 1) and 2) also apply to NEO-D.

Thank you for this opportunity to comment. If you have any questions, please do not hesitate to contact me.

Sincerely,



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