

December 5, 2014

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, ON M5H 3S8

Colin Yao  
Legal Counsel, Regulatory Affairs (Equity Trading)  
TMX Group  
130 King St. West  
Toronto, ON M5X 1J2

BY ELECTRONIC MAIL : [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca) ; [tsxrequestforcomments@tsx.com](mailto:tsxrequestforcomments@tsx.com)

Dear Sirs and Mesdames:

**RE: OSC NOTICE AND REQUEST FOR COMMENT PROPOSED AMENDMENTS TO ALPHA EXCHANGE**  
("Comment Paper") published on November 16, 2014.

---

National Bank Financial Inc. ("NBF") appreciates the opportunity to comment on this Comment Paper. We support the OSC's statutory mandate to provide protection to investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in capital markets.

NBF is part of the diverse National Bank Financial Group ("NBFG") which: (i) manufactures mutual funds, owns proprietary distribution channels and supplies services to third party distributors; (ii) operates a discount brokerage firm; and (iii) is an IIROC-regulated investment dealer across Canada. We therefore take great interest in the regulatory initiatives contained in the Comment Paper and their potential impact on investors, the mutual fund industry, the investment industry and financial intermediaries.

Accordingly, our intention is to share our concerns regarding the regulatory initiatives contained in the Comment Paper and our experiences. We trust that our comments will be taken into account during the review process and also provide a positive and productive contribution to the outcome of the regulatory initiatives proposed in the Comment Paper.

The topics discussed in our comment letter relate to the issues associated with the Alpha Exchange's proposed rule changes which divide into essentially two different parts:

- 1) The implementation of a speed bump and post-only order type for which a minimum order size earns the right to bypass the speed bump
- 2) Other changes to streamline Alpha

The proposed streamlining measures are by-and-large logical & helpful, so we will focus here on the speed bump and related order types.

Before addressing the specifics of the proposed rule change, it bears noting that the trend toward segmentation of order flow in Canada is troubling. We believe that the best structure for the long term health of the marketplace is one that boasts the most diversity of flow interacting in the simplest possible way. And yet, stakeholders have clearly indicated significant demand for the economics and efficiencies that segmentation seems to provide in the immediate term; it is happening.

So we are pleased to see market-based solutions being proposed by Alpha which are transparent and relatively simple to understand. As unintended consequences and potential inefficiencies reveal themselves, we hope that Alpha will continue to listen to all stakeholders, working toward a safe and efficient market.

### **The Speed Bump & Order Protection**

NBF does not believe that any marketplace with a speed bump should be a protected market. Not only do we find it unfair to be forced to go to a slower market, say, on hedging trades from a pair or an ETF, as we have indicated before, we value having maximum flexibility in our routing decisions. We value certainty of execution very highly in our routing priorities, and the speed bump potentially harms our ability to manage that effectively.

### **Speed Bump Size & Range**

Any speed bump larger than zero has a detrimental effect on the ability of active liquidity to be fully satisfied in a multi-market environment. So if we are going to have one, *in an unprotected market*, it is best make the bump larger and the randomization range smaller.

From the perspective of the market maker, a longer speed bump mitigates the speed advantages between providers. This puts a premium on size commitment and pricing, improving the available liquidity and outcomes for the small order sizes that Alpha is being engineered to service.

### **Minimum Volume Requirement for Post-Only Orders bypassing speed bump**

This is an important feature of the proposed structure. NBF does not believe that it has a place in the public discussion forum, however. Minimum order size is a commercial negotiation between Alpha and its market making participants. They should be able to work together to find an equilibrium point where the market makers are sufficiently protected to provide enough size so as to incentivize the largest possible small orders to come to Alpha for their full fill.

Certainty of execution is the primary feature sought by small order routing agents and it's up to the exchange to negotiate that certainty with its market makers in order for the offering to succeed.

NBF appreciates the opportunity to comment on this significant development in the Canadian trading landscape.

We look forward to our continued participation in any further public consultation on these topics and our objective is to find solutions that are relevant for, and serve the needs of the Canadian market. NBF and its employees are willing to take a leadership role in this issue participating in consultations with investors, industry participants and the CSA.



Etienne Dubuc  
Managing Director  
Co-Head of Global Equity  
Derivatives and  
Head of Electronic Trading  
National Bank Financial Inc.



Patrick McEntyre, CFA  
Managing Director  
Institutional Equity Electronic  
Services & Trading  
National Bank Financial Inc.



Nicholas Comtois  
Director, Retail Trading Desks  
National Bank Financial Ltd.

Cc:

Judith Ménard, Vice-President and Chief Compliance Officer, National Bank Financial