

June 23, 2015

Michal Pomotov
Director, Regulatory Affairs, TMX Group
The Exchange Tower, 130 King Street West
Toronto, ON M5X1J2
tsxrequestforcomments@tsx.com

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, ON M5H3S8
marketregulation@osc.gov.on.ca

Re: TSX Inc. – Notice of Proposed Amendments and Request for Comments – Long Life Orders

BMO Nesbitt Burns Inc. (“BMO”) welcomes the opportunity to provide comments on the TMX’s proposal to introduce Long Life Orders (“LLO”) to the TSX book.

We greatly appreciate the efforts of TMX to introduce LLOs on their marketplaces and fully agree with their rationale as outlined in their notice dated May 21, 2015, which we include here for reference:

1. Long Life order

The objective of the new Long Life order type is to enhance the quality of execution for natural investors and their dealers -- both retail and institutional -- by rewarding those willing to commit liquidity to the book for a minimum period of time.

We believe that LLOs will provide a valuable tool for natural investors to bypass quote noise and get priority fills. LLOs further the core reason that we believe markets exist in the first place: allowing natural buyers and sellers to meet without excess intermediation.

Background

High frequency trading (“HFT”) has taken a foothold in most modern marketplaces over the past decade. Quotes that were once accessible now have a lot of noise. The quotes have also become extremely crowded as HFTs compete to get ahead on the national best bid and offer (NBBO) queue.

The crowding of the quote has left natural investors to often pay up or ‘cross’ the spread in order to execute their orders. We note that we have seen active/passive ratios for natural investors tick up since the arrival of HFTs due to this crowding at the quote effect.

As HFTs have proliferated, their presence has started to have an adverse impact on the ability of natural participants to meet one another in the marketplace. Instead, we are seeing unnecessary intermediation by HFTs resulting in increased trading costs – both explicit (active trading costs) and implicit (crossing spread, higher active/passive ratios) – even on stocks that are extremely liquid. In these cases, a natural investor has very little chance of buying on the bid unless the stock is moving against them, because HFTs have crowded out the quote.

Comparison

We note that Aequitas Exchange has similar natural participant preference functionality in their Lit book which we endorse on principle. The key difference with TSX is that the TSX’s proposal will allow a participant to choose to declare themselves as long life (which will typically apply to natural investors) whereas Aequitas categorizes participants automatically. Both models essentially try to reduce unnecessary intermediation and provide natural investors an avenue to meet in the marketplace.

Delay details

We believe the delay should be changed to around 200ms (human reaction time). This has the benefit of making the long life orders behave like a normal order for manual trading but long enough to be impractical for HFTs to utilize. We highlight that even though a good number of HFT orders rest for longer than 200ms, the added risk associated with underlying market conditions changing should prevent HFT strategies from utilizing LLOs.

The 20ms delay on cancellation/amendment of LLOs is also a good starting point to reduce quote noise and should make it harder for latency arbitrage HFTs to arbitrage fast moving quotes.

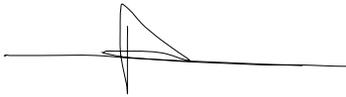
We would suggest that TMX consider increasing the proposed cancellation/amendment delay to 200ms and remove the delay at the start. In effect, this will also impose a penalty to cancel/amend an order while also making sure that every LLO is committed for at least 200ms.

In addition, we propose making official market makers exempt from being bypassed by long life orders in order to let them fulfill their obligations without an impediment.

We appreciate TMX's efforts to balance the trading landscape and provide functionality that will help natural participants achieve their goals. We encourage TMX to continue to build on this initiative of taking a balanced approach to markets in order to make Canadian markets a competitive avenue for execution on the global stage.

Should you have any questions regarding our comments on the Proposal, please feel free to contact us at the coordinates below.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rizwan Awan', written over a horizontal line.

Rizwan Awan, CFA
Managing Director, Equity Products
BMO Capital Markets
1 First Canadian Place, 3rd Floor Podium
T: 416-359-5195
rizwan.awan@bmo.com

James Ehrensperger, CFA
Managing Director, Equity Products
BMO Capital Markets
1 First Canadian Place, 3rd Floor Podium
T: 416-359-4351
james.ehrensperger@bmo.com