

October 4, 2013

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto, ON, M5H 3S8  
Fax 416 595 8940

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

GMP applauds Aequitas for its innovation and supports the attempt to deal with serious market issues that have been studied for some time, yet we have seen little progress in terms of oversight and rulemaking.

Aequitas seeks to distinguish itself by promoting a marketplace free or mostly free from the impact of intermediation by High Frequency Traders (“HFT’s”). Although the use of the SME Marker still needs to be proven as an effective way to block predatory flows, we commend Aequitas’ initiative in the absence of any current proposals in the Canadian marketplace for investors seeking best execution safe from intermediation. GMP feels that market maker proposal requires some tweaks to protect client orders but we do see the value in market makers as a whole. GMP welcomes the continued discussion on the effectiveness of the maker/taker model in Canada and the value of Fair Access and the Order Protection Rule (“OPR”). These are discussions that we need to continue having but we support Aequitas while these discussions continue.

Please find below our comments set out in the same order as they were presented in the OSC’s staff notice.

1. OPR should not apply to all visible marketplaces. It hasn’t worked as intended and is currently impeding certain aspects of Best Execution. The obligation to the market over best execution is a disservice to many investors and it is clear that best price does not always mean best execution in a latency driven market environment. OPR and multiple markets have significantly increased the market access and technology costs for dealers, while actually diminishing their ability to attain best execution for some clients.
2. OPR should not apply to Hybrid nor do we feel it should apply to active non-SME orders that are not restricted from accessing the best-priced displayed orders on Hybrid. It would not seem fair to refuse SME orders access to the Hybrid market, yet require non-SME order to access Hybrid. Therefore, OPR should not apply to Hybrid at all.
3. Hybrid orders that are part of the National Best Bid and Offer (“NBBO”) should be displayed in the consolidated display. It is unclear how this would technically occur and some consideration needs to be given to working this through as well as the associated cost. By allowing Hybrid to be part of the consolidated display, dealers will have the ability to access these orders should they meet their clients best execution expectations.
4. The consolidated NBBO that includes Hybrid should be considered.
5. Fair access requirements are a great concept that GMP supports. The concept in Canada does not transfer well into reality as speed and latency are not considered in fair access. Fair access combined with OPR has hurt investor confidence and impeded true best execution with increased intermediation, crowding out at the quote and disappearing quotes. In the current regulatory framework exceptions to “fair access” need to be made for lit markets. When we speak of investor confidence, we are usually referring to “investors”. The SME players that Hybrid attempts to block are by definition not investors and should not be given the same consideration as long term investors in market policy.

6. GMP would prefer to have predatory behaviors removed from the Canadian marketplace entirely, but as this seems unlikely we promote the ability for fair access to be diluted in order to allow long-term investors the ability to trade with less intermediation. Hybrid does propose fair access to all non-SME flow in order to allow long-term investors who are at a major disadvantage in our lit markets to interact with a reduced intermediation, something that certainly seems fair as a reason for restricting access.
7. No; the access restrictions proposed for Hybrid are not consistent with the application of the fair access requirements which is why we feel the concept of fair access needs to be reviewed as a whole.
8. GMP applauds Aequitas' creativity in using the SME marker to identify behaviors that it seeks to restrict, however we aren't sure that this marker will be fully accurate and we do see many possibilities for abuse of this marker and expect that some predatory flow would rework their strategies to cease to use the SME marker. Perhaps the creation of a new marker applied specifically to HFT's would be more appropriate.
9. The vast majority of market makers clearly improve market quality but in Canada most have been driven out of the business by declining profitability caused by the faster HFT's. GMP believes offering market makers pure priority over client orders is not appropriate and see risk for abuse; however a traditional trade along (%) seems reasonable to support market makers. GMP feels work needs to be done to clearly outline the responsibilities of the market makers and that this should be a policy visible to all investors
10. Yes, very reasonable across the same security.
11. GMP sees no issue in being a market maker on Aequitas for a non- Aequitas listed security as the goal of market making is to improve the quote quality which doesn't need to be specifically related to listing. It appears that other competitive marketplaces no longer value the market maker role and we applaud efforts to bring it back.
12. No, DEA clients that are not subject to direct regulatory authority of IIROC and/or the exchange should not be permitted to act as market makers. Market makers must be subject to the direct regulatory authority of IIROC in order to preserve market quality. The role of the market maker is integral to investor confidence in the Canadian Marketplace and as such feel that direct oversight is imperative.
13. Yes clearly this would not be a level playing field.
14. Hybrid will improve the quality of the overall market by allowing long-term investors a place to show liquidity free from intermediation which will promote larger visible "real" liquidity.
15. The only risk to the whole market is the risk of trade through or locked markets which have generally been accepted as a bad thing for the marketplace. It is time for us to reexamine this perceived negative and weigh it against other clearly larger negatives that exist in the marketplace today.
16. GMP would have no issue with Hybrid starting on a preliminary basis, especially as an alternative to be delayed indefinitely while regulators look to amend OPR. As Aequitas will clearly have capital costs developing Hybrid- the preliminary period should be significant, a one year period for example and it should work with regulators to continue to develop the exchange in a manner that benefits long term investors together with the overall market.
17. No it should not be forced to fit into the current regulatory environment as market participants clearly are demanding an alternative to trade without intermediation as the current marketplace is not facilitating their needs. In order for Hybrid to add real value to the Canadian Marketplace and in turn investors, it must be allowed to develop in a way that clearly adds real value in terms of best execution. Innovation often pushes limits and forces important discussion.

Regards,

Cindy Tripp  
Managing Director – Institutional Trading

c.c. Chris Bond – Vice Chairman, Head of Institutional Trading