

# Maison Placements Canada Inc.

*Member of the Investment Industry Regulatory Organization of Canada  
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Participating Organization of  
The Toronto Stock Exchange and The TSX Venture Exchange

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## **COMMENT REGARDING PROPOSED STRUCTURE OF TRADING FACILITIES FOR A NEW EXCHANGE PROPOSED TO BE ESTABLISHED BY AEQUITAS INNOVATIONS INC.**

We are supportive of the Aequitas Innovations ("Aequitas") application mainly because it seeks to eliminate the predatory aspect of high-frequency trading (HFT). It is Maison Placements Canada Inc's ("Maison") opinion that high frequency trading has corrupted the market maker role which the Aequitas application addresses but ironically has attracted regulatory concerns because the proposed market makers' order priority, raises issues of fairness. In addition, the concerns about Aequitas allowing unregistered clients to act as market makers also raises issues of proper access and oversight issues. We believe that the application should be looked at in its entirety.

The basis for fair markets is transparency for all traders however we believe that technology and the Toronto Stock Exchange's ("Exchange") "pay for play model" have combined to tilt public markets in favour of the computer and high frequency trading at the expense of agency trading. Institutional order flow is now "sliced and diced" and relegated to dark pools. Market makers are that in name only as their markets are "cannibalized" by HFTs' "spoofing" and the "pay for play" mode rewards orders at the expense of liquidity. The system is broken.

The arrival of Aequitas would bring competition across trading, listings and market data offerings. Canada is a country of oligarchs from cell providers to railways to exchanges. The arrival of a new entrant, while not having the impact of a Verizon would lessen the rule stifling, oligarch-like powers of the Exchange.

I have met with the people from Aequitas and was impressed with their application. I think the Exchange, itself should look at this upstart and perhaps look inward and make some changes in order to forestall future competition. Most importantly the OSC has an opportunity in approving the Aequitas application to make some changes better suited for its constituency of institutions, retail and dealers

and less for the policies that favour the HFT or the gaming type players. Something like 50 percent of trading today is HFT or computer related and the retail and institutional investor have disappeared because they no longer seem to matter. Fix computer trading and we believe retail and institutional trading will return.

To that point, there is no stopping the wave of financial technology that enables computer trading which is a major business. Today black box trading has influenced everything from foreign exchange to commodities and technology combined with the internet, has changed trading for good. Indeed, computer trading has caused a phenomenal increase in volume as has the “pay for play model” of the Exchange. But at what cost? The Exchange needs to go back to a pure “paying for volume” model that does not subsidize the computer trading platforms. Many of the computers are trading for tenths and fractions but are subsidized by the “pay for play” platform of the TMX. Again this is another attraction of the Aequitas model which has erected formidable barriers for computerized trading players and encouraged more agency-type trading – a back to the future.

Maison believes that the market maker’s role in the past was a paramount producer of liquidity, policed orders and a source of profits for many firms. That role flourished until computer trading and the Exchange’s “pay for play” model closed down the “pro” market-makers creating a new category, the “wholesaler” which behaves more as a “quasi-exchange” taking advantage of the “pay per play” incentives offered by the Exchange. While there are still “registered” traders, neither the spreads nor the market making ability is in existence today because of the nano-second trading by HFT houses which have cannibalized orders, leaving the pro-trader at a disadvantage. For that reason we have fewer market makers today. Maison believes the Aequitas model will provide incentives for a return of the “market maker”.

The Aequitas model gives a higher priority to market makers. We believe that the OSC’s concerns of conflicts instead of their role of providing liquidity are a “red herring”. Conflicts can be addressed. Market makers provide liquidity and in volatile markets are institutionally instructed to make markets, providing liquidity in contrast to the spoofing and dressing up of quotes by computers. Market makers are more accountable than the black box trading. The restoration of spreads is an added benefit.

Capital markets work best when all the participants, investors and issuers participate. However, the cannibalization of orders, not by investors or companies but by “pro computers” have resulted in the pendulum swinging too far. These so-called market players have moved order flow away from the Exchange to their own private trading platforms. Not only are orders sliced and diced but so too is the marketplace. Fragmentation has killed the golden goose.

The OSC needs to simplify the markets. It could start by looking at the positive aspects of the Aequitas application. A rule book for Exchanges makes sense. To pay for this, a transaction fee for both trades and capacity to replace the “pay for play” model. To be sure, paying for order flow has not helped liquidity. Instead Maison believes we should bring back market makers which would help return the markets to a place where capital formation, not high-speed arbitrage is the prime objective. The Aequitas application deserves our support.

Maison Placements Canada Inc. is an independent, Toronto-based investment dealer providing a comprehensive array of financial services to institutional investors and small to midsize

corporate clients. Founded in 1955, Maison has established a reputation of providing Corporate Canada with high quality strategic investment banking advice and access to sources of financings. The heart and strength of the company is research, a small team of specialists providing both research and expertise. Maison has been able to execute successful financings, mergers, and acquisitions. Maison is committed to the resource industry offering a broad range of services including corporate finance, mergers and acquisitions, venture capital and institutional research.

Best regards,

A handwritten signature in blue ink, consisting of several overlapping loops and a long, sweeping tail that extends downwards and to the right.

John R. Ing  
President and Chief Executive Officer  
Maison Placements Canada Inc.