



July 29, 2019

VIA EMAIL

Cindy Petlock
Chief Legal Officer & Corporate Secretary
Neo Exchange Inc.
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Toronto Ontario M5H 3B7
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Cc:
Market Regulation Branch
Ontario Securities Commission
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Toronto, Ontario M5H 3S8
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Re: Neo Exchange Proposed Amendments and Request for Comment – Adding Anonymous Broker Preferencing in Neo-D (“Notice”)

Dear Ms. Petlock:

Nasdaq CXC Limited (“Nasdaq Canada” or “we”) welcomes the opportunity to provide comments on Neo Exchange’s (“Neo”) proposal to introduce broker preferencing matching priority for anonymous dark orders for the NEO-D Book (“Proposal”).

We are against the Proposal because it will increase internalization rates while internalization practices are under review by the Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC) (together “Canadian Regulators”) in response to concerns.¹ Until Canadian Regulators determine their position on existing forms of broker preferencing and other internalization tools, additional marketplace features, which serve to promote these practices, should not be approved. Furthermore, introducing broker preferencing for anonymous dark orders will specifically promote internalization practices that “fly under the radar” by providing the benefits of broker preferencing without requiring any contribution to transparency. Historically, order attribution has been accepted as the trade-off for receiving the benefits of broker preferencing because of the contribution made to pre-trade transparency. Allowing broker preferencing for anonymous dark orders without requiring post-trade attribution removes that trade-off. A negative impact to the markets overall transparency will ensue.

We recognize that broker prefer for anonymous dark orders already exists as a feature in the market and has been approved by the Ontario Securities Commission (“OSC”) for use by two other marketplaces (one

¹ Joint CSA/IIROC Consultation Paper 23-406 Internalization within the Canadian Equity Market, Part 1 – Introduction.

with public comment and one without). We also recognize that the same feature has been recently approved for Nasdaq Canada's M-ELO.² **Nasdaq Canada encourages the Canadian Regulators to prohibit this feature across marketplaces and would be happy to remove it from M-ELO when a decision is made.** The inclusion of broker preferencing for anonymous M-ELO orders was proposed in order to remain competitive with other dark liquidity offerings.

We thank the OSC for the opportunity to provide comments and would welcome the opportunity to discuss further our views with staff.

Sincerely,

Nasdaq Canada

² https://osc.gov.on.ca/en/Marketplaces_cxc_20190711_noa-midpoint-extended-life-orders.htm.