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ITG Canada (ITG) would like to thank the Ontario Securities Commission (OSC) for this opportunity to comment on the proposed changes to the Alpha Exchange (ALPHA). .

ITG's thoughts on this proposal, and all market structure matters, are largely influenced by our aim to provide benefits to our natural customers in order to further foster healthy competitive markets and a positive, dynamic market structure.

In a similar vein to the OSC, ITG firmly believes that markets should be fair, competitive, transparent and practical in order to attract the greatest possible participation of natural investors. These are some of the hallmarks of robust Capital Markets.

While we appreciate the TMX Group's attempt to ensure retail interlisted flow remains within the Canadian markets, ITG is concerned that the Alpha proposal is designed to create benefits for intermediaries and retail dealers at the detriment of larger institutional investors, and achieves these benefits in a manner that directly contravenes National Instrument 21-101 5.8 and, in our view, the Canadian Competition Act.

Before we delve into a detailed discussion of our concerns with the proposal, we feel it is necessary to correct some important errors in the proposal itself. Most importantly, the proposal clearly states that part of its raison d'être is to stem the risk presented by institutional client flow being routed to U.S. wholesalers. It is our educated belief that the U.S. wholesaler's model is designed around attracting retail, not institutional flows, to trade against. By ensuring the flows are retail they are able to safely quote in greater size at tighter spreads than they would be if they were to quote against larger short term informed flows. If we are considering this proposal against some perceived threat, it is important that we understand the facts around such a threat.

Additionally, within the expected impact portion of the proposal, the TMX states that they expect the proposal to "require minimal changes by members and service vendors", which is at direct odds with their suggestions to us that we re-engineer our entire smart order router to limit the negative impact the changes will have on our performance. We believe the changes will have significant impact on almost all dealers and service vendors, and are at a loss to understand how the TMX can suggest otherwise. We feel it necessary when considering the potential cost versus benefit of this proposal to properly understand the significant cost to a large group of stakeholders.

Having cleared up these errors we will now explain why we believe the proposal will actually harm larger natural investors in Canada, and risks losing institutional flow to the U.S. markets.

The new Alpha design, as explained, will allow passive "post only" resting orders – of some undefined minimum size – the ability to fade should they see trading on another venue. Let's consider a simple example to explain this clearly. If, after implementation of the proposal, a large investor sees 1,000 shares of XYZ offered on TSX, Chi-X and Alpha at $20.00 and tries to buy all 3,000 shares they will almost certainly not be able to do so.

If they send the orders in a spray fashion at roughly the same time they will buy 1,000 shares on each of TSX and Chi-X, which will allow the liquidity provider on Alpha to see evidence of a larger order and have multiple milliseconds to fade their order.

If they try to time their orders to ensure they all arrive at the exact same time – a virtual impossibility given the random nature of the speed bump – they force the dealer to bypass any dark pools on the way to lit. If they try to send to MatchNow first, then time their orders, a partial fill on MatchNow would – due to their delaying the next leg to account for the Alpha speed bump – allow for liquidity fading on all markets. While the proposal states that milliseconds are insignificant to natural investor flow that is not true when intermediaries are given millisecond advantages to the detriment of said investors.

If we expand our example, and assume that Chi-X adds their own speed bump to CX2, in order to hold on to existing flows, the liquidity capture rate declines even further, and natural investors become even more frustrated in their inability to capture to visible quote. Assume for example that Alpha, CX2 and TSX are all offering 1000 shares of XYZ at $10, and both CX2 and Alpha have different, random speed bumps for active orders. How would a natural investor trying to buy 3,000 shares at $10 possibly capture that quote? We don't believe a suitable answer exists to this question.

As such, large participants are likely to see a deterioration of their liquidity capture in the Canadian markets. The TMX response to us on this point is to suggest that the liquidity they are missing on Alpha would not be there without the speed bump and, as such, larger participants are not being harmed. We strongly disagree with this argument for a variety of reasons. Firstly, Alpha currently makes up, on average, roughly 25% of the NBBO on TSX listed stocks. Should these orders persist on Alpha, after the change in fee model, they will become less available. Secondly, as we believe the protection granted by a speed bump will capture flow from existing taker / maker markets, that liquidity will also now be less accessible to larger trades.

The TMX has also suggested that the notion of a minimum size on orders to be eligible to bypass the speed bump will improve the market, and make up for some of the missed liquidity. It is impossible for us to comment on the validity of this argument as they haven't given any details around where these minimum threshholds will be set. We do believe that the minimum size needs to be set at a level that ensures liquidity on Alpha increases, to account for the unprecedented advantage being bestowed on the liquidity providers. Our analysis of contribution to the NBBO demonstrates that in October of this year, for the entire universe of TSX listed stocks, Alpha's contribution to the NBBO was 25% on average. As such, it is reasonable to assume that any minimum size to enjoy the ability to

fade a quote must be set at a level that is greater than 25% of the average size of the NBBO for any given listing. We would be disappointed to see the minimum size set at based on the order disclosure levels of just 5,000 shares, as we don't believe the two numbers are directly related.

What is most surprising to us, is that the proposal appears to incent flow to bypass potential better priced (mid point) hidden orders on other venues – which would contravene dealer and buyside best execution obligations, and appears to potentially violate Canadian competition law. The notion that, by design, the liquidity is only available to firms giving Alpha first look is troubling to say the least. Beyond this, the imposition of a minimum size to bypass the speed bump limits the ability of participants to split their passive order among venues, without encountering a latency tax. Given the dominate position of TMX Group in the Canadian equity trading vertical, we view such anti competitive behaviours to be extremely problematic.

Furthermore, as the design treats orders that are "post only" differently than IOC orders that attempt to take liquidity and move on, the design appears to contravene NI 21-101 5.8, which states "A marketplace must not impose terms that have the effect of discriminating between orders that are routed to the marketplace and orders that are entered on that marketplace for execution". We question why a 'post only' order type is even allowed on a taker maker style market, as it does not offer the cost control originally used to justify such order types. Instead the post only order type allows for traders to send an order that will reject if the market is moving in their direction – giving them a free out in the event they have misread the very short term supply demand imbalance dynamics. This is effectively a free option that is being underwritten by the remainder of the participants in the market. We believe such orders are of questionable value on all markets, and are demonstrably harmful on taker maker markets, and suggest the regulators disallow such an offering.

Having highlighted what we believe is a flawed design that will likely degrade the ability of institutional orders to capture visible liquidity in the Canadian market, and incent non-Canadian domiciled institutions to route their orders on interlisted names to U.S. dealers, we want to discuss the true cost of the initiative. The TMX Group is going to run this proposed model on Alpha, which has yet to be migrated to the Quantum XA engine, rather than on Select, which has already been migrated. As such, the dealer community will have to undergo a 5th trading engine migration by TMX group in less than 24 months. After the migration,

Alpha will adopt a fee schedule that will be similar to that currently on offer at Select, and Select will be decommissioned. The added cost and systemic risk, largely underwritten by TMX participants is both unnecessary and significant.

On top of this, the opportunity cost of delays in real market improving mechanisms, like a cancel on disconnect feature that ignores orders in the MOC facility, constrains the ability of the dealer community to limit exposure to TMX system outages.

We don't believe that TMX Group would be forcing us to undergo this unnecessary migration if Alpha were not able to charge oversized rents for its real time market data. On average, in October 2014, ITG determined that Alpha accounted for 25% of stock on the NBBO for TSX listed stocks. The Taker Maker markets (CX2, Omega and Select) all counted for much less, with CX2 leading the way at roughly 5% of the volume on the NBBO. Should Alpha, after switching to a Taker Maker pricing model see their contribution to price discovery slip to similar levels, we would strongly urge the regulators to ensure their data fees are reduced to reflect such a drop in contribution. (Note the fees currently in place at Alpha were actually set when Alpha had ~ 20% market share in TSX listed names, a level more than twice their current run rate).

While we appreciate the TMX Group's concerns that Canadian dealers may choose to route flow to the U.S. markets, in order to achieve substantially better economics, we do not believe that a system that grants liquidity providers significant advantages over liquidity seeking natural investors is a viable solution. The TMX has suggested the proposal is similar to offerings at ParFX, EBS, IEX and those proposed by Aequitas. We disagree. The offerings at these other venues do not bestow advantages to intermediaries over natural investors, but rather are designed to ensure natural investors are well served. To suggest they are the same, or that the Alpha proposal should be approved based on the Aequitas approval is intellectually negligent. We are advocates of marketplace solutions that encourage greater direct matching of contra natural investor flows, but are not advocates of using similar style technologies to increase marketplace intermediation.

In conclusion we believe the Alpha proposal will result in large orders receiving inferior fill quality on Canadian markets, will unfairly harm the competitiveness of mid-point matching dark pools like MatchNow, and risk incenting larger non Canadian domiciled investors to route U.S. / Canadian interlisted names to U.S.

dealers for execution. Further, we believe the implementation creates an unfair burden on Canadian market participants in order to protect Alpha data fees, delays key system improvements by TMX and encourages other markets to create speed bumps to the advantage of marginal intermediary flow.

The markets are supposed to be designed to ensure the most efficient transfer of risk by end investors, not to ensure marginal volume participants are granted advantages to capture lesser informed flow.

If the industry truly believes that dealers are sending flow south strictly for their own economic purposes, rather than to achieve price or liquidity improvement, we suggest an industry working group be formed to study the issue and present solutions that fair to all investors.

We strongly urge the CSA and Canadian Competition Bureau to deny the proposal in its current state, and make clear to all markets that systems designed entirely for the benefit of intermediaries are not acceptable.

As always, we thank the CSA for giving us this ability to share our views on the proposed changes at Alpha, and we offer up our continued consultation on this matter.

Sincerely

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