



April 3, 2023

VIA EMAIL

Joanne Sanci
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Market Regulation Branch
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Re: Alpha Exchange Inc. Notice of Proposed Amendments and Request for Comment – (“Notice”)

Dear Ms. Sanci:

Nasdaq CXC Limited (“Nasdaq Canada” or “we”) welcomes the opportunity to provide comments on Alpha Exchange Inc.’s (Alpha) proposal to introduce two new order books and to make changes to Alpha’s order processing delay (speed bump) (together Proposed Amendments).

As a market operator we support the introduction of innovative market models and new marketplace features that provide participants greater options for making trading decisions. Freedom of choice allows competitive forces to determine the adoption of new features and ultimately their success. For this reason, it is important that the use of marketplace models that are highly complex is not mandated. From this perspective we are encouraged to see that the TMX Group has chosen to introduce the Proposed Amendments on an unprotected marketplace.

While we support innovation generally, we also believe that the benefits of any new feature should be weighed against its costs to industry and that costs should be kept to a minimum whenever possible. We wonder why then that Alpha has chosen to introduce two new trading books independently of one another that will result in unnecessary connectivity costs incurred by members.

There are two features of the Proposed Amendment that raise concern. The first is that priority is maintained by an order that is backed off and then re-joins a more aggressive quote when it is established. One of the foundational principles of market structure is in order to encourage healthy liquidity provision that participants that are willing to take on the economic risk of exposing a quote to the market at a new price

level should be rewarded with execution priority. The proposed feature violates this principle and in turn raises fairness concerns while at the same time undermining the incentive to make better markets.

The second feature that we believe raises issues is that although a Smart Peg order used on Alpha DRK is willing to provide price improvement inside the NBBO (up to the midpoint) it will only do so if a contra-side order does not cross the spread. This affords a passive order the advantage of maximizing its execution price without taking the same risk as firm midpoint orders and in doing so disadvantages orders that are willing to cross the spread. On other dark books active orders would interact with any price improvement opportunities in between the spread. Furthermore, because these orders are expected to be heavily used by institutional accounts, this feature will result in inferior executions for a class of investors that are extremely important to the market.

Finally, we believe that it is important for an exchange with a public interest mandate to be transparent and clear when it describes its operations. Recognizing this we appreciate Alpha's reference in the Proposed Amendment to Alpha DRK being a dark order book as it does not support lit orders. As the industry understands this is very different than a lit order book that supports dark orders.

Sincerely,

Nasdaq Canada