CANADIAN SECURITY TRADERS ASSOCIATION, INC.
P.O. Box 3, 31 Adelaide Street East
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August 2nd, 2016

Market Regulations Branch
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, Ontario M5H 3S8
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and

Cindy Petlock
General Counsel & Corporate Secretary
Aequitas Neo Exchange Inc.
155 University Avenue, Suite 400
Toronto, Ontario M5H 3B7
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Re: Aequitas Neo Exchange Inc. – Notice of Proposed Changes and Request for Comment: Fee Proposal Related to Active Orders from Latency Sensitive Traders (LST)

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 Inc. ("Aequitas") to create a variable trading fee model that would categorize active orders by origination form Latency Sensitive Traders (LST) or Neo Traders (NEO) (the "Fee Proposal). 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 that it should therefore not be granted regulatory approval.

Fair Access

Our historical view has been that is inappropriate to offer differential pricing for precisely the same fill in the lit market depending on the nature of the counterparty. In the case of the current Fee Proposal, allowing the passive participants to have their fees determined by the nature of the incoming order (Latency Sensitive Trade (LST) vs non LST) is a net benefit for the majority of our membership since they are not normally classified as LST traders. Even though the Fee Proposal as described seeks to provide an advantage to natural participants (aka non-LST or Neo traders), our overall opinion remains the same: variable trading fee pricing based on participant objective/subjective classifications should not be acceptable.

The CSTA has also generally maintained a position against various types of order segmentation that would negatively affect the quality of execution for institutional investors. While the segmentation that is proposed in the Fee Proposal intends to provide a net benefit to the executing brokers that serve natural investors, the majority of CSTA TIC members cannot condone this type of proposal due to the unintended consequences that could arise from further segmentation and the potential damage to the integrity of the Canadian equity market. Providing a feature that allows natural participants to more readily interact with each other is laudable, but not at the expense of creating the perception of unfairness toward any other type of participants in our visible markets.

We would like to highlight that the definition of Latency Sensitive Trader (LST) remains a classification that provides Aequitas with a high degree of subjectivity. On the Aequitas website, the Trading Policies dated March 3rd, 2016 include the following definition of an LST trader: 1) “a proprietary trader of a Member trading for their own accounts, using automated, co-located trading strategies” and 2) “a DEA Client using automated, co-located trading strategies and making its own routing decisions”. The definition goes on to specify that “using automated, co-located trading strategies means using a server installed in the same data center as, or in close proximity to, any Canadian exchange or alternative trading system located in the Greater Toronto Area.”

By extension, any DEA client who would go through dealer infrastructure which is located at a data center in the GTA that actively makes routing decisions could be considered a LST. In practice, a dealer self-reports which clients are and are LST, while Aequitas monitors for compliance. Aequitas ultimately has the ability to force the classification to LST. In addition to the potential consequences of segmentation in itself, allowing segmentation to occur in the visible markets based on classifications that are left to the discretion of particular marketplaces is a practice that makes us very uneasy, in absence of any direct regulatory oversight.

Information Leakage

The Fee Proposal contemplates remitting a monthly credit to passive parties when they interact with an active LST order. By amalgamating the credit information by Trader ID, we believe that the information leakage that existed in other similar proposal (Alpha Exchange (April 2013), CSE (July 2016) has been mitigated. We stand opposed to trade specific or security level disclosures that could allow for the identification of large institutional orders.

However, we are aware that Aequitas does use LST vs Neo Trader identification summary statistics in reports that it uses for marketing purposes. We believe that it is important for marketplaces to clearly disclose how and when they use non-public information that could have informational value to some participants. We have not been made aware of any security specific disclosures of LST vs Neo Trader statistics and we would hope that this would be explicitly disallowed by Aequitas' privacy policies and procedures.

While the Fee Proposal intends to indirectly benefit natural investors by providing discounted fees to the executing brokers that trade for those investors, the majority of CSTA TIC members cannot support this proposal due to the potential unintended consequence of it serving as a precedent to allow even more segmentation within the visible markets. While there is certainly a value to ensuring that brokers are not held captive to a market structure that imposes undue costs onto them, this does not mean that decreasing costs for brokers that cater to natural investors should be prioritized over maintaining the integrity of the Canadian equity markets.

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

IIROC:
Mr. Andrew Kriegler, President and CEO
Ms. Victoria Pinnington, Senior Vice President, Market Regulation
Mr. Kevin McCoy, Vice-President, Market Regulation Policy
MS. Sonali GuptaBhaya, Director, Market Regulation Policy