



Aequitas NEO Exchange Inc.

Trading Notice

Date: August 09, 2018

Notice #: 2018-027

Aequitas NEO Exchange Request for Comments - Proposed Trading of Foreign-Listed Structured Products

Aequitas NEO Exchange Inc. (“NEO” or the “NEO Exchange”) is seeking to trade certain foreign-listed structured products (“**Foreign-Listed Structured Product Notes**”) on an unlisted basis (“**Cross-trading**”).

The Foreign-Listed Structured Product Notes will be listed on foreign exchanges that are regulated by IOSCO ordinary members and will not be listed on an exchange in Canada, i.e. they will be foreign exchange-traded securities within the definition in National Instrument 21-101 *Marketplace Operation* (“**NI 21-101**”). The trading of Foreign-Listed Structured Product Notes on NEO will be subject to the NI 21-101 provisions relating to foreign exchange-traded securities, which are currently the requirement in section 5.9 with respect to providing a risk disclosure statement to, and prior to accepting the first order obtaining acknowledgement from, market participants, and complying with the order and trade transparency requirements in sections 7.3 and 7.4.

To define the universe of Foreign-Listed Structured Product Notes that will be considered initially for Cross-trading, we leveraged the Swiss Structured Product Association (“**SSPA**”) categorization model¹. The diagram below provides an overview of this categorization.

Categorization model: **Investment Products**

Capital Protection	Yield Enhancement	Participation	Investment Products with Reference Entities
Capital Protection Certificate with Participation	Discount Certificate	Tracker Certificate	Reference Entity Certificate with Conditional Capital Protection
Convertible Certificate	Barrier Discount Certificate	Outperformance Certificate	Reference Entity Certificate with Yield Enhancement
Barrier Capital Protection Certificate	Reverse Convertible	Bonus Certificate	
Capital Protection Certificate with Coupon	Barrier Reverse Convertible	Bonus Outperformance Certificate	
Miscellaneous Capital Protection Certificates	Express Certificate	Twin-Win Certificate	
	Miscellaneous Yield Enhancement Certificates	Miscellaneous Participation Certificates	

Categorization model: **Leverage Products**

Leverage
Miscellaneous Leverage Products
Warrant
Spread Warrant
Warrant with Knock-Out
Mini-Future
Constant Leverage Certificate

¹ See <http://www.svsp-verband.ch/en/structured-products-pro/#?r>

Within the above universe, we propose to impose conditions to provide comfort that these products are truly Cross-traded and fit squarely within the intentions behind the foreign exchange-traded securities provisions in NI 21-101:

- NEO will only trade Foreign-Listed Structured Product Notes that are not in continuous distribution;
- NEO will only trade Foreign-Listed Structured Product Notes that have been listed for a duration that is the lesser of three months or 10% of their life-time, the latter as published at the time of listing; and
- the initial group of Foreign-Listed Structured Product Notes traded will not be leverage products (see above), and an expansion into leverage products will be require further approval.

Foreign-Listed Structured Product Notes are ultimately debt securities, and therefore are also directly linked to the issuer's creditworthiness. One key aspect of NEO's process for selecting and posting Foreign-Listed Structured Product Notes for Cross-trading will be to assess such creditworthiness. For Foreign-Listed Structured Product Notes to be traded on NEO, their issuer must meet the structured product issuer asset requirements as defined under sections 2.05 and 2.06 of the NEO Exchange Listing Manual.

Operational Aspects

- Each Cross-traded Foreign-Listed Structured Product Note will be assigned a unique symbol, which may be the same symbol used on the foreign exchange where it is listed, and all symbols enabled for trading for the day will be identified in the morning symbol status message.
- For Foreign-Listed Structured Product Notes to be considered for Cross-trading on NEO, NEO requires their issuer to appoint a liquidity provider or for a dealer to appoint itself or a client as a liquidity provider, in all cases acceptable to NEO, to ensure there is inventory available for trading in Canada and to provide ongoing liquidity on NEO in the Cross-traded notes (a "**Liquidity Provider**").
- A Liquidity Provider may access the NEO trading system directly, as a Member, or indirectly, as a DEA Client of a Member.
- Cross-traded Foreign-Listed Structured Product Notes will clear and settle in the same way as other securities listed or traded on NEO, through CDS.
- The currency will be either the currency of the Foreign-Listed Structured Product Note or CAD, depending on whether the foreign currency is supported by CDS.
- As the foreign issuer will not be subject to Canadian disclosure requirements and these types of products are not as well known in Canada, NEO will ensure that information is available on our website about the Foreign-Listed Structured Product Notes generally and about the specific notes posted on NEO and that links to the applicable European exchanges' websites are maintained. The list of Foreign-listed Structured Product Notes will also be posted.
- IIROC will use standard tools to monitor the real-time trading of the Phase 1 Foreign-Listed Structured Product Notes.
- Trading halts will be managed as business halts by NEO in Phase I. IIROC may, however, coordinate halts if other marketplaces begin trading these products. We plan to accept orders throughout the Exchange's normal trading hours, subject to such

halts, but expect that spreads will widen when the listing exchange is closed or the Liquidity Provider is not active.

Expected Date of Implementation

We are planning to implement these changes in Q4/18.

Rationale for the Significant Changes and Relevant Supporting Analysis

Foreign-Listed Structured Product Notes are investment instruments that provide an alternative to direct financial investments, such as shares, bonds and currencies. They are sufficiently flexible to accommodate different risk profiles, regardless of market conditions. Investors in Canada do not have easy access to a competitive market in structured product notes. Current access is typically limited to those securities offered on a bilateral basis by their financial institution. There is little to no transparency with respect to pricing nor overall buying and selling trends. This makes it difficult to deploy dynamic investment strategies, comparing similar products by different issuers and tracking performance. It is also difficult to exit positions optimally, as redemptions are generally offered at most once a day. Access to structured products listed in Europe is possible directly but it is inefficient and costly as such trades are generally done as one-offs and an investor's dealer must make arrangements with one or more intermediaries in the foreign jurisdiction.

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

We expect a positive impact on Canadian investors and, as a result, on the Canadian capital markets by providing less expensive access and transparent pricing for products that are widely available in Europe. The impact on the foreign issuers should be neutral, while we anticipate that it will also lead to the issuance of similar listed products in Canada, generating further competition in the offerings of these products. We do not expect any impact on market structure, as the Foreign-Listed Structured Products will trade similarly to Other Traded Securities listed on Canadian exchanges. Other than ensuring compliance with section 5.9 of NI 21-101, we do not anticipate any new or separate eligibility criteria for Members to access trading for Phase 1 Foreign-Listed Structured Product Notes. All trading will be conducted on the existing NEO trading infrastructure.

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

There would be no foreseeable impact on compliance with securities law generally or fair access.

Impact on the Systems of Members or Service Vendors

The addition of the Foreign-Listed Structured Products is not expected to impact the systems of members or vendors.

New Feature or Rule

As noted above, the Foreign-Listed Structured Products would represent a new feature in that they reflect a novel method for accessing foreign-listed structured products – products that are not readily accessible to Canadian investors.

Comments

Comments should be provided, in writing, no later than September 10, 2018 to:

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

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