

## ALPHA ATS LP NOTICE

### SUMMARY OF COMMENTS FOR ALPHA SELF TRADE MANAGEMENT

#### Background

The Ontario Securities Commission (OSC) published on July 30, 2010 a notice regarding Alpha ATS LP (Alpha)'s proposed new functionality named Alpha Self Trade Management.

Alpha Self Trade Management introduces an optional order tag that will allow firms to have unintentional self (or "wash") trades suppressed from the public feed. A self trade occurs where orders on both sides of the trade are from the same Subscriber and include the identical self trade key. The self trade key is intended for use only on orders that may result in trades where there is no change in beneficial or economic ownership. Self trades do not update the last sale price, daily volume, turnover or other trading statistics.

The objective of Alpha Self Trade Management is to provide Subscribers with a means to address concerns regarding the public dissemination of unintentional wash trades. Suppressing self trades from the public feed prevents the misleading appearance of trading activity or interest in the purchase or sale of the security where there is no change in beneficial or economic ownership.

The OSC and Alpha received 3 comment letters from other marketplaces<sup>1</sup>.

Alpha would like to thank all commenters for their submissions. This summary will summarize the key issues and Alpha's responses. Alpha notes that most of comments were in fact questions regarding the functionality of the Self Trade Management tag. Alpha notes that a detailed product sheet is available on its web site and that staff are available to answer any questions.

#### General Comments

Two of the marketplaces<sup>2</sup> described how Policy 2.2 of UMIRs prohibits effecting a trade in security which involved no change in the beneficial or economic interest where the participant or Access person knows or ought reasonably to know that the execution of the trade would create or reasonably be expected to create a false or misleading appearance of trading activity.

#### Alpha Response

Unintentional wash trades occur on all Canadian marketplaces. Marketplaces have implemented different solutions to identify and/or prevent unintentional wash trades.

TMX, Omega, Chi-X, Pure, and TriAct MATCH Now add a (private) wash trade marker where the trade has occurred between proprietary accounts of the same firm. TMX, Omega, Chi-X, and Pure disseminate wash trades on the public feed. Tri-Act MATCH Now does not include wash trades in public trade reports.

Two marketplaces have implemented solutions to prevent unintentional self trades: TMX offers Self Trade Prevention to allow firms to prevent two orders from the same firm from trading against each other based on matching keys – when keys match, the portion of the active order is reduced to prevent the self trade. Omega offers an optional No-Match ID that prevents orders with matching No-Match IDs from executing against each other.

Alpha's Self Trade Management is aligned with TMX, Omega, and TriAct in preventing the misleading appearance of trading activity or interest in the purchase or sale of the security where there is no change in beneficial or economic ownership. Alpha's solution is considered a beneficial alternative consistent with regulatory policy objectives: providing the benefits of execution (such as downstream events) but suppressing the print on the public record that could influence participants. Alpha's Self Trade Management also reduces the opportunity for crossed or locked markets that may result from other marketplace solutions where an order router attempts to take out an order at a price level, but is rejected.

#### Use of Self Trade Tag

One marketplace<sup>3</sup> expressed concerns that the tag can be misused<sup>3</sup> by a dealer in order to prevent reporting trades to the public feed. It also expressed concerns about the use of the tag in the Alpha IntraSpread™ Facility.

#### Alpha Response

Similar to implementations by TMX and Omega, the unique trading key provided by the Subscriber is intended for use only on buy and sell orders for accounts that may result in trades where there is no change in beneficial or economic ownership. This

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<sup>1</sup> TMX, Chi-X Canada and CNSX Markets Inc.

<sup>2</sup> TMX and Chi-X Canada

<sup>3</sup> TMX

may apply to Dark orders and Seek Dark Liquidity™ (SDL) orders entered to the Alpha IntraSpread™ Facility where there is no change in beneficial or economic ownership.

The self trade key is set on an order by order basis. There is no global association for setting the self trade key based on Trader ID, Account ID (or any other identifier). Subscribers are expected to use the tag for the purpose intended and will be responsible for inappropriately using it in compliance with UMIR.

Alpha will capture self trading activity in a daily report that will be available for review by Alpha Staff. Also these trades will be identifiable to IIROC.

### **Post Trade transparency requirements**

All three marketplaces requested clarification on how does Alpha comply with the transparency requirements in S. 7.2 of National Instrument 21-101 if it doesn't report the trades to the public feed and whether it has received an exemption from the requirement.

#### Alpha Response

Self trades (as defined by Alpha Self Trade Management), which should involve no change in beneficial or economic ownership, and are generally no different from journal transactions between inventories, should not be considered as trades executed on the marketplace for the purposes of the transparency requirements. Alpha is effectively avoiding the need for a participant or Access person to "take down" an unintentional wash trade - the net result is the same.

### **IIROC Monitoring**

All three marketplaces request clarification on whether IIROC will be able to monitor the trades even though they will not be reported to the public data feed.

#### Alpha Response

We have worked with IIROC to provide the necessary information for IIROC to review.

### **Recordkeeping Requirements**

Two marketplaces<sup>4</sup> asked questions regarding the information available to subscribers who use this feature and whether they will be able to do reconciliation.

#### Alpha Response

The same information available for any other order or trade will be available to the subscriber. These trades will clear through CDS in the same manner as any other trades.

### **Other marketplaces**

One marketplace asked for information regarding any other marketplace which did not provide such trades to the public feed.

#### Alpha Response

According to information published TriAct Canada web site: "Public trade reports do not include trades between two principal accounts for the same broker ("wash trades")"

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<sup>4</sup> ChiX Canada and CNSX Markets Inc.