



VIA EMAIL

November 15, 2012

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
comments@osc.gov.on.ca

Dear Sirs/Mesdames:

RE: Proposed Amendments to OSC Rule 13-502 Fees and Companion Policy 13-502CP Fees

Perimeter Markets Inc. (PMI) appreciates the opportunity to provide comments in response to the Request for Comments on Proposed Amendments to OSC Rule 13-502 Fees and Companion Policy 13-502CP Fees dated August 23, 2012. PMI is a registered member of the Investment Industry Regulatory Organization of Canada (IIROC) and a recognized fixed income Alternative Trading System (ATS) as approved by the OSC.

Although we are supportive of creating a more current and efficient fee structure for participants regulated by the OSC we believe that this proposed structure does not adequately reflect the current market realities, structures and regulatory focus in Canada.

Based on the proposed rule 13-502 and 13-502CP, where PMI acts as both a market participant and an ATS for fixed income, we are very concerned that raising the market participation fees, increasing user fees as well as creating new alternative trading system (ATS) fees is arbitrary and punitive in nature and does not reflect the regulatory activities for those dealers who operate ATSs in Canada. Further, we believe that taken individually these fees are not a fair allocation of actual regulatory costs but combined are exorbitant.

Market Participation Fee

As an ATS, we have serious concerns that our firm is being subjected to existing and proposed fees that do not relate to our specific business structure. The current 'capital markets participation' fees do not adequately reflect the cost of regulatory oversight for the dealer or the ATS which operate on a relatively simple basis when compared to a traditional dealer firms. The key areas of current regulatory oversight include financial viability, client accounts, marketing, fund management, securities underwriting and trading execution. As ATSs do not carry client accounts, manage money, market or trade directly with the public, these areas of oversight are not applicable to Canada's current ATS dealers, particularly when the dealers operate in the fixed income arena.



Additionally, these fees and their proposed increases are even more perplexing when the fact that the primary oversight of an ATS in Canada falls to the Investment Industry Regulatory Organization of Canada (IIROC).

Although these fees do not adequately reflect our specialized business structures or actual regulatory oversight requirements, we accepted them as a reasonable proxy for maintaining oversight of our respective business as well as supporting the regulatory structure in Canada. But with the addition of new ATS specific fees, this view is no longer supported.

Alternative Trading System Fees

At first blush, we were simply concerned that the proposed 7.9% market participation fee increase is out of step with the current difficult market environment especially given the relative lack of regulatory focus on the fixed income marketplace. But when delving further, we were very surprised and disappointed that the OSC has added an additional new levy, the alternative trading system fee which effectively increases our firm's regulatory financial burden by 100%. This increase comes despite a dearth of OSC activities relative to not only our dealer but also the fixed income ATS.

By proposing a new fee category, the 'alternative trading system only for debt' in addition to the participation fee, the OSC is effectively implying that the fixed income alternative trading system has been subject to far more rigorous oversight, in many cases double what is encompassed under the existing and ever increasing market participation fee. We have seen no evidence of this 'new' activity by the OSC and are unclear on how these ATS fees are justified.

Finally, it is worth noting that, all trading decisions executed on the alternative trading system are for the financial benefit of and initiated by our clients and the dealers supporting those clients, the ATS only generates revenue from the trading ticket fees it can levy. Yet the OSC seems to view ATSs as the entities which create, execute and financially benefit from the strategies which have required additional regulatory oversight. It is our belief that that ATS is merely a utility for dealers to affect the trading strategies their customer base demands. The ATS is not the party in need of trading oversight and in fact only creates a venue to better assist regulators in the pursuit of fairness and efficiency.

Alternative Trading Systems only for Debt

As the key role of the regulatory bodies in Canada is to protect the public interest through fair and efficient markets, the focus necessarily has been on the rapidly evolving equity space. Fixed income has traditionally and continues to be large in breadth and in value but small in trading activity with relatively few active participants who tend to be sophisticated investors or investment professionals. Further, the fixed income market in Canada does not employ the same complicated international and interconnected market structures surrounding central exchanges including order protection rules, black-box and high-frequency trading.

It is no secret that the regulatory environment has been preoccupied with equity and derivatives trading on interconnected international exchanges, marketplaces and dark pools. This is the area that has dwarfed the fixed income marketplaces in terms of advancements in technology, trade volumes and



market structure. The OSC has been focusing on equity issues such as the order protection rule, regulatory framework for dark pools, differing regulation issues between ATs and exchanges, electronic trading rules, equity marketplace trading and data fees, best execution reporting and high-frequency trading. None of these items are relevant to the fixed income markets or specifically the fixed income ATs in Canada.

Evidenced as another key driver of higher OSC fees are the costs associated with operating the Enforcement Branch and conducting multi-jurisdictional investigations. Once again, there has been little requirement for this type of oversight in the fixed income markets and in fact Perimeter has not been asked to participate in any investigations for our entire 10 year existence.

As such, the fixed income markets have been subject to far less attention by the regulatory bodies in Canada especially the OSC and the alternative trading systems operating in that space should be levied fees in line with that reality.

Conclusion

As a small participant in the Canadian marketplace trying to focusing on the relatively small, by trading volume, fixed income marketplace, we at Perimeter find it troubling that the OSC is attempting to pass along the high costs of an infrastructure focused on international equity and derivative markets as well as recent mergers of domestic exchanges and clearing firms. These fees not only seem arbitrary but could have a significant impact on small firms such as ours working to enhance fairness and efficiency in the fixed income market space especially when coupled with the growing human capital requirements to operate within Canada's regulatory structure.

For the reasons stated above we believe a closer look is required at these fee proposals and request that the OSC create a structure that more accurately reflects not only the fact that we along with all other ATs are not traditional dealers subject to market participation fees but operate only as an alternative trading system in the fixed income space which demands significantly less regulatory oversight.

Yours truly,

Geoffrey Eby
President
Perimeter Markets Inc.