

13.2.2 OMEGA ATS – Notice of Proposed Changes and Request for Feedback

**OMEGA ATS
NOTICE OF PROPOSED CHANGES AND REQUEST FOR FEEDBACK**

Omega ATS has announced its plans to implement the changes described below in Q4 2010. It is publishing this Notice of Proposed Changes in accordance with the requirements set out in OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*. Pursuant to OSC Staff Notice 21-703, market participants are invited to provide the Commission with feedback on the proposed changes.

Feedback on the proposed changes should be in writing and submitted by Monday, October 4, 2010 to:

Market Regulation Branch
Ontario Securities commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
Fax (416) 595-8940
Email: marketregulation@osc.gov.on.ca

And to:

Michael Bignell
President and Chief Compliance Officer
Omega ATS
100 Lombard Street, Suite 101
Toronto, ON M5C 1M3
Email: michael.bignell@omegaats.com

Comments received will be made public on the OSC website. Upon completion of the review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

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NOTICE OF PROPOSED CHANGES**

Omega ATS has announced its plans to implement the changes described below in Q4 2010 unless otherwise noted.

If you should have any questions concerning the information below please contact Michael Bignell, President & CCO of Omega, at Michael.bignell@omegaats.com or by phone at 416-646-2427.

Description of Proposed Changes

Omega ATS proposes to introduce cross functionality to our marketplace. Subscribers will be able to select from a variety of crosses, Intentional By-Pass Cross, Internal By-Pass Cross, Basis Cross, and VWAP Cross. Basis Cross and VWAP Cross are designed for more advanced trading strategies. Basis and VWAP crosses are not required to print within the CBBO, and will not update the national last sale price. Omega ATS also proposes to introduce Pegged Orders which allow subscribers to continuously track the CBBO with a choice of Primary, Market, or Mid-Point parameter peg with or without offset up to an ultimate limit price.

- **Intentional By-Pass Cross** – A trade that occurs when two accounts of the same Subscriber buy and sell the same security at an agreed price and volume. Crosses on Omega will receive time priority at the price, similar to the practices of other Canadian marketplaces. All crosses on Omega will be by-pass crosses, meaning they do not interact with hidden liquidity. Intentional by-pass crosses must be flagged by the user with the Intentional By-Pass Cross marker, or Omega will reject the order. Since it is a Subscriber's responsibility to displace better priced liquidity in the context of the CBBO prior to putting up a by-pass cross outside the context of the current market, an Intentional By-Pass Cross outside the bid ask spread will not be interfered with by better-price liquidity.

- **Internal By-Pass Cross** – A trade identical to the Intentional By-Pass Cross except the originating orders from the Subscriber will be between managed accounts that have the same beneficial owner. An internal by-pass cross marker will be automatically attached to the trade-print by Omega.
- **Basis Cross** – A trade whereby a basket of securities or an index participation unit is transacted at prices achieved through the execution of related exchange-traded derivative instruments which may include index futures, index options and index participation units in an amount that will correspond to an equivalent market exposure. A Basis Cross will not be subject to any interference.
- **VWAP Cross** – A transaction for the purpose of executing a trade at a volume-weighted average price of a security traded for a continuous period on or during a trading day on Canadian exchanges or alternative trading systems.
- **Pegged Order** – The order will allow subscribers to peg orders to the near, mid or far-side of the market as determined by the CBBO, eliminating the optional limit price which is the maximum match price for a buy or the minimum match price of a sell order. Pegged order matching logic is based strictly on price-time priority and will match as if they were limit orders at that price. Subscribers will have the option of specifying an offset on the order that will increase or decrease the price of the order from the appropriate peg level: near, mid or far. Subscribers that do not have algorithmic tools to manage offset peg orders should only offset in the opposite direction from the far side of the market or only offset by \$0.01 to avoid the potential of a trade-through.

In addition to the new order types, Omega ATS proposes to introduce trading in select unlisted Government of Canada Debt securities and Canadian corporate (public corporations), listed and unlisted debt securities as well as trading in securities listed on the NYSE, NASDAQ and AMEX stock exchanges. Omega will not accommodate trading in any issue that is not eligible on CDS. Debt securities trading through Omega will only include securities issued in Canada. Omega will not include any foreign issues or any debt securities that were issued pursuant to the reliance of accredited investor exemptions. There will be no order type additions or changes to the market structure of Omega to accommodate trading in these securities as all functionality is pre-existing on Omega ATS. Settlements will be conducted through CDS on a trade for trade basis on all additional securities being added to Omega except where the security traded is eligible for CNS. Prices of executed trades for debt securities will have the accrued interest added therefore one net figure will be reported to CDS for matching and settlement purposes.

Expected Impact of Changes

Intentional By-Pass and Internal By-Pass crosses will allow subscribers to move large volume blocks between accounts without being subject to interference from other orders, visible or hidden, posted on the book. Orders will match exactly as intended for the number of shares input. Since Omega only accepts By-Pass for Intentional and Internal cross types, the order must be marked accordingly, or the cross is rejected.

Allowing specialty cross types such as Basis Cross and VWAP Cross, provides a facility to display the execution of large specialized transactions without being subject to interference. This will also enhance marketplace transparency.

Omega ATS's pegged order allows a passive market presence on the book regardless of price (to the limit price) without driving the market.

Trades of over the counter debt securities through Omega ATS will allow wider access to pricing information and will greatly enhance market transparency. Trading in NYSE, NASDAQ and AMEX listed equities, expected to commence sometime in Q4 2010, will provide a Canadian conduit for trading in these securities and will be transacted in Canadian Dollars. Trades in securities from these exchanges are not traditionally conducted in Canadian dollars, by adding the ability to do so subscribers may directly trade US listed securities directly on Omega for an assortment of Canadian registered plan, cash or margin accounts without having to perform an additional foreign exchange transaction.

Consultations

Omega ATS management and consultants, composed of market veterans, have had multiple conversations with various subscribers and buy side participants who have expressed interest in seeing more functionality and broader selection of the securities traded on Omega.

Proposed Changes Currently in the Canadian Marketplace

Similar order types to the ones being introduced by Omega are currently available in the Canadian capital markets. Three Canadian ATS' have similar functionality with slightly different behavior including the possibility of interference on Intentional and internal by-pass crosses. Behavior of VWAP & Basis crosses have similar behaviors as all other marketplaces.

There are currently systems in the marketplace that provide a platform for trading Government of Canada and corporate debt securities, two are ATSS that exclusively trade debt instruments. Despite the ATSS available, trading in these types of securities remains mainly over the counter. There are Canadian stock exchanges that currently trade some corporate debt securities for corporations that are listed on their exchange and some government issued debt securities.

Securities listed on US Exchanges trade on a multitude of ATS in their home country but no Canadian ATS currently provides a facility to trade US listed securities in Canada.