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NEO EXCHANGE
neostockexchange.com

155 University Avenue, Suite 400
Toronto, Ontario M5H 3B7
T. 416.933.5900

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

Matt Thompson
Chief Compliance Officer
Nasdaq CXC Limited
25 York Street, Suite 900
Toronto, ON M5J 2V5
matthew.thompson@nasdaq.com

Re: Nasdaq Canada’s Proposed Changes to Minimum Size Order Functionality for CXD

Neo Exchange Inc. (“NEO”) appreciates the opportunity to comment on the proposed functionality. Although we are big proponents of marketplace innovation, especially when it is differentiation that is based on features rather than fees, we believe the proposed changes are just another example of functionality that is designed to further increase segmentation of order flow in the Canadian market to the detriment of overall market liquidity and fair access. We expect the functionality to further exacerbate the concentration of order flow amongst the large dealers, harming access to liquidity by small- and mid-size dealers as well as the business of genuine liquidity providing firms, which are already scarce in the Canadian market.

Nasdaq argues that this proposal will decrease the current level of market segmentation, but provides little evidence in their submission why that would be the case. The simple fact of allowing a market participant to choose what type of flow they want to interact with is the definition of segmentation.

We would also like to highlight this one sentence that is buried deep in the proposal without any further context.

“To prevent potential unintended consequences, the Minimum Size will be limited to a maximum value to be determined by the Exchange.”

The unintended consequences that goes unmentioned in Nasdaq’s submission is that if the minimum size on an order is large enough, market participants can more or less guarantee that they only trade with retail orders.

However well-intended this proposal may be, it sets yet another precedent towards a model the Canadian securities regulators have tried to prevent so far: the US retail wholesaling model. The next proposal after this will be for the same functionality but for orders with minimum price improvement instead of trading at the midpoint, and all of the sudden the US retail wholesaling model will be reality in Canada. While this model may be workable in the US, considering the size of its market, the number of its market participants and its natural liquidity, it will harm the Canadian market and further impact the small- and mid-size dealer community, which we all agree is a key component of the Canadian capital markets ecosystem.

To conclude, we believe it is important that the results of the CSA and IIROC consultation from 2019 regarding current retail segmentation and internalization within the Canadian equity markets are published with clear guidance from the regulators on what is acceptable, before any proposals designed to fuel further internalization and/or segmentation are approved.

Yours truly,

"Jocim Wiklander"

Jocim Wiklander

Chief Operating Officer, NEO Exchange