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VIA E-MAIL

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and

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Re: Proposed Amendments to Trading System Functionality and Features – Pegged Orders and Market Maker Participation

TMX Group Limited ("TMX Group" or "we") welcomes the opportunity to comment on behalf of its subsidiaries TSX Inc., TSX Venture Exchange Inc., and Alpha Exchange Inc., on the proposal by CNSX Markets Inc. (the "CSE") to implement changes to its trading system functionality and features to introduce pegged orders and market maker participation.[1]

Our primary intention in responding to this request for comments is to highlight the increasing interest in facilitating the segmentation of order flow on visible markets that is reflected in this and other recent and related marketplace proposals, and through which the boundaries of regulatory principles are being defined. It is our view that the recent marketplace proposals, and the demand underlying them, serve as evidence that the time has come for a more robust discussion and policy review by regulators to define the extent to which segmentation is appropriate for the Canadian market, in what forms, and any appropriate conditions and restrictions that should apply. We suggest this as an alternative to having the boundaries defined and continually changed through marketplace proposals and re-proposals intended to find the limit of regulatory tolerance without adequate consideration by and consultation with industry and investors.

[1] Published for comment on September 22, 2016 at www.osc.gov.on.ca/documents/en/Marketplaces/cnsx_20160922_notice-request-for-comments.pdf.

We strongly suggest, and are highly supportive of, the initiation of a broader policy discussion by regulators which should include industry engagement through roundtables or industry forums.

Recent marketplace proposals would further redefine acceptable forms of segmentation

It is our view that the CSE market maker participation proposal and Aequitas AEF proposal,[2] if approved, would further facilitate segmentation on visible markets beyond existing models via 'one-to-many' market mechanisms where the 'one' are 'market makers' on securities for which neither the CSE nor Aequitas are the listing exchange, and the 'many' will effectively or explicitly be limited to retail order flow. Coupled with these are, or were in the case of Aequitas,[3] fee change proposals[4] that would further promote the effectiveness of these mechanisms in attracting segmented order flow to execute against a single party.

These mechanisms are not uncommon in some other jurisdictions where explicit segmentation models and market structures are permitted. We also understand these proposals are intended to address customer requests and needs, and recognize that marketplaces are incented to provide customers with solutions that will help drive trading business. In addition, we are not ignoring the fact that some commenters to our proposal for a speedbump on TSX Alpha Exchange raised concerns relating to segmentation of order flow and acknowledge that the TSX Alpha model includes elements of segmentation.

This comment letter is not intended to express a view that promotes or dismisses the benefits of segmentation. Our concerns related to the proposals are that they will take Canadian market structure further down the road of on-market segmentation without having first identified the regulatory principles and restrictions specific to segmentation mechanisms that should be implemented.

If these proposals are approved, regulators should expect other marketplaces (including TSX) to introduce 'me-too' models with additional variants that will continue to push the boundaries further. Our view is that it is time for a broader industry and regulatory policy discussion about on-market segmentation and to establish the principles that will guide and define the boundaries for acceptable segmentation on Canada's markets.

Recent proposals and mechanisms are not comparable to current TSX offerings

In expressing the above views, we acknowledge that forms of segmentation on visible markets currently exist in the various market models and mechanisms employed by marketplaces in

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[2] See http://www.osc.gov.on.ca/documents/en/Marketplaces/xxr-aequitas-neo_20160602_rfc-universal-market-integrity-rules.pdf.

[3] Aequitas had proposed that inverted fees apply for trades involving active orders from a 'NEO Trader' (http://www.osc.gov.on.ca/documents/en/Marketplaces/xxr-aequitas-neo_20160707_rfc-aequitas-neo.pdf). Aequitas subsequently withdrew its proposal citing industry concerns relating to segmentation and fee complexity (http://www.osc.gov.on.ca/documents/en/Marketplaces/aequitas-neo_20161006_withdrawl.pdf).

[4] See http://www.osc.gov.on.ca/documents/en/Marketplaces/cnsx_20150707_rfc-cnsx-markets.pdf for proposal by CSE to implement inverted fees applicable only for trades involving active orders that are 'GMF eligible'.

Canada, including on the equity marketplaces owned and operated by TMX. Some have attempted to draw comparisons between the proposals from CSE and Aequitas to the features of the current TSX Market Making program. In our view, there are differences between these programs that should be noted.

Most importantly, TSX as a listing exchange has a responsibility to its issuers, investors and the trading community to promote a healthy and diverse secondary trading environment for its listed securities. This includes a market making program that imposes obligations on TSX Market Makers that are intended to help enhance the efficiency and effectiveness of price discovery, augment liquidity, fill liquidity 'gaps', support the order flow of the retail investor, provide a frontline role in monitoring trading activity, mitigate price volatility and help to stabilize the market, and support the efficiency and quality of the opening reference price in the industry.

In contrast, CSE and Aequitas do not have these responsibilities to TSX issuers, nor would the market or issuers expect CSE or Aequitas and its market makers to take on a similar role for TSX-listed securities. This raises questions as to the intended objective of the CSE and Aequitas market making programs when applied to securities they do not list.

These questions become more pronounced when examining the proposals in finer detail. For example, unlike the TSX Market Maker participation feature the CSE proposal would limit participation only to incoming 'GMF-eligible' orders, which are restricted to small sized orders that are not part of a larger order, and are intended to serve as a proxy for retail orders. The CSE through its outstanding fee proposal would also seek to apply an inverted fee model when trading against a GMF-eligible order for some of the most liquid TSX-listed securities. In our view, the segmented approach for market maker participation being proposed by CSE appears ultimately intended to better facilitate a 'one-to-many' (i.e., 'one-to-retail') experience.

Given the above, we suggest that it is also time for a broader policy discussion on whether an exchange should only be permitted to apply market maker obligations and benefits to the securities it lists.

Thank you for the opportunity to comment. Should you wish to discuss our response in more detail, we would be pleased to accommodate.

Yours truly,

"Kevin Sampson"

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