

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 Alpha Exchange Inc. – Amendments to the Alpha Exchange Trading Policies – Notice of Proposed Changes and Request for Feedback

NOTICE OF PROPOSED CHANGES AND REQUEST FOR FEEDBACK

The Board of Directors of Alpha Exchange Inc. (“Alpha”) has approved amendments (“Amendments”) to the Alpha Exchange Trading Policies (“Trading Policies”). The Amendments, shown as blacklined text, are attached as Appendix “A”.

Alpha is publishing this Notice of Proposed Changes (“Notice”) in accordance with the requirements set out in the rule protocol attached to its Recognition Order. Market participants are invited to provide the Commission with feedback on the proposed Public Interest Rule Changes.

Feedback on the proposed amendments should be in writing and submitted by February 25, 2013 to:

Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
Fax: (416) 595-8940
[e-mail: marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

And to:

Stacey Hoisak
Alpha Exchange Inc.
70 York Street, Suite 1501
Toronto, Ontario M5J 1S9
Fax: (416) 642-2120
[e-mail: stacey.hoisak@alpha-group.ca](mailto:stacey.hoisak@alpha-group.ca)

Feedback received will be made public on the OSC website. Upon completion of the review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

Terms not defined in this Notice are defined in the Alpha Exchange Inc. Trading Policies.

NOTICE OF PROPOSED CHANGES

TMX Group has announced its proposal to enhance Alpha IntraSpread to offer Members the ability to choose the type of liquidity they wish to trade with. SDL orders sent in the current implementation of IntraSpread can trade with eligible Dark Orders with price improvement, Lit Orders and Dark orders that offer no price improvement.

I. Proposed Change

TMX Group will extend the IntraSpread functionality to allow Members entering SDL orders to specify what type of liquidity they would like to trade against. IntraSpread will support three options:

1. **Dark and Lit**

SDL orders with the Dark and Lit option would trade with all eligible Dark and transparent orders in the Alpha CLOB while not trading through price levels on other market places. Minimum price improvement rules will be adhered to and the size/value of the SDL order will meet regulatory requirements when trading with non- price improved Dark orders. This option offers the same functionality as in the current implementation of IntraSpread.

2. **Dark Price Improvement Only**

SDL orders with the Dark Price Improvement Only option will only trade against Dark orders that offer a price improvement per the minimum price improvement regulatory requirement. Both Small and Large SDL orders with this option will be able to trade with eligible price improved Dark orders.

SDL orders with this option will not trade with dark orders priced at the NBBO or against lit liquidity.

3. **Dark Only**

SDL orders with the Dark Only option will trade against both dark orders with price improvement and those without price improvement. When trading against Dark orders with no price improvement, the system will only allow trades, if there are no Lit orders available at Alpha at that price level and only if the order does not trade through better priced orders on other markets. The size/value of the SDL order must also meet regulatory requirements when trading with non-price improved Dark orders.

II. Expected Date of Implementation

April 22, 2013

III. Rationale and Relevant Supporting Analysis

In consultation with clients and access providers, the TMX Group has discovered a client need to be able to control how their order flow interacts with the markets with respect to Lit and Dark liquidity. Some clients prefer to sweep the markets for Dark liquidity first before routing orders to the Lit markets. Alpha's current IntraSpread model only allows them to send orders to Alpha IntraSpread which trade with both Dark and Lit liquidity. Some clients want the ability to only trade with Dark orders on IntraSpread as their order routers control when the orders would enter the Lit Markets after trading in IntraSpread.

For clients who still wish to utilize IntraSpread to trade with both Lit and Dark orders, this option will still be available.

The new options will offer clients flexibility in how they interact with IntraSpread and the Lit markets based upon their trading and routing strategies.

IV. Expected Impact on Market Structure, Members, Investors, Issuers and the Capital Markets

The new proposed change adheres to IIROC Notice "Provisions Respecting Dark Liquidity " and will therefore not adversely impact market structure or the capital markets. The proposed change will offer Members and Investors more flexibility in how they interact with liquidity through Alpha IntraSpread.

TMX Group expects no substantive impact to trading patterns, other than with respect to the timing of when lit orders are sent to the market by those users who choose only to interact with IntraSpread Dark liquidity, when sending SDL orders to Alpha.

Note that this change in behavior would be comparable to how IntraSpread functioned before the “Provisions Respecting Dark Liquidity” were enacted on October 15 2012, as before this date, participants could only trade with Dark liquidity in IntraSpread and there was no interaction with Lit orders when SDL orders were sent to the facility.

V. Impact on Exchange’s Compliance with the Securities Law, Especially Fair Access and Maintenance of Fair and Orderly Markets

Each of the 3 new attribute values conform to the regulations outlined in “Provisions Respecting Dark Liquidity” and there will be no adverse impact on the maintenance of fair and orderly markets.

VI. Consultation and Review

Alpha is proposing this functionality based upon customer demand. Access providers and retail clients are requesting this functionality to complement their routing and trading strategies. Several clients would like to have the ability to sweep the markets for Dark liquidity first before routing to the Lit markets. The proposed change will allow clients to choose which option best matches their trading strategies.

VII. Technology Implementation Impact on Members and Service Vendors

The technology implementation impact will be minimal, as clients will only have to support the new values on an existing attribute.

VIII. Comparable Rules

Match Now allows incoming retail orders to only trade against Dark orders. Access providers can control interaction with the Lit markets after trading with Match Now Dark liquidity.

TSX/TSXV exchanges offer clients the ability to trade with Dark liquidity only (by sending Mid-Point Dark orders), Lit orders only (by sending Bypass orders), or both Dark and Lit (by sending Dark Limit Orders).

APPENDIX A

The relevant black lined section (section 5.23) of the Trading Policies sets out the proposed amendments.

- (3) Seek Dark Liquidity™ (SDL™) Orders
- (a) SDL™ orders trade with eligible Dark orders and transparent orders in the Alpha CLOB while not trading through price levels on other marketplaces.
 - (b) SDL™ Orders can only be entered on behalf of Retail Customers.
Commentary: It is expected that Members have policies and procedures in place in regards to identifying which accounts qualify and supervisory procedures to monitor ongoing compliance. If Alpha deems that a firm is entering SDL™ orders from non-retail clients, it may take appropriate action against the firm in question (i.e. access to IntraSpread).
 - (c) SDL™ orders can be market or limit orders but are treated as FOK – they trade with eligible orders to the extent possible, and any residual is cancelled.
 - (d) SDL™ orders must be for a board lot quantity.
 - (e) SDL™ orders cannot be Iceberg, On-Stop, Inside Match, FAK, MOO, LOO, MOC, Special Terms, Bypass Passive Only, TTM or ROC.
 - (f) SDL™ orders are marked with a Seek Liquidity Type attribute which will determine what type of liquidity the orders will interact with. There are three values for the Seek Liquidity Type attribute:
 - (i) All Dark and Lit: SDL™ orders marked with this attribute value will trade with all eligible Dark and visible orders.
 - (ii) Price Improvement Dark Only: SDL™ orders marked with this attribute value will only trade with Dark orders that offer a price improvement.
 - (iii) All Dark orders: SDL™ orders marked with this attribute will trade with all eligible Dark orders whether price improvement is offered or not. SDL™ orders marked with this attribute value will not interact with visible orders