April 3, 2023

Via email

Joanne Sanci
Senior Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

cc:
Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario, M5H 3S8
Email: marketregulation@osc.gov.on.ca

Dear Sirs/Mesdames:

Re: Alpha Exchange Inc. – Notice of Proposed Amendments and Request for Comments

This comment letter is being submitted by RBC Dominion Securities Inc. on behalf of RBC Wealth Management ("RBC" or "we"). We are writing in response to the *Alpha Exchange Inc. – Notice of Proposed Amendments and Request for Comments* published by Alpha Exchange Inc. on March 2, 2023 (the "Proposed Amendments"). RBC appreciates this opportunity to comment on the Proposed Amendments; our comments are below.

General Comments

RBC commends the initiatives by marketplaces that enable market participants to interact in innovative ways. We support the general concept of the programs or initiatives that promote enhanced transparency, visibility and access to products for investors.

Alpha Dark - Smart Peg

The benefits of the proposed Alpha-X and Alpha DRK updates heavily favour the resting/ liquidity provision side of the trade. The nature of retail flow suggests it will exclusively be on the active/ liquidity taking side of transactions on this venue. This creates a win/lose scenario where orders for retail investors will frequently be on the losing side of the trade. The Proposed Amendments refer to this risk in the description of the Alpha DRK 'discretionary' price -which it claims will execute at the 'best (least aggressive) price possible.' For the contra side of these trades, this translates into the worst (most aggressive) price possible. This order type effectively allows the exchange to pick winners and losers, by promoting benefits solely to resting orders. The price information of incoming marketable, liquidity taking orders is taken into account by the exchange, whereby the price of the trade is based on which outcome is in the liquidity provider's favour.

In addition, active orders may be disadvantaged while attempting to seek price improvement and best execution in Alpha DRK. Achieving the best outcome with this proposed dark model would require sequential routing to multiple price levels if the liquidity taking order is not fully satisfied at its initial limit price. The unintended consequence is to create material delays that could ultimately have a negative effect on the final execution price. Further, the displayed quote / NBBO could fade during this timeframe. In addition, other participants would be able to trade ahead of the liquidity taking order.

For illustration purposes, below is an example of an order being routed if the Proposed Amendments proceed as planned.

In the following scenario, the order book is as follows:

NBBO: $10.00 / $10.10
NBBO Midpoint: $10.05

Client order: Sell @ MKT

Child Order	Order Type	Limit	Added Latency	Comments
1	IOC	$10.05	Minimum 10ms	Midpoint
2	IOC	$10.04	Minimum 10ms	Min Improvement +$0.03
3	IOC	$10.03	Minimum 10ms	Min Improvement +$0.02
4	IOC	$10.02	Minimum 10ms	Min Improvement +$0.01
5	IOC	$10.01	Minimum 10ms	Min Improvement
6	IOC (other Dark Book)	$10.01	Min 3ms per (approx.)	Midpoint + Min improvement
7	Spray Lit Quote	$10.00		

Based on the example above, we note the following observations and potential risks:

- The delays in the example above exclude additional latencies incurred by creating and routing multiple orders from the smart order router to the trading venues.
- The wider the spread / NBBO, the more child orders would need to be created and routed, incurring even more delays.
- If a liquidity taking order receives executions sequentially at multiple price levels on this venue, the pattern could create information leakage about an aggressive order being executed, which may result in liquidity providers repricing their other hidden and displayed orders which could result in market impact and/or potentially sub-optimal prices for investors.
- If the NBB moves lower at any time during this sequence, it adds execution risk. If the NBB moves lower before the liquidity taking order is fully executed, the order may not be executed at prices that may have been available when the order was initially received by the broker.
- If a broker was to seek all possible PI on venues with non-displayed orders, they would also need to include all other dark venues adding complexity in routing.
- If adopted as proposed, this change would require significant resources and development work for brokers, as well as introducing additional complexity to the industry which cannot be addressed as of the implementation timing.

Alpha-X Smart Limit

While the Alpha-X Smart limit provides benefits to liquidity providing orders, retail clients will likely not be able to take advantage of such benefits. By facilitating quote fading, the Smart Limit feature will have negative impacts on active / liquidity taking orders. Retail investors rely on the size and price of the NBBO to assess the quality of the executions they receive. Adding more facilities to enable quote fade can cause negative outcomes and confusion which leads to a lack of investor confidence. Managing different latency between lit venues would require highly sophisticated technology that may not be available to all firms.

Direct consultation with a diverse set of market participants is essential to creating a healthy ecosystem. This is a critical step in striking the balance between innovation and complexity, competition and fragmentation when approving new trading venues and order types. We believe that these order types, as proposed, would benefit liquidity providers at a significant expense to liquidity takers, including retail investors.

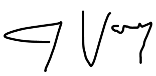
If approved, the new TMX books will be categorized as unprotected. However, this does not give market participants the ability to completely ignore them while fulfilling their best execution obligations. If a broker is truly seeking best execution, they must consider all venues as potential sources of liquidity in an effort to provide clients with the very best possible prices available. Unprotected markets require consideration and therefore add development work and complexity to routing decisions.

To help determine the next steps for the Proposed Amendments with a focus on retail investors, we suggest that the consultation include consideration of the following questions:

- Do these order types strike an appropriate risk / reward balance for investors?
- Is the price improvement to liquidity providers worth the increased cost to liquidity takers, including retail investors?
- How can market participants and regulators measure the accuracy and benefits of the QDS functionality? Will the formula be disclosed? Will members and regulators be informed of changes to the formula and the rationale for them?
- Does the approval of new trading functionality on an unprotected venue encourage protected venues to adopt similar models? Could this have unintended consequences?

Conclusion

We appreciate the opportunity to provide our comments and welcome the opportunity to discuss the foregoing with you in further detail. If you have any questions or require further information, please do not hesitate to contact the undersigned.



Jeff Varey
Vice President, Wealth Management Equity Markets
RBC Dominion Securities Inc.