



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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March 2, 2012

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RECEIVED

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Ontario Securities Commission
SECRETARY'S OFFICE

Dear Ms. Greenglass and Ms. Pavalow,

Re: *Notice of Proposed Changes and Request for Feedback on Changes to definition of "Retail Client"*

The Canadian Security Traders Association, Inc. (CSTA), is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 900 traders nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver.) The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has 5,200 members globally, making it the largest organization of its kind in the world.

The purpose to this letter is to address the issue of Alpha ATS which is requesting to change its definition of "Retail Client". The CSTA acknowledges the fact that Alpha ATS proposed changes on January 13th, 2012 and that the OSC requested feedback on the issue to be received on or before February 13th, 2012. The CSTA Trading Issues Committee was made aware of this issue directly by the OSC on February 22nd, 2012. Even though the official comment period has ended, we believe that it is still important for us to respond.

This letter was prepared by the CSTA Trading Issues Committee: a group of 20 appointed members from amongst the CSTA. This committee has an approximately equal proportional number of buy side and sell side representatives with various areas of market structure expertise. It is important to note that there was no survey sent to our members to determine popular opinion; the Trading Issues Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of all CSTA members, nor the opinions of all members of the CSTA Trading Issues Committee.

At this point, we wish to reiterate that we believe that the mere utilization of the definition "retail client" should not be permissible to allow or disallow access to specific venues and/or order types. We feel that the fact that the Intraspread facility limits liquidity takers to the definition of "retail client" does indeed constitute an "unreasonable" limit or condition on access under the basis on fair access provisions. There is currently a similar facility that is being evaluated in the US, namely the NYSE Retail Liquidity Program. The SEC has raised several grounds for disapproval including the fact that the facility would permit unfair discrimination between customers, issuers or brokers on the exchange. We do acknowledge that Intraspread has many differentiating factors to the NYSE Retail Liquidity Program, but it does have the same underlying goal: creating an exclusive liquidity pool where retail clients can take liquidity. One can argue that Intraspread is an equal access liquidity opportunity since any participant can indeed be a liquidity provider in this pool. The problem does not lie on the passive part of the questions; it is on the active part that it is apparent. If a "retail client" is assumed to be a small investor representing the general public, shouldn't the facility also be available to mutual funds or pension funds that these "retail clients" have the bulk of the assets invested in?

Let's first consider what the definition of a "Retail Customer" is in relation to being able to actively take liquidity from Intraspread.

Alpha Exchange Inc. Trading Policies ("the TRADING POLICIES), p.10: *"Retail Customer is defined in accordance with IIROC's dealer member rules"*.

At first glance, you would expect to be able to go to the IIROC website and quickly determine the actual definition for Retail Customer.

IIROC Dealer Member Rules, Schedule B.1 to Transition Rule No. 1 of IIROC, Rule 1, Interpretation and Effect: *"Retail Customer" means a customer of a Dealer Member that is not an institutional customer."*

So now, you would be almost certain that the definition given by IIROC should be easy to understand in relation to what an institutional customer is to reverse engineer the definition of a retail customer.

IIROC Dealer Member Rules, Schedule B.1 to Transition Rule No. 1 of IIROC, Rule 1, Interpretation and Effect: *"Institutional Customer" means:*

- (1) An Acceptable Counterparty (as defined in Form 1);*
- (2) An Acceptable Institution (as defined in Form 1);*
- (3) A Regulated Entity (as defined in Form 1);*
- (4) A Registrant (other than an individual registrant) under securities legislation; or*
- (5) A non-individual with total securities under administration or management exceeding \$10 million.*

As daily participants in the Canadian marketplace, we would hope at least we could clearly understand the issue that Alpha Exchange Inc. has presented for comment. In reality, we cannot even accurately determine how the existing definition of "Retail Customer" actually excluded Foreign Retail Customers.

To be able to properly understand the issue at hand, we would like the following questions to be answered by Alpha ATS and resubmitted publicly. We do not believe that Alpha ATS has provided enough information for any participant in the marketplace to thoroughly evaluate their request.

1. How exactly does the current definition of "Retail Customer" exclude Foreign Retail Customers?
2. What exactly is the proposed change to the definitions?
3. If "Retail Clients of Foreign Dealer" are proposed to be exempt from the current definition, what specific definition applies to them?

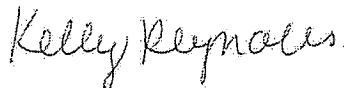
4. On p.39 of the Alpha Exchange Inc. Trading Policies, the following is stated: "It is expected that Members have policies and procedures in place in regards to identifying which accounts qualify and supervisory procedures to monitor ongoing compliance. If Alpha deems that a firm is entering SDL orders from non-retail clients, it may take appropriate action against the firm in question." Does Alpha Exchange Inc. have a specific procedure in place to ensure that this rule is being respected? (i.e., Reviewing the policies and procedures a Member has in place, performing random "spot" investigations of single trades on a regular basis.)

While we thank you for the opportunity to be heard on this issue after the expiry date, we do hope that there will be an effort made by the OSC to diffuse requests for comments issued by marketplaces to all market participants, especially those that have shown their willingness to continuously respond to such inquiries. Could an automated distribution list be created to facilitate this process? We also hope that any request for comments issued in the future be clearer in its informational content as to alleviate the amount of research required in understanding the issues as they are presented. We applaud IROC for undertaking a Plain Language rule re-write project. We remain at your disposal to discuss this issue or any other market structure related issue.

Respectfully,




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Securities Commissions

c.c. - Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, New Brunswick Securities, Ontario Securities Commission, Securities Commission of Newfoundland and Labrador, Government of the Northwest Territories (Registrar of Securities Department of Justice), Nova Scotia Securities Commission, Government of Nunavut (Registrar of Securities, Legal Registries Division, Department of Justice), Prince Edward Island Securities Office, Saskatchewan Financial Services Commission, Government of Yukon (Registrar of Securities), Autorité des marchés financiers (AMF)