13.1.4 TSX Inc. – Summary of Comments Received and TSX Responses on Alternative Trade eXecution (ATX)

Implementation of a Pre-Trade Matching Facility
Alternative Trade eXecution (ATX)

Summary of Comments Received and TSX Responses

Comments Received from:

1. Market Regulation Services Inc. (“RS”)[1.]
2. GMP Securities L.P. (“GMP”)
3. Perimeter Markets Inc. (“PMI”)
4. Commission Direct Inc. (“CDI”)

[1.] The comments by RS give further guidance to market participants and for this reason their comments have been provided in full in *italics*, without any summary.

Capitalized terms that have not been specifically defined have the meaning attributed to them in either UMIR or the TSX Request for Comments for ATX.

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1.	RS and PMI: Status as a “Matching Facility”	RS: *While the Proposal refers to “active intents” and “passive intents”, we understand that the “intents” will nonetheless be considered an “order” for the purposes of the Marketplace Operation Instrument and, as such, for UMIR. Nonetheless, ATX, as proposed, will be a “matching facility” rather than a marketplace. Any match of an order or active intent with a passive intent in ATX does not constitute a trade. The match only becomes a trade when executed in the trading engine of the TSX. As such, the critical point in time for the purposes of the application of certain UMIR provisions will be at the execution of the trade in the central limit order book of TSX.* PMI stated that the definition of Intents may give some dealers and clients the impression that these order types are not worthy of the same degree of regulatory protection as other client orders. In particular, there should be no question that UMIR prohibitions on front-running and client priority apply to these types of orders.	We agree with this comment provided by RS. ATX is a pre-trade matching facility. Trade reports for trades that are the result of ATX matches are time stamped at the time they are processed by TSX’s trading engine, and not at the time the match is made in the ATX facility. Match messages from ATX are treated as special order types until they are processed by TSX’s trading engine, similar to an intentional cross on the Exchange. RS’ comments under – *Matching Facility*, provide appropriate guidance with respect to the application of UMIR. Matches on ATX that execute on the Exchange must be in compliance with UMIR, including client priority obligations and restrictions on front-running. For greater clarity, we have revised the definition of Intents to make it more consistent with the definition of “order” as set out in the Market Operation Instrument (NI 21-101).
2.	RS: Exposure of “Client Orders”	RS: *Rule 6.3 of UMIR requires a Participant, subject to certain exceptions, to immediately enter on a marketplace a client order to purchase or sell 50 standard trading units or less or a security. In the view of RS, a client order that is routed to a matching facility such as ATX will meet this requirement if any “unmatched” portion of the client order is immediately entered into the central limit*	We agree with this comment. All orders routed to the ATX facility are ultimately destined for TSX’s central limit order book. Orders that are not matched upon arrival to ATX, and any residual portions of orders that are unmatched, will be immediately entered into the TSX’s central limit order book.

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		order book of the TSX. A client order that would otherwise be subject to "exposure" under Rule 6.3 could only be entered into ATS as an "intent" on the specific instruction of the client. A client order that is for an amount in excess of 50 standard trading units could be entered as an intent but the execution of such order would remain subject to the requirements related to "best execution" and "client priority".	
3.	RS and PMI: Multi-Tiered Priority	RS: *UMIR provides that a Participant must provide priority to "client orders" over subsequent principal or non-client orders if the client order is at the same or better price, on the same side of the market and on the same conditions and settlement terms. If the "intent" by the client would be assigned to a "priority allocation group" the same as or lower than an intent by a principal or non-client account, the Participant would be expected to disclose this fact to the client prior to accepting the client's instructions or consent.*	We agree with this comment provided by RS. We expect that Participants will determine their PAG priorities, and such priorities will not typically change between the type of clients and their Intents. Clients should be informed of the functionalities of an Intent and whether client Intents are assigned to a PAG that is the same as or lower than an Intent of a principal or non-client account. Once a client has been informed of the functionalities of an Intent and the applicable PAG, then each time a client enters an Intent or requests that an Intent be entered into ATX, they will be effectively consenting to the application of the tiered priority as it relates to its Intent. On this basis, a specific consent is not required each time an Intent is entered or requested to be entered by a client, provided that there has been no subsequent change in the Intent functionality and the relevant PAG.
		PMI commented that all client orders within a dealers' ATX order book must have a real opportunity to continuously interact directly with all other client and non-client orders within that book. The proposed ATX rules are unclear as to whether dealers can, directly or indirectly, condition their client orders so that they routinely default to matching with the dealers' proprietary orders.	Before accessing liquidity from other dealers, all client and principal orders and active Intents will attempt to find a match with an offsetting passive Intent from the same dealer. This is an extension of the popular 'seeking out the cross' functionality that is currently available on the Exchange. Subject to the defined multi-tiered priority, a client order will have an opportunity to interact with other client and non-client passive Intents in ATX. If no matches are achieved such client order will interact with other client and non-client orders in the Exchange's central limit order book. See RS' comment and our response above - *Multi-Tiered Priority*. The proposed ATX Rule 4-108(6) is clear that the allocation of matches in ATX follow a defined algorithm, which includes internalization. Dealers are not able to change on an order-by-order or Intent-by-Intent basis the priority of matches.
		PMI proposes that ATX dealers should be required to obtain informed consent from their clients before they are permitted to route orders first to the ATX facility. Also, such consent should be renewed annually.	See RS' comment and our response above - *Exposure of "Client Orders"*. The routing of client orders through ATX is consistent with UMIR, and informed consent with respect to orders that are not Intents is not needed.

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		PMI proposes that all ATX dealers' PAGs should be made publicly available.	See RS' comment and our response above on - *Multi-Tiered Priority*. Informed consent is appropriate for entering "client orders" as Intents. Currently POs allocate order flow between their trading desks. ATX simply automates this functionality. We do not agree that by automating this process through ATX, a PO should be forced to disclose to the public its internal allocation strategy.
4.	RS, GMP and PMI: Price Improvement and Client Priority	RS: *Under the Proposal* [i.e. Request for Comment]*, when an order matches against a passive intent, the order will receive price improvement of one trading increment over the best bid in the case of a sale or the best ask in the case of a purchase. When an active intent matches with a passive intent, the match will be price at the midpoint of the best bid and best ask rounded to the next valid trading increment.* *Subject to certain exceptions, under Rule 8.1 of UMIR a Participant that executes a client order for 50 standard trading units of less with a value of $100,000 or less with a principal or non-client order must do so at a "better price" provided the Participant has taken reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market at that time. Given the mechanism by which the trade price will be calculated for ATX, RS is of the opinion that the trade price will satisfy the requirements to be the "best available price". However, a Participant that enters intents into ATX to trade only with orders of their firm will be in compliance with Rule 8.1 provided the "principal" or "non-client" intents are entered on a proactive basis and without knowledge of an incoming order from a client that will be directed to ATX. RS will look at the timing of the principal or non-client intents in considering whether the Participant has taken reasonable steps to ensure that the client has received the "best available price".* *In certain cases, the match in ATX may result in a "race" to the central limit order book of the TSX. It is possible that between the match on ATX and the execution of the orders in the central limit order book that the prevailing market prices may change. If the price attributed to the match is outside the bid price and ask price at the time the match arrives at the central limit order book of the TSX for execution, the match will be rejected and will not trade. However, if the price attributed to the match is at the then bid*	We agree with this comment. We have revised ATX Rule 4-108(5)(e) to further clarify under what circumstances a match from ATX will be executed on the Exchange. The revised ATX Rule will allow matches from ATX to execute on the Exchange as long as the match is on or within the posted bid price or ask price on the Exchange. We anticipate that later versions of ATX will include functionality with respect to "race to Exchange" conditions.

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		price or the ask price, the trade will be executed without interference by any order in the central limit order book. The resulting execution of the ATX-matched orders will operate as an exception to the general time priority rule of the TSX and will operate as a further exception to the priority given to prior orders from the same firm. RS acknowledges that allocations between orders at the same price is properly within the jurisdiction of the marketplace but, in the opinion of RS, the further exceptions provided for the execution of ATX matches should be clearly outlined in the rules and policies governing the operation of ATX. In accordance with Rule 5.3 of UMIR, a Participant may rely on the allocations between a principal order and a client order that have been made by the trading system of a marketplace provided the client order has been entered immediately upon receipt and was not varied following entry except on the instructions of or with the specific consent of the client.	
		GMP asks the question whether RS and the Ontario Securities Commission ("OSC") approve of the one trick price improvement that ATX will offer when an order matches against a passive Intent.	Please see RS' comment above - *Price Improvement and Client Priority*. Price improvement serves an exception to the exposure of client order obligation under Rule 6.3 of UMIR and the client-principal trading obligations under Rule 8.1 of UMIR. We are not aware of any objections by RS and the OSC regarding (i) the one-tick price improvement on an order that matches with a passive Intent or (ii) the midpoint pricing for matches between Intents. We submit that both types of price improvements comply with UMIR.
		PMI seeks clarification on price improvements on ATX, and states their belief that trades between a dealer and its client should always be price improved to the bid-ask mid-point, subject to exceptional circumstances the dealer can demonstrate entitles it to a greater-than-50% share of the spread. PMI also stated that the price improvement determination to be made by the Exchange from time to time should be made following input from a range of dealer and non-dealer representatives, and the reasons for such decisions publicly disclosed.	The amount of price improvements described in paragraphs 2.17 and 2.18 of the Request for Comments will be the norm. All matches will be subject to such price improvements. We believe it is sufficient that any change to these price improvements will be subject to an advance notice to Subscribers of ATX as set out in paragraph 2.15 of the Request for Comments. Furthermore, we believe it is appropriate to differentiate the amount of price improvement based on the type of match (i.e. Intent/Intent match versus Intent/order match). Intents, which are expected to represent larger blocks of demand will provide greater liquidity to the ATX and therefore, will receive a larger share of the spread. Also, the two types of price improvement provide certainty on the amount of price improvement that a match will receive versus allowing for "exceptional circumstances".

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5.	RS and CDI: Price of Matches	RS: *As drafted, all matches in ATX will occur at a price that improves on the posted best bid or best ask on the TSX. The Request for Comments acknowledges that other visible marketplaces may emerge and that the "TSX intends to incorporate a posted best bid/offer within the ATS facility that reflects the best bid or best offer on the Exchange or any other significant visible equity marketplaces to facilitate regulatory requirements."* *RS has published guidance with respect to the obligations of Participants in obtaining "best price" in a multiple marketplace environment. In the view of RS, the "best ask price" and "best bid price" can only be determined by reference to orders on marketplaces that provide pre-trade transparency. In order for a Participant to demonstrate that it had made "reasonable efforts" to execute a client order at the best price, RS expects the Participant will deal with "better-priced" orders on another marketplace if that marketplace:* • *disseminates order data in real-time and electronically through one or more information vendors;* • *permits dealers to have access to trading in the capacity as agent;* • *provides fully-automated electronic order entry; and* • *provides fully-automated order matching and trade execution* *Reference should be made to Market Integrity Notice 2006-017 – Guidance – Securities Trading on Multiple Marketplaces (September 1, 2006).* *Given the advance notice which Participants are given of the introduction of marketplaces that will meet the criteria established by RS, RS does not anticipate the provision of "exemptions" or "grace periods" in order to comply with the requirements of Rule 5.2. For this reason, RS would urge that the proposed rules of the TSX be modified to take account of order information from any marketplace that a Participant would have to consider in order for the Participant to comply with Rule 5.2.* CDI has similar concerns as those expressed above by RS.	The definition of Best Bid and Best Offer was not intended to give the TSX sole discretion in determining which marketplaces it would include in the determination of Best Bid and Best Offer. The purpose was to create sufficient flexibility in the definition to accommodate current and future changes to regulatory requirements for securities trading on multiple marketplaces. To address your concern and to provide greater clarity, we have revised the definition of "Best Bid" and "Best Offer" to be more consistent with the recently amended UMIR definitions of "best bid price" and "best ask price". The revised definitions are as follows: *(i) "Canadian Best Bid - means the highest price of orders on any marketplace as displayed in a consolidated market display to buy a particular security, where each order is at least one board lot, but does not include the price of any basis order, call market order, closing price order, market-on-close order, opening order, special terms order or volume-weighted average price order."* *(ii) "Canadian Best Offer or Canadian Best Ask – means the lowest price of orders on any marketplace as displayed in a consolidated market display to sell a particular security, where each order is at least one board lot, but does not include the price of any basis order, call market order, closing price order, market-on-close order, opening order, special terms order or volume-weighted average price order."* Meeting best price obligations under UMIR is a Participant obligation and not a marketplace obligation. However, ATX will include market prices from other marketplaces to facilitate dealer compliance with Rule 5.2 of UMIR (Best Price Obligation) and meet expectations of the Canadian Securities Administrators and RS regarding securities trading on a multiple marketplaces. At this point, TSX envisages only the orders on Pure Trading to be included in the determination of Canadian Best Bid and Canadian Best Offer. It is the only other marketplace that is expected to trade TSX listed securities and provide pre-trade transparency for such securities. We intend to include orders from other marketplaces if they trade TSX listed securities and provide pre-trade transparency for such securities.

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6.	GMP: Wash trades	GMP has concerns that ATX allows wash trades to be posted and printed on the Exchange but not included in the actual historical volume calculations. Also, GMP suggests that ATX, and any other dark book ATS should be required to have in place a system by which orders will be rejected if they appear to be an inventory-inventory cross for the same dealer.	We wish to clarify our comment in paragraph 2.21 of the Request for Comment. If the same subscriber to ATX is on both sides of the match and neither side of the match is designated as a "client" (CL) or "non-client" (NC) order or Intent, such match will not print on the Exchange, will not update last sale, and will not be included in historical volumes ("Off-Market Entry"). The "Off-Market Entry" function is intended to automate an existing procedure while continuing to prohibit wash trades from interacting with the market in any way. Principal-principal trading occurs when inventory shares are moved between desks at a dealer. These trades are journaled by the dealer and are not printed on the Exchange. ATX essentially automates this particular journal entry process. It is not possible for such trades to result in misleading or manipulative trades because such trades are not transparent to anyone other than the particular dealer and the regulator. In ATX, all information relating to an Off-Market Entry is suppressed through encryption so that it is only visible to the dealer. In this way, the opportunity to manipulate or misstate results is eliminated. Dealers benefit from the Off-Market Entry because permitting these types of matches significantly increases their chance of successfully internalizing. In many cases, a multi-service dealer will have desks that do not communicate with one another, and have a supply and demand for securities that could be internalized but for the lack of such communication. ATX allows these desks to interact in a safe environment with no information leakage, so that best execution is upheld while internalization opportunities are maximized. At the same time the encryption of the resulting trade ensures that they have no impact on the marketplace.
7.	GMP and CDI: Routing Orders	GMP states that ATX should not hard code where an order will route too; instead an order should route to the marketplace that will give the best execution based on price. Also, CDI suggests that the best price obligations in a multiple marketplace environment should apply to marketplaces as well.	The obligation to route orders to the best market is a dealer obligation. While TSX remains committed to assisting dealers in meeting this obligation through a marketplace solution, there is currently no inter-market routing solution available at TSX. In its absence, dealers should route to TSX or another marketplace pursuant to their trade-through obligation. Orders should only pass through ATX when the TSX's central limit order book is their final destination. The Best Bid Offer price improvement feature in ATX will provide protection against potential

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			trade through concerns and price changes from a "race" to the central limit order book of the Exchange. ATX will price the match to ensure it is within the Best Bid Offer. See our response to RS' comment above – *Price of Matches*. Best price obligation requires reasonable effort from the dealer and not a guarantee of best price. It is our understanding that if a better price appears after an order is sent, but before it is executed on the Exchange, a dealer will be in compliance with its best price obligations because at the time the order was entered the Exchange had the best price. The initial process by the dealer of determining which marketplace an order should be sent too constitutes reasonable effort, notwithstanding any subsequent change in price which causes a technical trade through.
8.	GMP: Call Market	GMP asks the question whether orders on ATX are considered to be Call Market Orders, as is the case for orders in TriAct's dark book. Such Call Market Orders on TriAct are exempt from certain provisions of UMIR.	ATX has not been classified as a call market because it is viewed as a continuous matching facility. Call markets and continuous markets offer different value propositions, and it is fair to expect that both will exist in a multiple marketplace environment.
9.	GMP: Markers	GMP raises a general concern that marketplaces do not comply with disclosure requirements with respect to order markers, and requested that the "Short Exempt" marker be supported by ATX.	TSX is in compliance with its disclosure requirements for order markers. ATX will support similar markers to a basic limit order, which will include the "Short Exempt" marker. Furthermore, ATX trade reports will identify whether the trade resulted from an ATX match.
10.	GMP: Jitney	GMP comments on the benefits of jitney trading and question why jitney orders can not cross on ATX. Jitney transactions are used by the proprietary trading desks of dealers and such transactions provide greater liquidity to the market.	We agree that there are benefits in allowing jitney orders to match on ATX. TSX intends to include this functionality in ATX at a future date after its initial launch.
11.	GMP: Last Sale Price	GMP seeks confirmation that ATX can set the last sale price, except for certain exceptions, and the bases for allowing ATX to do so when TriAct does not set the last sale price.	ATX updates last sale price as defined in UMIR and the Rules of the Exchange because it is a pre-trade matching facility of the TSX. Matches on ATX are not considered trades until they have executed on the Exchange. See RS' comment above – *Status as a "Matching Facility"*. These trades on the Exchange can set the last sale price, unless the trade is less than one board lot in size. Also, an Off-Market Entry will not set the last sale price. The same rules apply to all trades on the Exchange, regardless of whether they come as matches from ATX or as orders.

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			We are not in a position to comment on why TriAct does not set the last sale price. Please direct your inquiry to RS or TriAct.
12.	GMP: Launch	GMP expressed concerns regarding a staged launch of ATX, which would impact street wide access to the ATX	ATX will be launched with full functionality as described in our Request for Comment, including all inter-dealer matching functionalities. Subscribers to ATX will be able to trade between all Subscribers the day it is launched.
13.	Publication of Statistics	PMI suggests that TSX should routinely (whether monthly or quarterly) make publicly available relevant statistics comparing the quality of executions for orders submitted through the ATX against the quality of executions for orders submitted directly to the CLOB. To the extent that material aggregate advantages begin to accrue to ATX orders, corrective action can then be discussed and taken.	Quality of executions in ATX will be publicly available on a real-time basis. Trades resulting from ATX matches will be flagged and visible when printed, and will update last sale price on the Exchange. Given the transparency of such executions to the market, specific statistical reporting is not needed.
14.	GMP: UMIR	GMP raises the concern that the market integrity rules under UMIR and the application of such rules are not as standardized as they should be. The market integrity rules are being spliced and adjusted to meet the different structure of each new marketplace and are no longer universal. The reason for these rules was to create a standard set of rules that all participants must meet, to ensure a greater understanding and level playing field for all dealers.	UMIR creates the framework for the integrity of trading activity on marketplaces and allows for the competitive operation of exchanges, quotation and trade reporting systems and alternative trading systems. UMIR applies to all marketplaces, equally, but still provides sufficient flexibility in the integrity rules to allow for market innovation and competition, while ensuring fairness and maintaining investor confidence. The functionalities in ATX comply with the market integrity rules under UMIR. Any concerns regarding UMIR unrelated to ATX should be addressed to RS.
15.	CDI: Dark Liquid and Transparency	CDI raises the concern that ATX as a “dark pool” of liquidity will reduce transparency for the benefit of institutional investors and proprietary trading desks without benefit to the and to the general investing public or smaller institutional investors. Greater transparency not less is beneficial in encouraging compliance with market integrity rules. CDI proposes that regulators should discourage this dark liquidity pool that allows dealers to “gang up” by passing all of their trade orders through the ATX on the way to the Exchange. Small broker/dealers can easily be priced out of this facility. Notwithstanding other ATS structures that are established to compete with TSX, the TSX should not use its position as a senior marketplace to operate ATX. TSX should remain a completely visible marketplace, and those choosing a dark liquidity pools should face the risk of missing trade opportunities on the public exchange.	While we agree that transparency is necessary to allow price discovery, TSX does not agree that delivering the benefits of ATX to institutional/proprietary users comes at a cost to the general investing public. In fact, by allowing small order flow to interact with large Intents, and by providing price improvement over prices posted in the visible market, ATX provides benefits to investors large and small. Also, it is important to recognize that institutional orders represent the aggregated interests of many small individual investors. ATX is intended to draw liquidity from existing internalization and upstairs trading pools. Rather than taking liquidity from the Central Intent Book, TSX believes that ATX will aggregate the liquidity from these dark pools and make it accessible to all participants who seek it. Also, the current market integrity rules and the marketplace regulation services provided by RS will appropriately regulate ATX.

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			ATX does not allow dealers to "gang up". Although ATX is a blind book facility, it features completely transparent rules that apply to all large and small dealers. It offers benefits to large, multi-service dealers as well as small dealers that may only service a few institutional clients or limited retail flow. TSX is able to and should be allowed to leverage its existing technology, expertise, and know how to deliver a full featured dark pool that will provide value to all Subscribers. We do not believe that our status as senior exchange should impair our ability to compete in a competitive market by providing innovative products. We also believe that those choosing to use dark liquidity pools should not be penalized and face the risk of missing trade opportunities on an exchange. Such penalization will not foster the principles of best execution.
16.	CDI: Access and Advantage to Larger Dealers	CDI raises a concern that small dealers would be at a disadvantage in terms of access to ATX, and that ATX in general caters to the interests of bank owned dealers at the expense of smaller dealers.	ATX is a facility of the Exchange and not a marketplace. There is no regulatory obligation to connect to ATX. ATX, like our other suite of value-added products, it is an additional tool available to our POs to use as needed in order to better meet their business needs. We disagree with CDI that small dealers would be at a disadvantage in terms of access to ATX, and that ATX in general caters to the interests of bank owned dealers at the expense of smaller dealers. The success of ATX will be dependent on the number of Subscribers. In this regard, we intend to price access to ATX at a level that will make it accessible to POs, large and small, to subscribe to ATX. Also, all Subscribers to ATX, irrespective of their size, will have access to the same functionalities in ATX and will be subject to the same restrictions. Furthermore, ATX will enable small dealers to have access to the same sophisticated internalization application that large dealers will use. This will be especially beneficial to the small dealers that do not have the resources to invest in developing or acquiring an advanced internalization product that can manage high velocity order flows. ATX is a tool that will be available to all dealers, large and small. Firms with retail or direct market access flow will be able to internalize more efficiently. Firms with large institutional clients will be able to find liquidity

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			more efficiently. Also, all Subscribers will have the ability to access an aggregated pool of dark liquidity.
17.	CDI and PMI: CLOB Integrity/ Internalization	CDI states that ATX with its lack of transparency will be used by larger dealers to diminish price discovery on the central order limit book ("CLOB") of the Exchange.	In Canada there already exist well established pools of dark liquidity. There is a growth in these dark pools as evidenced by the existence of other marketplaces (e.g. Blockbook) and dealer products that provide for internalization (e.g. CDI's IOI Direct). We do not expect ATX and the other pools of dark liquidity will undermine price discovery on the CLOB because dark and visible liquidity pools offer two distinct and separate value propositions. Dark liquidity pools, offer the benefits of unanimity while the CLOB provided immediacy and certainty of execution that cannot be delivered by a dark liquidity pool.
		PMI proposes that the TSX not proceed with the internalization component of the ATX facility, given the very real policy concerns with undermining price discovery on the CLOB. PMI believes that any facility specifically tailored to permit better-priced retail sized orders to match outside of the CLOB will, over time, diminish the efficacy of the CLOB price discovery process. This will result in greater market fragmentation. However, PMI readily acknowledges the benefits and desirability of alternative matching venues for orders that are not well-served by a public CLOB. For example, orders that are very large in relation to displayed trading volume or orders that have other special characteristics that do not lend themselves to ready execution on the CLOB.	We do not agree with PMI that internalization will harm price discovery on the CLOB. Although it would be to the benefit of TSX to force the posting of all orders, regardless of size, on our visible book, we understand that internalization is an accepted and well entrenched practice with our POs. In today's technological environment, it is relatively easy for a dealer to set up an internalization facility of its own. Many dealers have done so already. These dealer internalization pools are fragmented and inaccessible to small retail-sized and institutional order flow from other dealers. ATX aggregates dealers' internalization interests and provides the small and institutional order flow from other dealers to interact with these interests as well as allowing them to interact with one another. By aggregating formerly fragmented liquidity and making it accessible, we believe that ATX offers an improvement in market structure. Furthermore, TSX disagrees that ATX will be detrimental to the CLOB. As stated above, placing orders on the CLOB compared to ATX will continue to offer a different but important value proposition to POs. We believe that ATX will attract liquidity from internalization and upstairs trading pools, which do not contribute to CLOB price discovery today. Also, limit orders unmatched in ATX will proceed to CLOB and contribute to price discovery.
18.	PMI: Facilitating Non-Compliance	PMI raises concerns that ATX's internalization functions may facilitate non-compliance with UMIR, and will be inherently biased against clients compared to dealers.	We disagree with PMI assertions that ATX facilitates non-compliance with UMIR and is biased against clients compared to dealers.

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		If passive Intents reflect primarily proprietary trading interests, the outcome will be a bias in favour of client orders matching with the passive pro Intents, rather than finding another client order in a more standard price/time priority. This could, if taken to the extreme, replace the current agency dominated market with a dealer market for equity trading, similar to what we find in the fixed income market. Also, PMI believes that the establishment of PAGs by dealers in accordance with UMIR will not result in fair treatment for retail clients. There does not appear to be a requirement to dealers to disclose the details of their PAG, and even if they did, it would be the rare client who would understand the potential implications. Take for example a Dealer X with both a Client A bidding at a price better than the current TSX best bid and a Client B offering at a price better than the current TSX best offer. The potential for these clients to match directly at a mid-point price within Dealer X's internalized market is a trading opportunity that belongs to these clients – not Dealer X. If the Dealer X captures the spread in back-to-back trades, it is arguably in violating of UMIR and its fiduciary obligations to these two clients.	ATX will provide improved disclosure of internalization activity by dealers. Information on internalized trades will be available through trade reports and our data feeds. Also, if needed, regulators will be able to conduct a better audit of internalization allocations because PAG assignments will be submitted to and recorded by the TSX. We do not believe that Intents in the Central Intent Book will represent strictly proprietary trading interests. We believe that a large portion of block Intents will be client Intents representing institutional-sized blocks that have been entered via direct market access. Far from disadvantaging clients, ATX will empower them by providing a new tool to find liquidity. TSX does not agree that ATX will cause the Canadian equity market to shift to a dealer market. ATX aggregates and automates existing practices that represent only a portion of the total flow in the equity market. On this basis, we do not believe that ATX can significantly change the market as a whole. Also, we do not believe ATX will create a bias towards client orders matching against passive pro Intents. Retail-sized orders will benefit by receiving better fills because of automated price improvement and access to previously inaccessible dark liquidity. As suggested by RS in its comment above on – *Multi-Tiered Priority*, we expect that dealers will be required to disclose PAG allocations that advantage the dealer, as principal, to clients before those clients enter Intents. We expect dealers will allocate PAG priority to clients' Intents, and as a result these Intents will have first access to order and Intent flows from dealers. In the example cited by PMI, clients are willing to buy and sell at prices inside the quote. If these interests are entered as Intents, clients will in fact have an opportunity to match directly at the midpoint. Whether they trade against the dealer, another client from the same dealer, or another dealer, is irrelevant. The price at which the match will occur is the same in all cases. ATX applies the same pricing decision regardless of whether a dealer or client is on the other side, and provides predictable price improvement over what can be obtained in the market. Subject to internalization priorities, all orders and Intents will have every opportunity to access the dealer's internalized liquidity.

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			Also, ATX matches are automated and blind. A dealer cannot guarantee what kinds of matches will occur. When a dealer posts liquidity in the form of an Intent, such Intent may be internalized, if possible, but may also be made available to other POs and clients if such internalization does not occur. Proprietary trading desks are in the business of accumulating and unwinding positions. By using ATX, they can do this without exact foreknowledge of their counterparty. In ATX, the dealer will not be able to guarantee who will be on the opposite side of the trade and as long as the dealer is not intentionally orchestrating the trade as described by PMI, such a trade should not violate UMIR.
19.	PMI: Public Interest Obligations	PMI believes that the adoption of ATX's internalization features in the manner currently proposed is contrary to the TSX's public interest mandate: • promote just and equitable principles of trade, • do not permit unreasonable discrimination among clients, issuers and Participating Organizations, or impose any burden on competition that is not reasonably necessary or appropriate; and • are designed to ensure that TSX's business is conducted in a manner so as to afford protection to investors. *Just and Equitable Principles of Trade* Given that the TSX is *itself* hosting the internalization facility, it has a direct responsibility to ensure the facility is defined to promote just and equitable principles of trade. The TSX cannot purport to wash its hands of this obligation and delegate this obligation to the dealers. *Discrimination, Competitive Markets and Investor Protection* TSX is obligated to ensure it operates in a manner that does not discriminate between clients, does not impair competition, and affords protection to investors. For these requirements to have any meaning in the context of the ATX, the TSX must ensure that two classes of investors are not being created by its ATX facility: those who contribute to price discovery on the central limit order book and receive sub-optimal executions when compared to the average of all TSX executions, versus those who	We disagree with PMI's assertion that the proposed ATX Rules with respect to internalization ("Internalization Rules") are not consistent with our public interest mandate. Despite the concerns with market fragmentation from internalization, internalization remains a well-entrenched and valued trading strategy in the Canadian marketplace because it reduces trading costs for dealers and provides anonymity for orders. The adverse effects of market fragmentation can be mitigated by aggregating liquidity and making it more accessible, which benefits the marketplace with greater access to a deeper liquidity pool. To encourage such aggregation, ATX combines for the benefit of all users an automated internalization process that provides greater order exposure and anonymity. The Internalization Rules promote just and equitable principles of trading by providing price improvement in an automated, predictable and transparent manner, which is consistent with the market integrity rules. UMIR obligations for dealers are the same whether they enter orders or Intents into ATX or orders directly into the Exchange. The entry of orders or Intents into a facility of the Exchange versus orders directly into the Exchange should not impose a higher regulatory obligation on TSX. Especially when the functionalities of the facility are consistent with UMIR. Also, the Internalization Rules do not impose any burden on competition that is not reasonably necessary or appropriate. There is no obligation for a dealer to connect to ATX. The success of ATX will be dependent on the number of Subscribers. In this regard, we intend to price access to ATX at a level that will encourage all POs, large and small, to subscribe to ATX. Also, all Subscribers to

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		participate within the ATX and receive superior executions when compared to the average of all TSX executions.	ATX, irrespective of their size, will have access to the same functionalities in ATX and will be subject to the same restrictions. See our response above to CDI – *Access and Advantage to Larger Dealers*. The ATX facility can benefit each of the major potential users of ATX. ATX provides benefits to: (i) Dealers by automating processes and making it easier to find liquidity. (ii) Institutional clients by allowing them to enter Intents through direct-market access and accessing additional liquidity. The aggregation of large interests will increase the likelihood of singe-ticket fills and allow large orders to interact safely with smaller retail-sized or direct-market access order flow without information leakage. (iii) Small dealers and retail clients by allowing them to interact with upstairs liquidity that was previously inaccessible, and by providing a better execution price.
20.	PMI: Other Regulatory Regimes	PMI cites for consideration in structuring ATX facilities disclosure of internalization requirements by the SEC (SEC Rule 11Ac1-6) and the European Union (Market in Financial Instruments Directive 2004/39/EU, commonly known as “MiFID”) and a client consent requirement in the context of a dealers order execution policy in the European Union (MiFID) for consideration in structuring ATX facilities.	ATX is intended to automate existing internalization processes and aggregate existing dark pools of liquidity. We do not believe it would be appropriate to structure ATX so that dealers are forced to comply with more stringent internalization requirements then what is currently required under the applicable regulations.