



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
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February 25th, 2013

Market Regulation Branch
Ontario Securities Commission
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and

Stacey Hoisak
Alpha Exchange Inc.
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Re: Alpha Exchange Inc. – Amendments to the Alpha Exchange Trading Policies – Notice of Proposed Changes and Request for Feedback

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 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 approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee: a group of 20 appointed members from amongst the CSTA. This committee has an 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 or the opinion of all members of the CSTA Trading Issues Committee.

The CSTA appreciates the opportunity to comment on the proposal by Alpha Exchange, Inc. (“Alpha”) to extend the functionality of IntraSpread by allowing users to specify the scope of interaction for Seek Dark Liquidity (“SDL”) orders. With the continued use of IntraSpread in the retail community, we believe

the existing interaction between SDL orders and the lit market – mandated for all SDL orders in the design of IntraSpread – introduced unnecessary trade-offs and created opportunities for information leakage and loss of liquidity.

The present design of IntraSpread – which directs SDL orders that are otherwise unfilled by dark orders to the Alpha lit market – was seemingly introduced with the purpose of maximizing fills on Alpha and giving retail clients a greater certainty of a fill. Since the introduction of the revised Dark Liquidity rules on October 15, 2012, we believe that the majority of fills to SDL orders are now mostly being fulfilled by the lit markets. Subsequently, the mechanism that is currently in place creates a situation where Alpha’s lit book is directly interacted with in any situation where an SDL order is unfilled by Dark orders, regardless of a firm’s desired order routing methodology (including potentially accessing other dark markets ahead of the lit markets). Consequently, an executing firm looking for price improvement in IntraSpread necessarily accesses the lit market on Alpha ahead of lit markets elsewhere, creating the possibility of a loss of liquidity on other marketplaces due to the lack of latency adjustments in the routing methods or simple liquidity fade.

In our opinion, IntraSpread’s current design introduces an unnecessary trade-off between the possibility of price improvement and information leakage that enables a potential loss of liquidity. We commend Alpha for resolving this issue by giving users the choice of whether SDL orders interact with the lit book (resulting in immediate impact and potential information leakage), or remain eligible to trade with dark orders only. In practice, we believe that the ability to opt out of the forced lit market interaction will expand the community of potential retail SDL sources to include firms with concerns similar to the issue outlined above. Therefore, despite what we believe may be a near-term reduction in Alpha traded volume (as some currently sending SDL orders will no longer receive fills in the lit market), the proposed functionality enhancements may expand the potential users of IntraSpread and thus make the facility a more relevant and comprehensive trading option.

We appreciate the opportunity to comment on this matter.

Respectfully,

“Signed by the CSTA Trading Issues Committee”

c.c. to:

OSC:

Mr. Howard Wetston, Chair and CEO
Ms. Maureen Jensen, Executive Director & CAO
Ms. Susan Greenglass, Director, Market Regulation
Ms. Tracey Stern, Manager, Market Regulation

IIROC:

Ms. Susan Wolburgh Jenah, President and CEO
Ms. Wendy Rudd, SVP, Market Regulation & Policy
Mr. James Twiss, Vice President, Market Regulation Policy
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy
Mr. Mike Prior, Vice President, Surveillance