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**BY EMAIL**

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**Re: Proposed Trading Fee Rebate Study**

We thank the CSA for providing us with the opportunity to comment on Staff Notice and Request for Comment 23-323 *Trading Fee Rebate Pilot Study* (the “Proposed Pilot”), published on December 18, 2018.

We are in support of the Proposed Pilot, because we believe that rebates by their nature cause potential market quality issues. Rebates create conflicts of interest between dealers and their clients, incentivize marketplaces to launch multiple order books with different fee levels to attract specific types of flow, encourage unnecessary intermediation and reduce the opportunity for natural investors’ orders to interact directly with each other.

All of this has led to distortions in the Canadian market structure to the detriment of investors and a prisoner’s dilemma situation for marketplaces and dealers seeking to address the issues, but who must instead follow suit to be competitive. NEO has been in this position, most notably in moving one of our trading books (NEO-N) from a take-take fee structure at launch to an inverted fee structure later that year.

We expect that an environment without rebates would result in less unnecessary intermediation, more reliable liquidity provision, cost reductions, and marketplaces and dealers competing on the basis of the quality of execution.

We do acknowledge, however, that rebates have been a fixture of the current market structure for well over a decade and that the consequences – intended and unintended – of eliminating them need to be fully understood. Therefore, in our view the Proposed Pilot represents a sensible next step.

In addition, we would like to acknowledge that, although we are supportive of the Proposed Pilot, we are still proponents of better order routing disclosure. We believe the most effective way to tackle conflicts of interest is to focus on best execution and to ensure investors are able to quantitatively assess their dealers' performance, and for dealers to be able to assess marketplaces, using a standardized framework. We believe the CSA should revisit their list of priorities, and consider prioritizing implementing requirements that would provide useful information to investors, leveraging lessons learned in the US in the context of the 605/606 reports.

### *Specific questions raised in the proposal*

We would like to take this opportunity to comment on two specific questions raised in the proposal.

#### Should the pilot apply to market making programs?

In our opinion, the answer to this should be unequivocally yes. Any kind of payment by marketplaces to market participants should be included as exceptions will compromise the integrity of the study. If there is concern that market makers would not provide liquidity if not allowed to take advantage of rebates, then the incentives available to them should be carefully reviewed and, potentially, changed for the duration of the study.

#### Should the pilot include ETPs?

As pointed out in the proposal, the trading characteristics of ETPs are very different from those of corporate securities. Given the role that market makers play in this segment and how they provide liquidity, we believe that rebates should fundamentally not be necessary, as exchange fees are already taken into account in the quoted spread. We are concerned that it would be difficult to infer any conclusions about ETPs based on the results from corporate securities and, therefore, if ETPs are not included, could leave only the alternatives of retaining rebates for the foreseeable future or the setting up a separate pilot for ETPs. Neither would, in our view, be beneficial. Although we are sympathetic to some of the concerns expressed by issuers regarding competitive disadvantages, we believe that through a thoughtful selection process those concerns can be alleviated.

Finally, we see no challenges with respect to the timeline of the Proposed Pilot. Making the trading fee adjustments required for the affected securities is a straightforward process from the perspective of the Exchange. Further, we are supportive of starting the pilot with non-interlisted securities prior to any implementation of a pilot in the US, especially in light of the potential timing issues caused by the lawsuits launched by the US exchanges.

Please don't hesitate to contact us if you have any questions regarding the above.

Yours truly,

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