CANADIAN SECURITY TRADERS' ASSOCIATION, INC.
P.O. Box 3, 31 Adelaide Street East

Toronto, Ontario M5C 2H8

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Joanne Sanci
Senior Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

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

RE: ALPHA EXCHANGE INC. NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

Dear Sir/Mesdames

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 850 members nationwide and is led by Governors from each of four distinct regions (Toronto, Montreal, Prairies, 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 approximately 4,200 members globally, making it the largest organization of its kind in the world. This letter was prepared by CSTA Trading Issues Committee (TIC) 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 views and statements provided below do not necessarily reflect those of all CSTA members or of their employers.

The TIC appreciates the opportunity to comment on Alpha Exchange Inc. We are supportive of the proposal and believe it will benefit institutional traders. We recognize the creation of two new orders books, two new order processing delays and two new order types will bring complexity, but we believe the benefits outweigh the costs. We also think the cost imposed on active traders is mitigated given the new order books are both unprotected and hence interactions with Alpha Inc. are voluntary. We query if the length of the 10ms order processing delay aka the speedbump is optimal. A longer speed bump increases the probability of correctly predicting a crumbling quote, but at what cost? Further investigation into the length of the 10ms delay is probably warranted.

The following comments will discuss our detailed thoughts on Alpha X and Alpha DRK.

Alpha X

Alpha X is an unprotected, displayed order book with a static 10ms order processing delay on active orders. Alpha X will be a price/broker/time priority order book. Alpha X is creating a new Smart Limit order type that reprices the passive order one tick less aggressive in situations where the TMX QDS indicates a high probability of favourable quote change (i.e., a crumbling quote). Taken together, the Alpha X Smart Limit order type, speed bump and TMX QDS create a very favourable environment for providers of passive liquidity. This innovation is beneficial to institutional traders who are concerned about adverse selection.

Most of our concerns with Alpha X are mitigated, although not eliminated, by the unprotected status of Alpha X. Active traders that value speed and certainty of completion will not be forced to interact with an order processing delay that is inconsistent with their trading objectives and risk preferences. Most importantly, all protected quotes in Canada remain immediately accessible. Our remaining concerns with the proposal surround the potential for information leakage and the details behind the construction and availability of the smart limit order type and TMX QDS.

As marketplace fragmentation in Canada persists, trading venues are becoming more specialized and the types of participants on each venue is becoming more homogenous. The most likely users of the Smart Limit order type are institutional traders who frequently trade large parent orders. Disproportionately high volume on Alpha X or concentrated activity by a single participant on Alpha X could signal other traders that a large institutional order is present and may lead to suboptimal prices. One potential remedy to help mitigate information leakage is to create a market-by-price display rather than a market-by-order display. We do not support the use of anonymous broker preferencing on a lit order book. The TIC believes trading rights should come with associated responsibilities and thus brokers should not be given the benefit of on exchange internalization via broker preferencing without the associated responsibility of displaying a broker number.

The construction of the TMX QDS is simple in principle but complex in its details. We support the use of public market data only in the construction of the signal, but we suggest the TMX Group include all lit order books and not just the TMX Group venues. We also see fair access concerns surrounding the potential for bespoke versions of the QDS indicator. While we do not object to a marketplace building tools to help their customers better manage their order flow, these tools must also be accessible to all and on fair terms. Here careful regulatory scrutiny may be needed to ensure marketplaces do not offer models, data, or other analysis tied to order types for some clients but not for others. As a precedent, we suggest there should be a formal and thorough disclosure process surrounding the model design, accuracy (e.g., positive/false positive) and updates.

We have concerns about the Smart Limit orders keeping time priority throughout the QDS states (on/off). It clearly makes the QDS feature better if it can supply more protection to adverse selection without giving up order priority. This does not, however, strike us as very *fair*. As such, we cannot support this aspect of the Alpha X proposal as the precedent-setting nature of new marketplaces opens too much potential ill-use in the future.

Finally, we were pleased to see the TMX Group will not be charging for market data from Alpha X, at least not initially. We request the TMX Group also make the Alpha X trading fee structure public before final approval is given.

Alpha DRK

Alpha DRK is an unprotected, non-displayed order book with a static 10ms order processing delay on active orders. Alpha DRK will be a price/broker/booked price/time priority order book. Alpha DRK will create a new complex order type called smart peg. The smart peg order is reactive based on the price of the incoming contra order. When the price of an incoming contra order is between the far side and the midpoint of the bid/ask spread, the smart peg order will adjust its price to the least aggressive increment that will still result in a trade. Said differently, the price where the smart peg order type executes is dependent on the price of the incoming active order. We agree with the TMX Group that orders using their reactive price should be ranked lower in queue priority than orders trading at their booked price. This allocation hierarchy is sensible but very complex.

We suspect active retail traders and passive retail liquidity providers will be the biggest beneficiaries of Alpha DRK. Liquidity providers will be able to offer the smallest price improvement necessary to not miss a trade. Active retail orders will benefit from greater certainty of completion and the potential to realize midpoint pricing rather than far side. The reactive nature of the smart peg order type allows the liquidity provider to book and rest at the near side of the quote if the contra order is above the minimum size requirements for at-the-touch dark trading under the order exposure rule (50 standard trading units or >$100,000) and trade at midpoint if the contra order is below the threshold. In either situation the contra order is filled.

As pricing scheme seems fundamental to the value proposition of many features in the proposal, we request the TMX Group make the Alpha DRK trading fee structure public before final approval is given.

The CSTA Trading Issues Committee believes we all have a collective interest to protect and preserve a Canadian equity market that is fair and efficient for everyone. We are deeply aware that not only is there no single path toward this goal, even if there were it is unlikely that a particular group of stakeholders would know the way. Indeed, our marketplace is made up of many types of traders, each with different investment objectives, risk preferences and approaches to trading. Marketplaces should be free to innovate and service the needs of diverse types of traders if these innovations do not compromise the overarching collective interest of the trading ecosystem. Said differently, innovations should try to grow the economic pie and not merely redistribute the slices. Here the principal of Pareto optimality applies and a "do no harm" approach may be prudent. We recognize that "harm" can be difficult to measure, especially when one looks not only at the direct cost, but also the indirect cost of opportunities lost. In the case of Alpha X and Alpha DRK both order books will be unprotected. Traders are free to choose their interactions with these order books or even avoid them entirely. Thus, we agree with the TMX Group that any potential "harm" of the proposed functionality is minimal.

Most of our concerns with the proposal, relate to the proliferation of a more complex trading ecosystem. In this regard, the cost of additional complexity is worth the benefit. We believe this is true, but acknowledge it is difficult to verify ex ante. As proposed, we do not see any significant harm to other traders or to the broader trading ecosystem. Thus, give the absence of harm, we suggest regulators allow traders to decide if the proposal has value.

We thank you for the opportunity to comment and would be happy to elaborate or answer questions.