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VIA E-MAIL & REGULAR MAIL

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Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice,
Government of the Northwest Territories
Nova Scotia Securities Commission
Registrar of Securities, Legal Registries Division,
Department of Justice, Government of Nunavut
Ontario Securities Commission
Prince Edward Island Securities Office
Saskatchewan Financial Services Commission
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c/o Mr. John Stevenson, Secretary
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Madame Anne-Marie Beaudoin
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Dear Members of the Canadian Securities Administrators,

Re: Request for Comments on Proposed Amendments to National Instrument 21-101 Marketplace Operation, Companion Policy 21-101CP, National Instrument 23-101 Trading Rules and Companion Policy 23-101CP

TSX Group Inc. welcomes the opportunity to comment on behalf of both Toronto Stock Exchange ("TSX") and TSX Venture Exchange ("TSX Venture") (collectively, the "Exchanges") on the proposed amendments to National Instrument 21-101 Marketplace Operation ("NI 21-101"), Companion Policy 21-101CP ("21-101CP"), National Instrument 23-101 Trading Rules ("NI 23-101") and Companion Policy 23-101CP ("23-101CP), as published by the Canadian Securities Administrators (the "CSA") on July 14, 2006 (collectively, the "Proposed Amendments").

All capitalized terms have the same meanings as defined in NI 21-101 and NI 23-101**,** unless otherwise defined in this letter.

I. GENERAL COMMENTS

Market for Equity Securities

With respect to the market for equity securities, the Exchanges take the position that the "playing field" should be level for all market participants. Any changes must not create an advantage for any specific liquidity provider or provide an arbitrage opportunity for orders and trades to flow to specific venue types.

We have commented previously on obligations of market participants to their clients and marketplaces in a multiple marketplace environment. We continue to believe our views, which are summarized below, remain valid:

1. Clarification of the obligations of marketplace participants to their clients (best execution) and to marketplaces (trade through) must be done such that Canada's markets remain competitive on a global basis;

2. Best execution obligations are the responsibility of all marketplace participants;

3. Retail investors contribute to the price discovery mechanism and their orders must be awarded the fair treatment and certainty of execution that currently exists;

4. The costs to Canada's capital markets with respect to best execution and trade through obligations must not exceed the benefits to marketplace participants; and

5. As is the case today, all better priced orders should be protected as a "top of book" solution will result in an inferior outcome for investors.

Market for Government Debt Securities and Corporate Debt Securities

With respect to the market for government debt securities and corporate debt securities (collectively, the "Fixed Income Market"), we take the position that the "playing field" should be level for all market participants. Any changes must not create an advantage for any specific liquidity provider or provide an arbitrage opportunity for "orders" and trades to flow to specific venue types.

Based on industry dialogue, the Exchanges believe that the institutional market is well served by the current market information sources, and is able to achieve execution requirements and meet investment mandates based the currently available information.

However, the Exchanges believe that there is a need for retail investors to gain access to relevant pre-trade transparency information and "decision support" content, including disclosure of mark-up and commission structures for sell-side participants, educational materials, risk disclosure materials and documents outlining appropriate investment recommendations and strategies. Based on industry dialogue, the Exchanges believe that pre-trade transparency provided to the retail investor participants combined with "orders" and post-trade information provided to the regulators is a balanced solution that meets the pressing requirements of

meeting retail transparency needs and giving regulatory bodies a view of market activity. The Exchanges note that the definition of the term “orders” may need to be changed to be reflective of the functioning of the various liquidity venues and execution methods in the Fixed Income Market. That is, the definition of “orders” must be sensitive and suitable to the various execution venue types and methods. We submit that the existing NI 21-101 definition of orders may not be wholly suitable for the Fixed Income Market and that further study should be undertaken.

The Exchanges understand that the experience with “TRACE” in the United States has not been helpful for retail transparency in the United States but has proved to be a useful tool for the regulators to ensure dealers are fair with clients. Any appropriate retail solutions must take into account potential impacts on institutional participants who in many cases are transacting on behalf of retail investors interests (including mutual funds, investment pools, pension funds, education savings funds, and exchange traded funds). As such, the Exchanges recommend further study on an appropriate solution for retail investor transparency.

We also believe there is a need for improved information flow to regulatory bodies to increase confidence that the market is functioning on an appropriate basis. This information will give regulators the ability to ensure that the interests of all market participants are protected in a balanced way. However, we are concerned regarding the potential costs and implementation timeframe of mandatory reporting requirements to the regulators or a regulation services provider.

The Exchanges believe that a comprehensive voluntary multi-dealer non-attributed best bid/offer pre-trade transparency solution represents an approach that empowers a wide spectrum of market participants, protects liquidity providers’ interests and increases transparency and information flows in the Fixed Income Market. With the advent of multi-asset approaches to position taking and investment decisions, increased pre-trade transparency will ensure more effective investment and risk decisions. This will have positive spill-over benefits into other areas including equities versus fixed income asset allocation, credit default probabilities, valuation of collateral for repurchase, and security lending purposes. To a large extent, existing private sector industry information sources, such as those available from CanDeal.ca Inc. (“CanDeal”), have achieved the goal of pre-trade transparency. With 12 of the 13 primary dealers contributing continuous pricing information on a broad range of benchmark securities, CanDeal has taken a leading position in increasing transparency in the Fixed Income Market.

The Exchanges believe that the existing content in the market is sufficient for a significant degree of retail trade transparency to be attained and that distribution of the content and access to the content are the key factors in determining whether the appropriate level of transparency has been achieved. In support of these key factors, the Exchanges have taken a number of steps in conjunction with CanDeal including adding snapshot Government of Canada benchmark securities to the tsx.com website and featuring the content on the front landing page of the tsx.com website. TSX.com is one of the most visited financial information sites in Canada with over 850,000 unique visitors per month. Through the combination of (i) the Government of Canada benchmark securities, (ii) the price and order information on relevant Exchange Traded Funds traded on the TSX, and (iii) the S&P/TSX Canadian Bond Index information, we have provided retail investors with industry leading content. Through evolution, the marketplace has formed and implemented the transparency tools needed to meet the needs of investors. We believe that the trend to increased transparency that we have seen over the past 5 years will continue at an increasingly rapid rate in the future.

To date, alternative sources of Information have had limited distribution via a subset of market data vendors that typically reach the institutional market. The Exchanges believe that a broadly based distribution strategy amongst all market data vendors and web portals increases access to content, ensures broad distribution and enhances resultant transparency for retail investors.

It is important to continue to promote a competitive environment for the Fixed Income Market driven by private sector initiatives. These initiatives have either met or exceeded the requirements of many marketplace participants including institutional "buy side" participants who have stated they have an information advantage over dealers in the marketplace. Solutions that work in other jurisdictions should not be assumed to be the right solutions for the Fixed Income Market. Imported structures and solutions that bring structural change may cause damage to the marketplace if implemented without careful study.

To further ensure a level playing field for all market participants, we believe that any synthetic or derivative type instruments, whether traded on or off a recognized exchange that create an economic or risk exposure that is similar to a fixed income instrument (as defined in the relevant NI 21-101 and NI 23-101), must be subject to the same reporting and transparency requirements of the equivalent cash instruments. To ensure clarity, the Exchanges believe these requirements should also apply to the "Canadian Bond" and "Money Market" futures instruments currently listed on the Bourse de Montreal. Furthermore, the Exchanges advocate the same pre-trade transparency requirements for all cash, derivative and synthetic instruments with "orders" and post-trade information only being sent to the regulators.

II. REQUEST FOR COMMENTS ON THE PROPOSED AMENDMENT

A. Transparency for Government Debt Securities

1. Proposed approach - phased-in approach for transparency

Please see our comments in "Part I. General Comments – Market for Government Debt Securities and Corporate Debt Securities" above.

2. Alternatives considered

(a) Extension of Exemption

The Exchanges do not believe that an extension of the existing exemption in full represents a balanced approach to the twin goals of ensuring market functionality and liquidity along with enabling an appropriate level of transparency and information flows to occur. Rather, we advocate an extension of the existing exemptions only with respect to institutional pre-trade, "orders" and trades of 5 years in length. During this extension period, we propose that:

(i) a retail transparency solution that does not significantly impact the functioning of the institutional marketplace be studied, agreed on and implemented by June 30, 2008;

(ii) the regulators or regulation service provider gain access to relevant "orders" and post-trade information in order to analyze and monitor that an appropriate level of Fixed Income Market transparency is in place; and

(iii) pursuant to instruments such as IDA Policy #5 and #5B along with the guidance expressed in 21-101CP, the CSA emphasize to the industry that (a) progress in transparency is expected in the marketplace, (b) the solutions must come from the continuation of private sector innovations and (c) access to information is key in fostering the appropriate degree of transparency in the marketplace.

(b) Full Transparency

We advocate a move to the appropriate level of transparency based on the current evolution of the market. We do not advocate a move to full transparency at this time. If the CSA contemplates full transparency, it should be on a representative list of fixed income securities incorporating: a multi-dealer concept for pre-trade transparency; a restricted cap on "orders"; trade reporting incorporating reporting up to a certain size of trade (the Exchanges recommend a $100,000 total trade value cap priced on a "without accrued interest" basis); and no reporting requirement (except to regulators) on "orders" and trades with size above the relevant cap.

(c) Permanent Exemption

The Exchanges do not support a permanent exemption based on the existing policies as per our response in Part II - A.2(a) above.

Specific Request for Comment

Question #1

Should there be a mandatory requirement to report and disseminate information related to designated government debt securities? What are the benefits and disadvantages of this and the alternative approaches?

Yes, the Exchanges believe there should be a mandatory requirement to report and disseminate information related to designated government debt securities on a pre-trade basis within the context of relevance to retail market participants but within the context of our response above in Part II - A.2(a)(i) above. We propose that the Information Processor in consultation with the industry and regulators determine the relevant securities and required information for the retail market participants. Regulators would receive information on an "orders" and post-trade basis. Distribution and access to the information by the retail market participants are crucial in ensuring that effective retail market transparency is achieved.

Question #2

Should dealers be subject to order and/or trade transparency requirements for government fixed income securities? If so, should they be required to report order information, trade data or both?

Consistent with our previously stated position, the Exchanges believe that all market participants should be subject to the same order and/or trade transparency requirements regardless of execution method and venue. We believe that market participants should

participate on a voluntary basis in a multi-dealer pre-trade transparency information solution appropriate for participants, including ensuring appropriate distribution and access, while providing "orders" and post-trade information to regulators for the purposes of ensuring fair market operation. We see the provision of "orders" and post trade information to regulators as a positive step for regulation and the overall market. However, the Exchanges are concerned regarding the costs to implement and report "orders" and post trade information and the expectations of the regulators as to which industry participants will pay for implementation of order and post-trade reporting.

Question #3

What type of pre-trade information should be disseminated? Should it include indications of interest?

Indications of Interest ("IOIs") should not be included in the pre-trade information until such time as the industry agrees on what constitutes an IOI and that the inclusion of IOI information does not prejudice any execution venue type. Due to the expansion of technology, IOI's are expressed and transmitted in many forms including e-mail, instant messaging, proprietary networks, and telephone. The question of what is an IOI needs to be answered (in the context of standard industry practice and marketplace requirements) before IOIs are incorporated into any mandated data requirements.

Question #4:

Are the reporting timelines appropriate – i.e. order information in real time and trade information within one hour of the time of the trade?

We believe that the collective interests of the Fixed Income Market have been and will continue to be best served by a voluntary pre-trade transparency solution. The Exchanges believe that "orders" and post-trade execution information should be provided to regulators and not to market participants. For the retail marketplace, in deciding on fixed income investing, the key pieces of information are the current bid/ask price in the market on the specific instrument(s) under consideration for execution and the current price on the relevant benchmark(s) to that instrument(s), along with the relevant "spread" information. With such information, investors can see the reward for risk proposition of the investment. Post trade information is of limited value in the Fixed Income Market and can actually be misleading to market participants due to the lack of liquidity in a number of securities (for example, the price of the last trade may not be reflective of the current market conditions).

The Exchanges suggest that after an appropriate period of time has passed after implementing the above solution, the regulators analyse "order" and post-trade information to determine whether the pre-trade transparency solution has achieved the required level of transparency. If not, the regulators can expand the pre-trade transparency mandate or provide for incremental release of "order" and post-trade execution information.

Question #5:

Are the volume caps applicable to government fixed income securities set out in the Companion Policy to NI 21-101 adequate? Should there be further tiering of volume caps for the different types of government bond securities?

As stated previously, we do not advocate reporting "orders" and post-trade information into the marketplace. However, if the CSA decides to proceed with post-trade reporting, the Exchanges submit the following:

(i) The Exchanges believe that the proposed cap on designated government debt securities issued or guaranteed by the government of Canada should be significantly lower than $10 million total par value. It is expected that the trends seen in other asset classes of increasing trade velocity, decreasing order and execution size, slicing of orders, algorithms such as volume average pricing, time weighted pricing and multi-asset class trading strategies will lead to an increasing number of smaller orders. Further, the trend in Government Issuance is leading to lower floats available to trade and hence lower ticket sizes and dry periods of liquidity. As such, the Exchanges believe that the appropriate cap is $100,000 for designated government debt securities issued or guaranteed by the government of Canada. This will ensure that retail market participants will have visibility of the relevant order flow as an input in making their investing decisions while ensuring some protection of the interests of market makers and other institutional participants;

(ii) The Exchanges believe that the appropriate cap for other government debt securities that do not meet the requirements in (iii) below be also set at $100,000; and

(iii) The Exchanges believes that due to the broad nature of the definition of "government debt security" (we note that the Proposed Amendments would further expand this definition to include "Municipal"), these specific security types should be subject to a cap of $50,000 total par value per trade. Since many of the issues that will be captured are of very small size and/or are "buy and hold" investments and thus trade very thinly, we believe that the $2 million proposed cap is too high and a further tiering is desirable to meet the goals of ensuring continued market liquidity and transparency.

B. Transparency for Corporate Debt Securities

Specific Request for Comment

Question #6:

Should we require pre-trade transparency for corporate fixed income securities? If so, should the requirements be applicable to marketplaces only or should they also apply to dealers?

Any requirements for pre-trade transparency that are implemented have to be within the context of a level playing field for all "sell-side" participants including dealers, marketplaces and inter-dealer brokers.

We believe that a voluntary multi-dealer sourced non-attributed best bid/ask price on corporate fixed income securities would be the best balanced solution to the needs of the market participants at this stage of the marketplace's evolution. This outcome would provide market participants with a clear and accurate consensus price level. Market participants would then be able to use this information to interact with the appropriate source of liquidity and negotiate a reasonable price for the proposed transaction. With multi-dealer sourcing (we suggest a minimum of 3 liquidity providers participating in order to publish a best bid/ask price at a per security level), the opportunities for "gaming" pricing will be reduced; liquidity providers will benefit from having access to a "reference" price both for execution management, risk position, and capital adequacy purposes; and sell side participants will be free to post quality pricing on a range of corporate fixed income securities on an anonymous basis. As well, spread information should be calculated and published on corporate fixed income securities to enable investors to determine how much they are being paid for taking on risk compared to the Government benchmark securities.

Question #7:

Should the time for reporting the trades be reduced (for example, should all trades be reported and disseminated in real time)?

The Exchanges believe that the collective interests of the Fixed Income Market are best served by a pre-trade transparency solution. The Exchanges believe that "orders" and post-trade execution information should be provided to regulators and not to market participants. The key pieces of information in deciding on fixed income information are the current price in the market on the specific instrument(s) under consideration for execution and the current price on the relevant benchmark(s) to that instrument(s). Post trade information is of limited value in the fixed income marketplace and can actually be misleading to market participants due to the lack of liquidity in a number of securities (for example, the price of the last trade may not be reflective of the current market conditions).

C. Designated Fixed Income Securities

Specific Request for Comment

Question #8:

Has the process for designating benchmark corporate fixed income securities been effective? Please explain your response.

The Exchanges believe the existing process has been effective in designating benchmark corporate fixed income securities. However, the process would benefit from increased frequency scope of security selection to a monthly basis to ensure any new and reopened issuances are taken into account in the selection process.

Question #9:

Has there been sufficient progress, both regulatory and industry-driven, regarding fixed income transparency to date? For retail investors? For large and small institutional investors?

As noted previously, the Exchanges believe, based on industry feedback and discussion, that institutional investors have been able to obtain (via single dealer and multi-dealer marketplace solutions) a level of information and insight that allows them to meet execution obligations and investment mandate requirements. The Exchanges believe on the whole that there is a reasonable balance in the market that allows for liquidity to thrive and allows for a sufficient level of transparency to ensure protection of the institutional investors interests. "Buy side" firms have not indicated that they have an informational disadvantage in the marketplace. Further, during the meetings of the Bond Market Transparency Committee, the "buy side" was well represented and did not suggest in any way that they had an informational disadvantage.

However, the Exchanges do not believe that the retail investor is well served by the current state of fixed income transparency. We believe that there is a need for retail investors to gain access to relevant pre-trade transparency information and decision support content including disclosure of mark-up and commission structures for sell-side participants, educational materials, risk disclosure materials and documents outlining appropriate investment recommendations and strategies. In order to ensure all relevant interests are taken into account, the Exchanges propose implementation of a retail solution as per our response in Part II - A.2(a)(i) above.

Distribution and access to the content is critical to improving retail investor fixed income transparency. The content needs to be made available on an economically reasonable basis to retail investors in order to be an effective solution. The Exchanges believe that a broadly based distribution strategy amongst all market data vendors and web portals increases access to content, ensures broad distribution and enhances resultant transparency for retail investors.

D. Electronic Audit Trail Requirements

In the spirit of addressing the vision of the CSA and the immediate need for Market Regulation Services Inc. ("RS") to obtain client identifiers and linkages to information, the Exchanges would like to propose a more tactical and market-driven solution to address equity securities audit trail requirements.

The Exchanges propose that there is a practical approach to enhancing market regulation and investigation in the Canadian equity marketplace by improving the electronic audit trail of transactions. While we support the efforts of the regulators through the TREATS initiative and have provided a comprehensive response to the CSA Request for Proposal, an incremental approach is also possible which can address immediate requirements that will help foster improved transparency for regulators, investor confidence and overall market integrity.

The Exchanges would like industry participants to consider implementing a more tactical and market driven method in the interim that will be more immediately measurable in terms of improving the quality and timeliness of electronic audit trail information. Also, by leveraging

current industry standard processes for equities, the overall impact to the industry should be less by focusing specifically on the requirements for a single asset class. This model will also address key RS requirements for facilitating market regulation for the equities marketplace in a manner that leverages existing regulatory systems and surveillance and investigation practices.

The Exchanges advocate evaluating the following proposed pragmatic approach with industry participants as an initial tactical solution to facilitate improved regulation of the equity capital markets. This should improve transparency of order and trade information for market regulation purposes and foster more timely and effective market surveillance and investigations.

For fully electronic retail orders, it is recommended that additional data elements be passed directly to RS via the equity marketplace as this information is currently contained in the order origination systems. For orders that are grouped or where only partial system integration or manual handling is the norm, additional data elements at the point where orders are sent to the equity marketplace should be sufficient as an intermediate measure (rather than carrying all additional proposed content throughout a dealer's workflow and systems).

This data should include an account identifier (or unique identifier) and an originating timestamp attached to the equity order prior to submission to the marketplace. Additional details such as sub-account identifiers, original order numbers (including cancelled and changed orders), and the marking of grouped or bunched orders would also be useful but not immediately required. However, this information should be stored by the dealers and made available to the regulators on an as requested basis.

As is the case with the comprehensive TREATS Committee recommendations, implementation of this pragmatic approach can be phased in by trading model (for example, electronic, manual, or internal handling) contemplating each dealer's ability to provide this detail using existing workflows and technologies.

The Exchanges would like to act as catalyst to improve audit trail transparency in a practical manner by providing the ability to report this information via its order-entry feeds (which are currently provided to RS). The Exchanges believe that this approach will demonstrate that additional audit trail information provided via this method will facilitate improved market regulation and overall market integrity. It will also mirror the U.S. approach of managing audit trail requirements by marketplace and SRO, and does not assume that managing all regulatory audit trail requirements for all asset classes will create capital market synergies and economies of scale.

Industry consultation would be required as to how best to accommodate this approach with the Canadian services bureaus and trading system vendors and firms. Consideration must also be given to account identifier naming conventions (i.e. whether this is necessary or whether the broker number plus their account identifier is sufficient) and how to manage privacy concerns.

As noted in the TREATS committee recommendation, dealers should also improve their service level agreements with service bureaus and trading system vendors to improve the provision of timely and accurate data to regulators.

The Exchanges would like to receive feedback on the above approach from industry participants.

E. Clarification of Best Execution and Other Obligations in a Multiple Marketplace Environment

For clarity, the Exchanges comments in this section refer to Equity Securities only.

The Exchanges have commented previously on obligations of market participants to their clients and marketplaces in a multiple marketplace environment. Specifically, in a letter dated April 28, 2006 to the Autorite des marches financiers (AMF), the Ontario Securities Commission, the Alberta Securities Commission and the British Columbia Securities Commission, the Exchanges outlined their proposal for a Canadian trade-through framework: The proposal is set out below:

> "The proposed framework is based on the following key principles which are vital in the Canadian trading context:
> 1. The Canadian trade-through solution must ensure that Canada's markets remain competitive on a global basis.
> 2. Retail investors contribute to the price discovery mechanism and their orders must be awarded the fair treatment and certainty of execution that currently exists.
> 3. The costs to Canada's capital markets of any new framework must not exceed the benefits to marketplace participants.
> 4. Best price is the responsibility of all marketplace participants – both those entering the orders and, intra-marketplace, the marketplaces themselves.
> 5. All better priced orders should be protected (as is the case today) because a "top of book" solution will lead to an inferior outcome for investors.
>
> Marketplace participants are currently asking for guidance on how they will be required to execute their best-price obligation once securities are traded across Canadian marketplaces. We believe that market forces surrounding the Canadian equities market will efficiently move participants to the marketplace with the best price discovery. As an informal discipline, marketplace participants and subscribers alike will move to the best liquidity offered.
>
> **Principles Underlying Equities Proposal**
>
> **Global Competition**
>
> It is imperative that the Canadian trade-through solution ensures that Canada remains competitive on a global scale. In fact, one objective of Canadian trade-through protection should be to increase the competitiveness of the Canadian market relative to the U.S. market. Merely imposing a U.S.-style solution such as Reg NMS on Canadian participants is not practical and will not achieve this objective.
>
> Toronto Stock Exchange currently competes daily with the New York Stock Exchange and NASDAQ – two of the largest exchanges in the world. Canada's global competitors will continue to grow in size and become even more formidable. It is this competition that will encourage our markets to grow and meet the needs of domestic and foreign customers. Imposing latency in trading response times and extraordinary technology costs on marketplace participants will reduce Canada's competitiveness.

Retail-sized Order Flow

Toronto Stock Exchange and TSX Venture Exchange have stronger retail participation levels, and therefore better price discovery, than many other exchanges. Treatment of the retail investor is of the utmost importance to TSX Group. The retail investor, with small-sized orders, contributes to the price discovery mechanism of exchanges. Many other types of investors also add liquidity and enhance price discovery on marketplaces by providing small-sized order flow. These investors include portfolio traders, velocity traders, hedgers, pro traders, market makers, and algorithmic traders, many of which are providing institutional order flow. It is critical that the CSA recognize and support all investors that place small orders on Canadian marketplaces.

Costs Cannot Outweigh Benefits

The cost of integrating marketplaces in Canada in order to effect a marketplace solution to the trade-through obligation will be extremely high. Systems will need to be developed for a marketplace to marketplace connection, and these systems will need to be duplicated and then customized for each additional marketplace connection. The customization that will need to take place to allow for integration among marketplaces with distinct product offerings could be costly and time consuming. If all marketplaces in Canada are required to integrate regardless of the proportional amount of trading done on the marketplaces, then a new marketplace's cost of entry to the integrated system will be very high. This cost of early entry may serve as a barrier to entry since significant costs will be realized before the marketplace's model can be tested.

As well, implementing a participant-based solution by forcing participants to link to all Canadian visible marketplaces would impose considerable costs on participants. Forcing marketplace participants and ATS subscribers to access every marketplace in Canada, including those with minimal liquidity, would require order routing systems to be developed or purchased by every participant. It would also require participants to pay access fees to those marketplaces that they wouldn't otherwise connect to (whether those fees are paid directly to the marketplace or indirectly through a jitney arrangement), and would require ATS subscribers to obtain direct market access (2-501) accounts to exchanges, which they are not required to do today.

Both the marketplace obligation model and forced participant order routing will create indirect costs because latency will be introduced with either system. This latency in trade execution may become particularly costly to the Canadian market if trade execution in Canada is delayed relative to trade execution times in the U.S. The volume of northbound order flow on cross border interlisted stock will decrease as a response to the slower execution times.

Obligation on the Market Participant

The obligation not to trade-through better-priced orders is owed by a marketplace participant. The person entering the order must be responsible for the order. This is true even if the trade-through solution is imposed at the marketplace level. The trade-through obligation should be imposed on marketplace participants that trade directly on an exchange, subscribers to an ATS, and clients that trade by sponsored direct access on a

marketplace. It should also be a requirement of each individual marketplace to prohibit trade-throughs (that is, to ensure price priority) within its own marketplace.

Depth of Book Protection

A Canadian trade-through rule must ensure that all better-priced orders (that is, the full depth of book) are protected as they are today on Toronto Stock Exchange and TSX Venture Exchange. The Securities and Exchange Commission's decision, through Reg NMS, to protect only top of book reflects a concession in a country where, historically, trade-through protection was not a market principle.

The common goal of marketplaces is to have a strong price discovery mechanism and trades that occur at the true price of a security. This is done by having numerous orders lining the central order book with very tight spreads between the best bid and best ask prices, and very small gaps between the prices on each side of the central order book. When this scenario is achieved, the marketplace will have an excellent price discovery process and ample liquidity for its securities, which benefits all investors.

There is no reason why a bid that is one penny less than the best price should be traded through. Top of book protection does not eliminate the free-riding on limit orders that provide price discovery. It would be relatively easy to develop an algorithm that quotes one penny better for one board lot and 2 or 3 pennies inferior on 5 or 6 boardlots, thereby producing an order that receives an inferior volume-weighted average price on the overall order.

Proposal

Key Requirements
1. Individual marketplaces must not allow trade-throughs of better-priced orders within their own marketplace.
2. Participants and subscribers must not trade-through orders on marketplaces that the participant/subscriber has chosen to connect to.
3. When a marketplace reaches a critical mass in trading, it must integrate with other marketplaces that have achieved the critical mass.

Each marketplace should ensure that the Canadian standard of price priority is recognized internally, so that trade-throughs cannot occur within the marketplace. Until marketplaces are integrated, marketplace participants that choose to be connected to more than one visible marketplace will not be permitted to trade-through better-priced orders on those marketplaces. Similarly, if a subscriber to a visible ATS is also a direct access client of an exchange, the subscriber should not be permitted to trade-through better-priced orders on those marketplaces. As well, marketplace participants and ATS subscribers will be required to honour better-priced orders on the marketplaces with critical mass.

Participants and subscribers should not be forced to connect to a marketplace that has not reached a critical mass in trading. A participant/subscriber should not be found to be violating the price protection rule if it trades-through a better priced order that is posted on a marketplace without critical mass, where the participant/subscriber does not have direct trading access to that marketplace. After a marketplace reaches a critical mass in

trading, the participant/subscriber trade-through obligation to respect better-priced orders will be achieved by integrating the marketplaces that have critical mass.

Threshold

A marketplace should reach a critical mass in liquidity of the Canadian inter-listed securities that it trades before it integrates with other marketplaces to ensure trade-through protection. This will allow new marketplaces to grow through a start-up phase without having to incur the expense of linking to other marketplaces as a cost of entry.

We propose 10% to be a reasonable threshold. Until a marketplace has 10% of the market share in trading in Canada of its Canadian inter-listed securities on a trailing 12 month basis, marketplaces should not be required to integrate. Further deliberation is necessary to determine how market share should be defined for trade-through purposes. A combination of trading value and volume and number of trades may be appropriate.

The 10% threshold is a relevant measure because any amount less than this arguably is not enough liquidity to allow a participant to adequately fulfill its best execution obligations. As well, 10% of market share[1] is the measure currently used by Market Regulation Services Inc. to determine whether a contracting marketplace is entitled to nominate a director to the RS Board. Clearly the 10% threshold is seen by RS to connote a level of marketplace significance with which the privilege of board-level participation at RS is rewarded.

Phase-In

There should be a requirement for marketplaces to begin integration discussions before the 10% threshold is met because it may take a considerable length of time to integrate marketplaces. Once a marketplace's market share reaches 6.67%, marketplaces should be required to begin integration discussions. Within 90 days after discussions begin, the marketplaces should be required to formulate an initial plan for integration. So long as the market share remains at 6.67% or above, the marketplaces must work together to finalize their integration plan and develop the linking architecture and related requirements. Once the market share reaches 10%, the marketplaces must build the technology solution, which solution will need to be built within a specified time period."

F. Requirements for and Status of Information Processors for Debt and Equity

1. Equity

TSX Inc. has applied to be the Information Processor for equity securities. While the Exchanges still support the recommendations made by the TREATS Committee (as this process provided for involved industry representation and contemplation), the Exchanges also support efficient and effective capital markets and believe by leveraging TSX Inc.'s current capabilities as the Information Processor, industry costs and redundancies will be reduced.

2. Debt

TSX Inc. and CanDeal have applied to be the Information Processor for debt securities. The Exchanges support efficient and effective capital markets and believe by leveraging TSX Inc.'s

current capabilities, and in the specific case of the Information Processor, CanDeal's capabilities, industry costs and redundancies will be reduced.

G. Other Amendments

Set out below are our specific comments on certain of the Proposed Amendments.

1. NI 21-101

- deletion of the section exempting exchange-traded securities that are options or foreign exchange-traded securities that are options until January 1, 2007 so that transparency requirements will apply[1]. *The Exchanges have consistently advocated, with the spirit of ensuring a level playing field for all market participants, that no execution venue, including over the counter, dealer or any other marketplace, has a regulatory arbitrage advantage with respect to execution, information publication requirements and related aspects of the obligations of operating a marketplace.*

- amended requirements for the provision by inter-dealer bond broker of accurate and timely information regarding orders for designated government debt securities executed through the inter-dealer bond broker to an information processor[2]. *The Exchanges seek clarification whether this covers the non-electronic phone execution (for example, working an order) or other "work-up" methods.*

- addition of a section to require a marketplace to publish technology requirements for two months prior to operating and to provide testing facilities for one month prior[3]. *The Exchanges believe that the requirement of a marketplace to publish technology requirements for two months prior to operating is insufficient time for market participants to address their connectivity requirements to the marketplace. The Exchanges believe that a marketplace should publish technology requirements six months prior to operating. As an example of how current technology changes are handled, the Exchanges provide market participants with three months notice when a change is made to a data field in the STAMP messaging protocol, used by market participants to electronically route orders to the Exchanges.*

2. Forms 21-101F1, 21-101F2, 21-101F3, 21-101F4, 21-101F5 and 21-101F6

Form 21-101F5 amendments

- adding "including validation processes" at the end of subsection 2 of the description of Exhibit G[4]. *The Exchanges seek further information regarding the "data validation processes" as the Exchanges are concerned that such processes may add latency and/or costs to the design, implementation and operation of the System. The Exchanges would want the System to be fast, timely and accurate and would not want to disadvantage subscribers to the System with potentially increased latency and/or costs.*

[1] Proposed amendments to NI 21-101, section 7.5 and 21-101CP, subsection 9.1(5)
[2] Proposed amendments to NI 21-101, section 8.1(5)
[3] Proposed amendments to NI 21-101, section 12.3.
[4] Proposed amendments to Form 21-101F5, Part 2 Systems and Operations

- amending the last sentence of the description of Exhibit J[5]. *We believe that any processes implemented to resolve data integrity issues identified would have to be designed and implemented in such a way as to provide clear and concise information to subscribers to the System as to changes and resolutions to data that has already been transmitted. Likewise, providers that send information to the System would have to implement processes to resolve data integrity issues with their content that is identified by the information processor.*

3. Companion Policy 21-101

Amendments to 21-101CP

- deleting subsection 9.1(5)[6]. *To further ensure a level playing field for all market participants, the Exchanges believe that any synthetic or derivative type instruments, whether traded on or off a recognized exchange that create an economic or risk exposure that is similar to a fixed income instrument (as defined in the relevant NI 21-101 and NI 23-101), must be subject to the same reporting and transparency requirements of the equivalent cash instruments. To ensure clarity, the Exchanges believe this should also apply to the "Canadian Bond" and "Money Market" futures instruments currently listed on the Bourse de Montreal. Furthermore, the Exchanges advocate the same pre-trade transparency requirements for all cash, derivative and synthetic instruments with "orders" and post-trade information only being sent to the regulators.*

- Repealing and substituting 10.1(2)(b)[7]. *The Exchanges seek clarification regarding the requirement for details regarding "the type of counterparty".*

- Repealing and substituting subsection 10.1(2)(c)[8]. *The Exchanges seek clarification regarding the impact of section 10.1(2)(c), which provides for the satisfaction of certain requirements through the provision of information to an information vendor, where an Information Processor is in place.*

- Repealing and substituting subsection 10.1(3)(a)[9]. *The Exchanges seek clarification regarding the requirement for details regarding "the type of counterparty".*

- Repealing and substituting subsection 10.1(3)(c)[10]. *The Exchanges seek clarification regarding the impact of section 10.1(3)(c), which provides for the satisfaction of certain requirements through the provision of information to an information vendor, where an Information Processor is in place.*

[5] Proposed amendments to Form 21-101F5, Exhibit J
[6] Proposed amendments to Companion Policy 21-101CP, section 9.1(5)
[7] Proposed amendments to Companion Policy 21-101CP, section 10.1(2)(b)
[8] Proposed amendments to Companion Policy 21-101CP, section 10.1(2)(c)
[9] Proposed amendments to Companion Policy 21-101CP, section 10.1(3)(a)
[10] Proposed amendments to Companion Policy 21-101CP, section 10.1(3)(c)

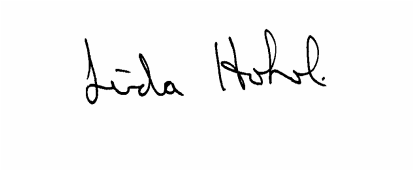
4. 23-101CP

- Clarification of best execution obligations of a dealer to take into consideration order information from all marketplaces and take steps to access orders[11]. *Please refer to our response provided above in Part II – E. Clarification of Best Execution and Other Obligations in a Multiple Marketplace Environment.*

Thank you for the opportunity to comment on the Proposed Amendments. As requested, we have included a diskette containing our submission. Should you wish to discuss any of the comments with us in more detail, we would be pleased to respond.

Sincerely,

Rik Parkhill
Executive Vice President
President, TSX Markets, Toronto Stock Exchange



Linda Hohol
President
TSX Venture Exchange

[11] Proposed amendments to Companion Policy NI 23-101CP, subsection 4.1(8)