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and

Cindy Petlock
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Re: Aequitas NEO Exchange – Trading Policies Amendments: Auto-Execution Facility - Request for Comment

The Canadian Security Traders Association, Inc. ("CSTA") is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 members nationwide, and is led by volunteer Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee (the "Committee", “CSTA TIC” or "we"), a group of 20 appointed members from amongst the CSTA. This committee has an approximately equal proportion of buy-side and sell-side representatives with various areas of market structure expertise, in addition to one independent member. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the views of the CSTA as a whole. The views and statements provided below do not necessarily reflect those of all CSTA members or of all members of the Trading Issues Committee.

The Canadian Security Traders Association appreciates the opportunity to comment on the proposal by Aequitas Neo Exchange (“Aequitas”) to introduce an Auto-Execution Facility (“AEF”). We are generally supportive of competitive marketplace solutions and innovation in the trading landscape. However, based on the analysis that we will present, we believe that this proposal has notable areas of concern and that it should not be granted approval.

AEF does not have an Obligation to Guarantee Fills

The table below is a comparison of the existing Canadian Securities Exchange ("CSE") and the Toronto Stock Exchange ("TSX") Guaranteed Fill functions vs the proposed Aequitas Auto-Execution Facility (AEF).

	CSE Guaranteed Minimum Fill (GMF)	TSX Min Guaranteed Fill (MGF)	Aequitas Auto-Execution Facility (AEF)
OBLIGATION: **Guaranteed Fill**	DMM provide auto-execution for incoming orders that are smaller or equal to at least 2 Board Lots less one share on each side of the market and may be for larger Board Lot multiples thereof.	Registered Trader (RT) provide auto-execution for incoming orders that are smaller or equal to a minimum of 2 Board Lots (except in special circumstances where 1 Board Lot may be considered) and maximum of 25 Board Lots.	N/A
OPTION: **Auto-Execute Pre-Set Size**	N/A	N/A	If there is a displayed quote on NEO at the NBB or NBO, the DMM can choose to provide auto-execution of incoming orders of any pre-set size on one or both sides or the market (Buy and/or Sell) after all price improving orders and visible orders on the NEO book have traded; incoming orders do not have to be smaller than the pre-set auto-execute size.
BENEFIT: **Real-time Minimum Fill Size Modifications**	**NO**, DMM must request changes to GMF size by Email or Telephone. Changes applied Same-Day if possible.	**NO**, RT must request changes to MGF size by Email or Telephone. Changes applied overnight only.	**YES**, DMMs can modify size limits intraday by sending a an electronic message (FIX)
BENEFIT: **Retail-only Active Order Interaction** (see note below)	**YES**, Active eligible orders cannot 1) be part of larger order, 2) be from DEA client (unless on behalf of retail client order flow), 3) be entered on behalf US Dealer (unless Dealer confirms order for US client), 4) be for a client generally involved in continuous trading on a daily basis.	**YES**, Active eligible orders cannot 1) be part of larger order, 2) be from DMA client (unless on behalf of retail client order flow), 3) be orders generated by a computer algorithm, 4) be for a client generally involved in continuous trading on a daily basis, 5) be entered on behalf US Dealer (unless order for US client).	**YES**, eligible orders cannot 1) be part of larger order, 2) be from DEA client (unless it is a US Dealer on behalf of a retail client), 3) be orders generated by computer algorithm; eligible orders can also be from all NEO Trader IDs certified as Retail.
BENEFIT: **Priority Participation**	**NO**	**YES**, RT can decide to turn on/off priority participation that allows them to trade with up to 40% of ANY incoming order that is MGF sized or less, whether the RT has an order in the book or not.	**NO**

Note: While the CSE, TSX and Aequitas definition of eligible incoming orders could theoretically apply to institutional orders, this is highly unlikely due to the high probability that a small institutional order will be part of a larger order, in addition to the probability that it is generated by a computer algorithm.

Aequitas is proposing to create an Auto-Execution facility ("AEF") that would allow their Designated Market Makers ("DMM"s) to choose to auto-execute incoming "AEF eligible" orders at the National Best Bid or Offer ("NBBO") up to a pre-set size after all price improving orders and visible orders on the Neo book have traded. The AEF would not be available if there are no visible orders at the NBBO on the Neo book, regardless of which participant posted the liquidity. In other words, the AEF can still be accessible if the DMM is not the participant that is posting the passive order on the Neo book at the NBBO. The DMMs would have full intraday control over the sizes they provide via the AEF and whether they wish to turn on or off the AEF.

We do not believe that Aequitas' proposal is meaningfully comparable to the existing CSE and TSX Guaranteed Fill functions because of a key difference: the AEF requires no obligations from their DMMs. Aequitas compares the On/Off option of the AEF to the TSX Participation feature, even though the purposes of the respective features are quite different, with the TSX Participation feature being a benefit to offset an obligation of the MGF. On the other hand, AEF is a direct benefit with no offsetting obligation.

To be clear, we are not arguing that the existing CSE and TSX Guaranteed Fill functions have appropriately balanced the necessary obligations in order to provide the associated benefited to the market makers involved. Rather, we do not believe that the existence of TSX and CSE guaranteed fill facilities should serve as a precedent for the approval of AEF.

AEF Represents Dark Orders Entered by DMMs

We believe that it is appropriate to view the AEF structure as a means for the Aequitas DMM to enter an undisplayed (dark) order in the Neo book, the execution of which is contingent on the nature of the counterparty (retail) and the state of the book at the time of the order. The DMM may enter such orders ("AEF On") or cancel them ("AEF Off") at any time. Restricting the conditions under which the order is filled (interacting only with retail orders) does not diminish the core fact that the DMM is taking an action which may result in establishing a position if the order conditions are met. Aequitas DMMs also have the ability to modify AEF size limits in real time, which effectively changes the size of potential fills. We believe this furthers the argument that the AEF enablement constitutes a standing order.

We also note that even if the AEF state ("On" or "Off") were to be disseminated via market data feeds, the AEF additional quantity (available only to some clients) would not be visible on a consolidated market display or disseminated through the Information Processor. We therefore consider that such orders do not meet the definition of being "displayed on a marketplace" as used in National Instrument 23-101, and therefore the orders must be considered undisplayed, or dark.

Because AEF orders trade at the NBBO and are not constrained to trade with active orders considered "large" for the purposes of the dark rules, we do not believe AEF orders satisfy the price improvement requirements imposed by Canada's dark trading regime.

To summarize, the AEF would allow Aequitas DMMs to execute "small" incoming retail orders against undisplayed orders, at the NBBO, on whichever securities they choose, whenever they choose (subject to first satisfying pre-existing lit orders in the Neo book). The argument for allowing this feature is that small orders will have access to more liquidity than they did before on Neo. On the other hand, by filling active retail orders from market maker inventory, without price improvement and at the option of the market maker, AEF ensures that resting visible orders are not given an opportunity to be filled when the unexecuted portion of a retail order is routed away. This would offer fill certainty to retail clients at the expense of the visible markets (without price improvement to the client), further decreasing the value of posting visible orders on public markets.

In our opinion, this is a proposal which would violate the price improvement requirements in Canada's dark rules for the purpose of bringing value to the DMMs. Based on Neo's current inverted pricing structure, retail flow would be incentivized to route to the Neo book (and seek a fill guarantee), giving DMMs first look at marketable flow. Due to inverted pricing, this is equivalent to allowing Payment for Order Flow ("PFOF") for retail orders.

The CSTA has historically maintained a position against various types of order segmentation that would negatively affect the quality of execution for institutional investors and the overall integrity of the Canadian markets. We affirm our historical stance against segmentation now. We believe that by offering Aequitas DMMs an optional, no-obligation means of interacting with retail flow in the dark, the AEF would further segment retail flow away from institutional investors and by extension deprive the multilateral visible markets of a valuable source of order flow. For all intents and purposes, approving the AEF would allow Aequitas DMMs to interact with incoming retail orders in the dark at the NBBO without respecting the minimum size requirement of the dark rules and without providing a minimum order guarantee. We believe that setting a precedent of this nature would have significant unintended consequences that would potentially damage the integrity of the Canadian equity market.

Thank you for your attention in this matter.

Respectfully,

"Signed by the CSTA Trading Issues Committee"

c.c. to:

Ontario Securities Commission:
Ms. Maureen Jensen, Chair & CEO
Ms. Susan Greenglass, Director, Market Regulation
Ms. Tracey Stern, Manager, Market Regulation

Alberta Securities Commission:
Ms. Lynn Tsutsumi, Director, Market Regulation

Autorité des marchés financiers:
M[e] Élaine Lanouette, Directrice des bourses et des OAR

British Columbia Securities Commission:
Mr. Mark Wang, Director, Capital Markets Regulation

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Mr. Andrew Kriegler, President and CEO
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Mr. Kevin McCoy, Vice-President, Market Regulation Policy
MS. Sonali GuptaBhaya, Director, Market Regulation Policy