LEEDE FINANCIAL MARKETS INC.
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September 24, 2014

Dear Mrs. Tsutsumi, Mrs. Jakab and Mr. Carter,

Re: Canadian Securities Administrators Proposed Amendments to National Instrument 23-101, Trading Rules

Let me begin by stating it is somewhat misleading to refer to the current rules under the caption of the "Order Protection Rule, Best Execution and Marketplace Fees", especially the first two components in this title. While it is encouraging that the regulators have recognized that the current rules are not effective, I don't believe the proposed rule changes will achieve the desired outcomes for the retail investor or the investment dealers serving them.

<u>Our Concerns with Current Regulations</u>

The multiple marketplace experiment costs our firm hundreds of thousands of dollars per year. While it can be argued that it has generated competition, this competition has been between the exchanges for market share and not benefited the retail investor.

The illusion of tighter spreads between the bid and ask prices for less liquid securities such as most listed on the Venture exchange quickly disappears after the first board lot is filled on larger client orders.

When the TSE implemented the taker/maker pricing model, our monthly execution costs tripled overnight. Granted competition between the marketplaces has brought the execution costs down, but offsetting this, the new entrants have driven up market data costs.

Investment dealers were also required to put order routers in place, draft new policies and put new procedures and monitoring in place. We have also been required to send multiple confirmations for single orders when filled on more than one platform. Investment dealers had to absorb all of these cost increases, and our clients have not been better served. The costs have been internalized.

Further, clients are confused by the manner in which their orders are filled, often bouncing back and forth in board lot sizes between marketplaces, at prices that quickly change once their order is placed. Through the benefit of higher speed, closer proximity to the exchanges and the posting and cancelling of orders at lightning speed, the high speed and algorithmic traders swoop in from nowhere to gain priority over client orders.

Client's confidence has also been eroded when their orders are directed and filled in marketplaces they are not even aware of and at prices that are not visible to them. This is because neither the client nor their advisors have real time access to the market data. This data costs money and the exchanges have determined that they can make big money from reselling it back to the clients and firms that provide the order flow to them in the first place.

Allowing every exchange and ATS to charge for this data and at any price puts cost of the data and therefore access out of reach for many advisors. The smaller marketplaces often provide sporadic, but limited order flow and it is simply not cost effective for the advisor or the investment dealers . This greatly increases the risk that the client does not receive the best advice or price when the advisor sees only a fraction (often only 70 – 80%) of the market activity.

The established regulations protect the exchanges/ATS's and ensure that high speed and algo traders receive the best execution in the marketplace. Minimum monthly participant/connectivity/access fees combined with guaranteed access required to meet best execution rules ensures that the ATS receives revenue even when they deliver NO services.

**<u>The Proposed Changes to the OPR rules</u>**

Setting a 5% threshold for protected markets is a concocted solution. 5% is an arbitrary cutoff that unfairly picks on some of the smaller participants. It coddles the bigger players while stifling legitimate new competition that might eventually add value to our industry. Protecting the larger participants in this manner will eventually drive up costs. The exchanges and other marketplace participants are "for profit" public and private companies and have a mandate to grow profit for their shareholders.

Also the proposed rule change regarding best execution adds ambiguity to the order process. After we revise our policies, change our processes, and add new monitoring and supervision practices, I expect we will still be faced with defending our trades with regulators who may make a different interpretation of what is reasonable.

The protected markets represent the majority (88.7%) of our monthly participation/access/connection fees. All considered, it is likely we will continue to connect with the unprotected markets where order execution is provided at competitive rates.

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The proposed rules also suggest that the Regulators will determine pricing caps for execution and market data. In our opinion this is wrong- minded. What gift of insight do the regulators possess that suggests their judgment results in effective and efficient pricing that would improve on market forces. The result will be NO price competition as all participants move their cost to the maximum allowed under the regulated rates. In addition, the regulators' involvement in setting prices will add regulatory costs that will be passed on through fees to investment dealers. This will not bring costs down to an affordable level for all advisors and their clients.

**Simple but more effective changes are needed to reduce the burden placed on Investment Dealers**

1. Eliminate the flat monthly fees charged by the exchanges and alternative trading systems for participation/access/connectivity, etc. And prevent any new such fees from being brought forward. Any exchange or ATS that executes even 1 share should be paid for doing so, but no fees should be collected just for being available to take an order.
2. Costs of distributing orders (e.g. routers) to the exchanges and ATS should be borne by the ATS's. This is a cost of entering the marketplace, not a cost that should be placed directly to market participants.
3. Investment dealers should receive 100% of market data at a discounted or nominal cost. Any other party that wishes to access this data can pay a higher regulated or negotiated rate for the data. Advisors should never be at a cost disadvantage to their clients for receipt of market data.
4. The listing exchange should be responsible for collecting and making available all data for their listed securities. Fees collected by the exchange can be disseminated to any ATS based on traded volume.
5. Execution costs for retail investors should not default to a higher cost than that obtained by high speed traders or algorithmic traders.
6. Orders sent to a marketplace should be required to remain in place for a minimum period of time, for example 3 seconds. This would ensure the legitimacy of the order, reduce the abuse of the retail investor and improve overall confidence in the marketplace which has plunged to a new low.

If you have any questions concerning the forgoing, please do not hesitate to contact the undersigned at 403-531-6852.

Sincerely,

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