TD Securities
TD Bank Group
TD Tower
66 Wellington Street West, 7th Floor
Toronto, Ontario M5K 1A2

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

Colin Yao
Legal Counsel, Regulatory Affairs (Equity Trading)
TMX Group
The Exchange Tower, 130 King Street West
Toronto, Ontario M5X 1J2
tsxrequestforcomments@tsx.com

via e-mail

December 8, 2014

Re: Alpha Exchange Inc. Notice of Proposed Rule Amendments and Request for Comments

Dear Sirs and Mesdames:

TD Securities welcomes the opportunity to comment on the Alpha Exchange Inc. Notice of Proposed Rule Amendments (the Proposed Amendments).

TD Securities is a leading securities dealer in Canada and the number one ranked block trader in Canadian equities and options based on dollar value and shares traded. TD Securities also acts as the executing dealer for TD Waterhouse, the largest discount brokerage firm in Canada.

The introduction of Dark Liquidity Rules by Canadian Securities Administrators in October 2012 degraded the quality of retail execution in the Canadian marketplace by removing liquidity previously available to fulfill retail orders, reducing opportunities for retail price improvement, and increasing active execution costs. In response, some Canadian retail brokerage firms have turned to the US retail market for an improved execution experience. The US retail market offers greater liquidity, fill certainty, better prices and reduced execution costs compared to Canadian lit marketplaces. We are concerned that the lack of a competitive offering by Canadian marketplaces will lead to long-term erosion in the quality, liquidity and price discovery of Canadian capital markets.

We are encouraged that the TMX is proposing a commercial solution to meet the competitive challenge from the US market. The introduction of a speed bump on marketable orders should allow liquidity providers to post greater size at better prices by providing protection from rapid adverse market price moves. We see the Alpha speed bump, which is uniformly applied to all market participants, as being a more fair and equitable approach compared to the Aequitas model of applying a speed bump to only "Latency Sensitive Traders (LSTs)". We think it is a dangerous precedent to allow marketplaces to subjectively choose winners and losers on their lit venues.

That said, we have concerns with the interaction of the Order Protection Rule and marketplace speed bumps in general. The Order Protection Rule requires all orders at full depth-of-book to be protected. To comply with this rule, Canadian smart order routers must clear each price level in sequence rather than immediately accessing liquidity at depth as is possible in the US. Full depth-of-book protection forces a smart order router to wait for a response from the slowest marketplace before moving to the next price level, so a speed bump on any one marketplace will effectively be applied to all. The introduction of speed bumps on both Alpha and Aequitas will slow down the operation of smart order routers, making it more difficult to access liquidity at depth and aggravating quote fade across all marketplaces.

Both Aequitas and Alpha aim to improve liquidity by segmenting marketable orders between toxic orders (LST or market sweeping) and more benign retail and institutional flow. In our view, order flow segmentation is fundamentally incompatible with protected marketplaces. The Order Protection Rule creates an obligation to access all displayed liquidity, but this liquidity will not be readily accessible by all participants. The speed bumps will create a misleading view of displayed liquidity, since this liquidity will only be available to certain market participants or to smaller orders and will fade away from a fast market sweep, creating frustration and inferior executions for larger orders.

We see four possible solutions to this problem:

1. Repeal the Dark Liquidity Rules and constrain segmentation to dark liquidity only. This would avoid the frustration of missing displayed liquidity due to the speed bump, while also solving the root cause of loss of order flow to the US retail market.

2. Classify any marketplace with a speed bump as "non-protected". Participants should be able to bypass slower markets to avoid quote fade when sweeping liquidity at depth. Marketplaces with other forms of segmented access (eg. differentiated fees) should also be classified as "non-protected."

3. Remove the OPR requirement for full depth-of-book protection and match the US requirement for top-of-book protection only. Allowing liquidity to be immediately accessed at depth across multiple marketplaces would improve fill rates for larger active orders and prevent the speed bumps from affecting trade execution on marketplaces without a speed bump.

4. Repeal the Order Protection Rule and revert to a dealer best execution requirement. This approach would grant dealers the flexibility to route orders to the most appropriate marketplace to maximize the execution quality of client orders. The approach would also address many of the issues raised in the recent OPR Proposal from CSA.

Of the four options, we prefer numbers 1 and 4 as they address the root cause of the issues, and create the flexibility necessary to allow Canadian marketplaces to compete in the global equity market through the development of innovative commercial solutions.

We appreciate the opportunity to comment on the Alpha Exchange Inc. Notice of Proposed Rule Amendments, and we would welcome a meeting with OSC Staff to further discuss our views.

Respectfully,

David Panko

Managing Director, Automated Execution Group
TD Securities
TD Tower, 7th Floor
66 Wellington Street West
Toronto, Ontario M5K 1A2