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Re: **Alpha ATS LP – Notice of Proposed Changes**

Scotia Capital Inc. ("SCI") appreciates the opportunity to comment on the proposed changes noted in the notice published July 16, 2010 for the above. The usage of Dark Orders has been the subject of much discussion over the past few months. While SCI is supportive of continued innovation in exchange and ATS systems and models we believe that any such changes should be carefully considered for their potential impact on market function, fairness and efficiency. We also believe that market regulations should promote visible liquidity, where possible, to maintain open and fair markets that allow for effective price discovery and efficient trading.

It is our understanding that the OSC does not intend to approve new types of dark orders or venues until the completion of the current consultation process on Dark Pools and Dark Orders. We would ask that the OSC ensure that both visible and dark markets have consistent and fair operating rules. Consistent with our view that visible markets are naturally more transparent, any advantages or inconsistent rules being offered to dark market places should also be offered to visible market places to avoid a significant increase in order flow moving to less transparent venues.

It is important to note that by allowing similar and consistent pricing (sub-penny pricing) to the visible market places, the OSC would expose some of the weaknesses of the maker/taker fee model employed by most market places (one other note of significance is that market places are allowed to pay for order flow yet broker/dealers are prohibited from paying clients for order flow).

The current maker/taker fee models are a significant contributing factor in the desire for dealers to internalize flow.

Maker/taker fee models result in the passive order receiving a significant rebate (~\$.003 in many cases) and the active order paying a fee slightly higher than the passive rebate. The result is that the exchange or ATS makes the spread between the fee and the rebate, but the active order pays a significantly higher fee than they would otherwise since they must also cover the rebate. Due to the nature of particular order flow, retail businesses tend to be much more active than institutional businesses and therefore have seen significant increases in billing which has been paid via rebates to high frequency trading firms. It would be interesting to see how much money has been paid to HFT's via rebates from the marketplaces (either directly or through the HFT's sponsored broker) – this money has essentially been extracted from other market participants for “increased liquidity” although much of that liquidity uses high-speed communications to beat other participants to the market, uses sophisticated technology to expose “order leakage” (using technology to anticipate a client's order instructions and profit from that information), and usually only provides temporary, intra-day liquidity.

If visible marketplaces were to be offered the same sub-penny pricing as dark markets, it would only magnify the existing problems within the market place. A more useful compromise for visible markets would be to allow for sub-penny crosses without offering it for the continuous book; this would potentially avoid some of the unintended consequences of rebate arbitrage due to the fee model.

We continue to expect that there will be a number of new dark pools established in the Canadian market in the near future. Therefore, it is critical that an effective and well considered regulatory framework be established before allowing for the establishments of any new dark pools which may in turn serve as a precedent for other entrants.

In conclusion, SCI does not oppose Alpha's proposed Intraspread facility, however we believe that approval of any required exemptions should be delayed until the end of the OSC's current consultation process on Dark Orders and Dark pools. We also suggest that the issues of sub-penny price improvement, maker/taker fee models and the value of displayed orders be carefully considered in that process.

We thank you for the opportunity to provide the above comments and would be pleased to discuss our thoughts further with you at any time.

Yours truly,



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