AEQUITAS NEO EXCHANGE
REQUEST FOR COMMENTS
TRADING POLICIES AMENDMENTS

June 2, 2016

Introduction

Aequitas NEO Exchange Inc. ("NEO Exchange") is publishing proposed amendments (the "Proposed Amendments") to the NEO Exchange trading policies (the "Trading Policies") in accordance with Schedule 5 to its recognition order, as amended (the "Protocol"). As required under the Protocol, the Proposed Amendments were filed with the Ontario Securities Commission ("OSC"). They are "Public Interest Rules", as defined under the Protocol, which are being published for comment. The Proposed Amendments are set out below and, subject to any changes resulting from comments received, the Public Interest Rules will be effective in September, 2016.

I. Public Interest Rule Amendments

Description of the Proposed Rule Amendments

We propose to introduce functionality that will allow DMMs to choose to auto-execute up to a pre-set size, against orders that meet the criteria set out below, under certain circumstances, i.e., when an IOC market or limit order at/better than the NBBO has executed against all visible and undisclosed iceberg liquidity and any price improving orders.

The facility will be available in the NEO Book™, and will function as follows: a DMM will have the option, but not the obligation, to participate and to choose to set a size limit on one or both sides for a particular security. The intention of the facility is to give DMMs the opportunity to further enhance liquidity provision for securities for which they are willing to provide additional execution size for eligible incoming order flow, after any price improving orders and any visible orders or the hidden portion of visible orders available on the NEO Book have traded. DMMs will be able to modify size limits intraday, including turning the AEF on/off for a particular security and side. As parameters can change intraday, there will be no same day publication of AEF eligible securities and associated sizes. We will, however, make this information available on a historical basis in order to help dealers with eligible flow to determine how to best interact with the facility.

With DMM support enabled, the system will first attempt to execute an eligible order against any price improving order and any visible liquidity, as well as any corresponding hidden liquidity (i.e. iceberg orders) at the NBB or NBO, as applicable; if no visible liquidity is available, the facility will not be accessible and the full order quantity will be returned to the member for subsequent re-routing.

Once any price improving orders and any visible orders, or the hidden portion of visible orders, have been executed and if there is still remaining quantity available on an incoming order, the DMM will execute the order up to the pre-defined size limit (assuming the DMM has turned it on for that security and side) through the facility's functionality, in an attempt to further complete the incoming order. Any remaining quantity left unfilled after entering the facility will be returned to the member for subsequent re-routing.

Trades that occur in the AEF will have no effect on a DMM's obligations and/or benefits: they will not count towards the DMM's MMVA priority, nor the aggregated queue volume.

AEF Example

NBBO

NBB $	NBO $
10.01	10.11

NEO Book™ (Actual)

OID	Type	Iceberg	Bid Vol.	Bid $	Ask $	Ask Vol.	Iceberg	Type	OID
O5	Mid-Point	-	300	10.06	10.06	400	-	Mid-Point	O9
O7	Mid-Point*	-	600	10.03	10.11	100	500	Limit	O8
O6	Limit	-	500	10.01	10.11	100	500	Limit	O12
O1	Limit	1000	200	10.00	10.12	500	-	Limit	O4
O2	Limit	-	500	9.99	10.14	200	1000	Limit	O10
O3	Limit	1000	200	9.99	10.14	400	-	Limit	O11

* Mid-point pegged order with a limit price of 10.03

NEO Book™ (Displayed)

Bid Vol.	Bid $	Ask $	Ask Vol.
800	10.01	10.11	600
200	10.00	10.12	500
700	9.99	10.14	600

The guaranteed fill size for the security has been set to 2000 shares by the DMM on each side. A retail client is sending an IOC order to sell 3000 shares @ 10.01 which results in the following trades:

Fill #	Passive Order	Fill Qty	Fill Price	Reason
1	O5	300	10.06	O5 trades first as tradable mid-point orders have priority (O7 is not tradable as the limit price is below the current mid-point)
2	O6	500	10.01	O6 trades next as visible orders at the NBBO have priority over the AEF
3	AEF	2000	10.01	AEF kicks in and fills the retail order up to the guaranteed fill size. The remaining 200 shares are cancelled back as there is no tradable volume at 10.01

Impact on Order Entry and Order Routing

- One of the objectives of the implementation plan for the AEF is to minimize or eliminate protocol changes by participants.
- We have avoided the need for any protocol changes by third party vendor execution management systems (EMS) and order management systems (OMS) by ensuring that the implementation is handled via reference data configuration and set up by NEO Exchange Operations, rather than requiring a protocol change and subsequent delivery, UAT and Production release availability to EMS / OMS customers.
- DMMs who determine that they wish to participate in providing additional liquidity through the facility will need to configure their systems to support two additional market command types to enable the side and size of the fill support on each valid trading day; no other user of the NEO Exchange trading system will be required to make any changes, as only DMMs will be permissioned to use or submit market commands to manage their liquidity provision in the facility.

Impact on Data Vendors

- No changes to the existing NITCH market data protocol are necessary to support the implementation of the AEF; public trade messages will continue to be disseminated in real time with appropriate markers to identify them as NEO Book trades, and there will be no public markers or messages provided to the DMMs identifying which executions occurred in the AEF.

To reflect this new functionality, definitions of "Auto-Execution Facility" or "AEF", "AEF Eligible Order" and "AEF Eligible Security" have been added to section 1.01 and a clarification as to the interaction between the AEF and the Market Maker Volume Allocation ("MMVA") has been added to the definition of the latter. The priority of the AEF's auto-execution functionality (after visible orders and non-visible portions of iceberg orders at the same price) has been added to section 8.04(3) and the AEF is described in new section 8.07.

Orders eligible for submission to the AEF are those from NEO Trader IDs that are certified as meeting certain criteria, i.e., not: part of a larger order (whether or not the entire order is entered onto the NEO Book™ or split among multiple marketplaces), generated by a computer algorithm, or from a DEA Client, unless it is a US registrant trading only on behalf of clients. This includes all NEO Trader IDs certified as being used for Retail Customer accounts only.

It should also be noted that an AEF eligible order may be larger than the AEF size on that security. This is a new feature that is currently not available on the other two marketplaces offering similar functionality, as they do not allow for incoming orders larger than the pre-set size to be eligible for their respective auto execution facilities. The TSX registered traders however do have the ability to turn "participation" on and off, which is similar to the feature in the AEF. The functionality to allow for AEF-eligible orders larger than the AEF size adds no extra implementation effort on the part of the vendors, and also serves as a way to maximize traded quantity by filling an incoming order up to at least the AEF size (after the visible, iceberg, and price improving liquidity is executed against).

Expected Date of Implementation of the Public Interest Rule Amendments

We are seeking to introduce the AEF as soon as possible and, taking into account the comment process and development time, we are aiming for the beginning of September, 2016.

Rationale for the Public Interest Rules and Relevant Supporting Analysis

We feel it is important to add the AEF in order to remain competitive, given that there is currently similar functionality at two other exchanges. We view this functionality as another value-add for those long term investors whose orders are naturally smaller-sized (and therefore may be executed in a single fill) to source liquidity without being overly-intermediated.

Expected Impact of Amendments on Market Structure, Members, Investors, Issuers and Capital Markets

The Proposed Changes should provide efficiencies for retail desks and those dealing with institutional investors trading in smaller-sized orders that are aligned with high quality fills for their clients. We view this facility as another tool for members to trade orders from long-term investors.

The main difference between the AEF and the guaranteed fill mechanisms at the other exchanges is that the DMM may change the auto-execution size. The impact of not having certainty regarding the auto-fill size is that a dealer sending an order to the NEO Book would be incentivized to oversize it to take advantage of the potential additional liquidity. In the worst case scenario, the order would be filled up to the displayed size, but in the best case scenario the whole order would get filled. We understand that this is standard functionality in any order management system and similar to first trying to get a mid-point fill on a dark venue, such as MATCHNow, before going after displayed liquidity with the remaining volume.

DMMs will have to make system changes to support the new market commands and handle unsolicited AEF fills in the same way they handle unsolicited odd lot fills. This is an optional service for DMMs to provide. It is neither an obligation nor a benefit, as it comes with the associated execution risk. It is intended as another way of providing liquidity for the DMMs.

Impact on Exchange's Compliance with Ontario Securities Law and on Requirements for Fair Access and Maintenance of Fair and Orderly Markets

Segmentation of order flow in lit markets between client and professional flow has been in place for many years with respect to the TSX's MGF, which arose for the protection of the registered traders. Similar functionality was approved more recently for the CSE. The concept of providing liquidity to smaller client orders is fundamental to both, and the TSX and CSE requirements are worded generally to refer to small, non-professional long-term investors' orders. We have taken a different drafting approach, because we have mechanisms to identify orders from different types of users, including retail versus institutional orders, on a Trader ID basis; however, we are seeking to create a similar eligibility standard. Through various tools such as the AEF, the speed bump, and size-time priority, we are seeking to provide value for different types of orders, investors and traders, consistent with fair, as distinct from equal, access. We do not perceive any impact from the AEF on fair and orderly markets, except possibly a positive one, given that the executions will be by DMMs, which have a clear mandate to seek these objectives.

Impact on the Systems of Members or Service Vendors

No impact is expected. The functionality will use existing Trader ID classifications so no additional order information will be required. Members will have to ensure only certain types of institutional orders go through the Trader IDs used for orders seeking auto-execution, but this would require a process, not a system, change. DMMs will have to ensure that they can receive unsolicited fills from the NEO Book, in an identical way to how odd lot fills are handled in the Lit Book.

New Rule

The Proposed Changes would not bring any feature or requirement that is not already in effect at one or more other Canadian marketplaces in substantially the same form.

Text of the Public Interest Rule Amendments

The text of the proposed Public Interest Rule Amendments is attached at Appendix A.

Comments

Comments should be provided, in writing, no later than July 4, 2016 to:

Cindy Petlock
General Counsel & Corporate Secretary
Aequitas NEO Exchange Inc.
155 University Avenue, Suite 400
Toronto, ON M5H 3B7
e-mail: legal@aequin.com

with a copy to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Please note that, unless confidentiality is requested, all comments will be made publicly available.

APPENDIX A

TEXT OF PROPOSED PUBLIC INTEREST AMENDMENTS TO THE TRADING POLICIES

APPENDIX A
TEXT OF AMENDMENTS

Section 1.01 Definitions

…

"**AEF Eligible Order**" means an order for the purchase or sale of an AEF Eligible Security originating from an AEF Eligible Trader ID.

"**AEF Eligible Security**" means a security for which a Designated Market Maker has set a guaranteed fill size.

"**AEF Eligible Trader ID**" means a Trader ID certified by the Member as being used only for either:

(1) orders from one or more Retail Customer accounts; or

(2) any client orders, each of which is not:

(a) part of a larger order (whether or not the entire order is entered on the NEO Book™ or split among multiple marketplaces),

(b) generated by a computer algorithm, or

(c) from a DEA Client, unless it is a US registrant trading only on behalf of clients.

…

"**Auto-Execution Facility**" or "**AEF**" means the NEO Book™ functionality that enables Designated Market Makers to auto-execute against eligible orders up to a guaranteed fill size.

…

"**Market Maker Volume Allocation**" or "**MMVA**" means the system of allocation of priority to DMM resting orders in the Lit Book and the NEO Book™, whereby a resting DMM order for an Assigned Security will participate in the next trade, unless the cumulative volume of executed orders that have been given priority, excluding AEF volume, has exceeded the Market Maker Volume Allocation Percentage for the security for that trading day (or such other period as may be set out by the Exchange and published by Notice to Members).

…

Section 8.04 Continuous Trading Session in the NEO Book™

…

(3) A Liquidity Providing Order resting in the NEO Book™ at a particular price will be executed prior to or after any orders at the same price in accordance with the following priority rules:

(a) Subject to MMVA and MMC, a tradable order entered in the NEO Book™ will be executed during the Continuous Trading Session in the following sequence:

(i) against offsetting orders entered in the NEO Book™ by the same Member, according to Size-Time priority of the offsetting orders, then

(ii) against offsetting orders in the NEO Book™ according to Size-Time priority;

(b) a visible order has priority over a non-visible order at the same price at the time of execution~~;~~ and, for an AEF Eligible Security, both visible orders and non-visible portions of iceberg orders have priority over AEF-generated executions; and

(c) an order loses its time priority if its visible volume is increased.

…

Section 8.07 Auto-Execution Facility (AEF)

(1) A Designated Market Maker may set the following for each AEF Eligible Security:

(a) a guaranteed fill size, to make the security available for AEF; and

(b) AEF participation on the buy side only, sell side only, or both buy and sell side.

(2) Only IOC market or limit AEF Eligible Orders will be accepted.

(3) AEF Eligible Orders sent to the NEO Book™ for an AEF Eligible Security will be auto-executed by a DMM at the available NBB or NBO price up to the guaranteed fill size only after any visible or non-visible iceberg order volume at the NBB or NBO in the NEO Book™ has traded. Any remaining volume, after the AEF Eligible Order has traded against the volume at the NBB or NBO and received auto-execution, will trade in accordance with Section 8.04.

(4) Not all securities will be AEF Eligible Securities.