



BC Notice 2014/08

BCSC Notice and Request for Comment

Application by Aequitas Neo Exchange Inc. to the British Columbia Securities Commission for an exemption from recognition as an exchange

On April 8, 2014, Aequitas Neo Exchange Inc. (Aequitas) applied to the British Columbia Securities Commission (BCSC) for an exemption from recognition as an exchange in BC. At the same time, it applied for recognition as an exchange in Ontario and for an exemption from recognition as an exchange in all other Canadian jurisdictions.

Today, the Ontario Securities Commission (OSC) published a Notice and Request for Comments on its website at:

http://www.osc.gov.on.ca/en/Marketplaces_xxr-aequitas_20140627_nrfc-application.htm.

With this Notice the OSC is publishing Aequitas' application for recognition that includes:

- the application for recognition as an exchange (both Aequitas and its parent company Aequitas Innovations Inc.)
- a proposed listing manual and forms
- proposed trading policies
- a proposed membership agreement and information form
- a proposed market maker application form and agreement
- the OSC's draft recognition order

The application is published on the OSC's website at:

http://www.osc.gov.on.ca/documents/en/Marketplaces/xxr-aequitas_20140627_app-recognition-neo-exchange.pdf.

The Autorité des marchés financiers (AMF), as lead exempting regulator, also published these documents for comment on its website at:

<http://www.lautorite.qc.ca/files//pdf/consultations/bourses-chambres-oar/fin-aout-2014/dispense-aequitas-neo-exchange.pdf>.

Request for comments

The BCSC encourages all market participants to comment on the Aequitas application for recognition to the OSC and the application for exemption from recognition to the AMF. In addition, the BCSC is seeking specific comment on two issues:

1. Aequitas' proposal includes appointing market makers for all securities, including TSX Venture Exchange (TSX-V) listings. Today, the TSX-V does not have a market maker program but could, under CSA rules and its own trading policies, implement such a program at any time.

The market maker application form and agreement, together with the trading policies, describe the obligations imposed on market makers and the benefits that market makers receive. Benefits include the "Market Maker Volume Allocation Percentage", which allows the market maker the option to trade ahead of orders resting on an order book in some circumstances.

What are the potential benefits and risks of the Aequitas market maker program to TSX-V trading, particularly for securities with smaller trading volumes?

2. The order protection rule in National Instrument 23-101 – *Trading Rules* requires that better priced orders displayed by a marketplace be given priority over orders displayed at inferior prices. There are no requirements constraining a marketplace's priorities when orders are displayed at the same price. Most Canadian marketplaces use a price-time priority system: earlier orders have priority over later orders when both are at the same price.

Aequitas proposes that on the dark and Lux facilities, order priority will be determined based on order size rather than order entry time. As a result, everything else being equal, large orders will have priority over smaller orders even if that smaller order was entered first.

Will this order priority proposal provide large institutions with an inappropriate advantage over individual, retail investors? Will this have adverse, unintended consequences for the venture market? Will a dealer's obligation to achieve best execution for its clients influence whether they post orders for retail clients on the Lux facility?

Comment Process

Please submit your comments in writing to the BCSC on or before August 26, 2014.

Deliver your comments or refer your questions to:

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We cannot keep submissions confidential.

June 27, 2014

Brenda M. Leong
Chair