

ALPHA EXCHANGE INC.

NOTICE OF PROPOSED FEE CHANGES AND REQUEST FOR COMMENTS

INTRODUCTION OF ALPHA LIQUIDITY PROVISION PROGRAM

Alpha Exchange Inc. ("TSX Alpha") is publishing this Notice of Proposed Amendments in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto".

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by October 1, 2018 to:

Catherine De Giusti
Director, Corporate, Securities & Transactions
TMX Group
100 Adelaide Street West
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

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

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by Commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of Commission staff's review and the Commission's approval.

Background

TSX Alpha is planning to introduce the Alpha Liquidity Provision (ALP) program which will provide TSX Alpha Exchange Members with an opportunity to earn reductions in their per share passive fee rate for trading on TSX Alpha when meeting the specified volume thresholds.

It is intended to promote better fill rates, larger fill sizes and lower trading costs for dealers that route their active order flow to TSX Alpha, by incenting quoted liquidity more continuously on TSX Alpha throughout the day and across more symbols.

The ALP program was initially announced on July 24, 2018 via TMX Equities Trading Notice 2018-021. Changes have been made to the proposed ALP program since initially announced. This notice requests comment on the revised details of the ALP program outlined in this document.

Details of proposed ALP program

The ALP program will allow a TSX Alpha Exchange Member (Exchange Member) to receive reductions in trading fees for liquidity provided under its or its clients' Trader IDs in non-ETFs where the combined passive traded volume in non-ETFs on TSX Alpha Exchange for the IDs for the month exceeds the specified % of total Canadian continuous traded volume (TCCV), according to the following schedule:

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 7	Tier 8
% TCCV Target	0.25%	0.50%	0.75%	1.00%	1.50%	2.25%	3.00%	3.75%
Per share reduction in liquidity providing fees for Non-ETFs	\$0.000025	\$0.00005	\$0.000075	\$0.0001	\$0.000125	\$0.00015	\$0.000175	\$0.0002

The specific details of the ALP program are as follows:

- Measurement against TCCV targets and the application of rate reductions will be done at the 'ALP ID Group' level.
- Each ALP ID Group must be pre-approved by TSX Alpha, and may be comprised of one or more Trader IDs.
- Approval of an ALP ID Group is subject to conformance of the ALP ID Group with the following general conditions:
 - (a) An Exchange Member may request the grouping of its Trader IDs, with the exception of Trader IDs associated with a routing arrangement (RA) or a direct electronic access (DEA) arrangement with a non-registrant client.
 - (b) Trader IDs associated with RAs or DEA arrangements referred to in (a) may be grouped together to comprise a single ALP ID Group for an RA or DEA client where that RA or DEA client determines the posting destination for non-marketable orders sent through the respective Trader IDs, or otherwise where the Trader IDs are associated with the same underlying client.
- The applicable reduction rate will be applied against all of the passive board lot volume in non-ETFs by the ALP ID Group for the month (and regardless of whether the traded passive volume was Post Only or non-Post Only).
- Only the ALP ID Group's passive traded board lot volume in non-ETFs on TSX Alpha Exchange will be used for calculating its % TCCV.
- TCCV is calculated by TSX Alpha and is determined based on combined Canadian continuous passive board lot trading volume in TSX-listed and TSXV-listed securities (other than ETFs, notes and debentures), excluding intentional crosses and opening and closing auctions, during standard continuous trading hours of 9:30 a.m. - 4:00 p.m.

Rationale and analysis

As noted above, the ALP program will provide Exchange Members with an opportunity to earn reductions in their per share passive fee rate for trading on TSX Alpha when meeting the specified volume thresholds.

It is intended to promote better fill rates, larger fill sizes and lower trading costs for dealers that route their active order flow to TSX Alpha, by incenting quoted liquidity more continuously on TSX Alpha throughout the day and across more symbols.

Below we are highlighting some additional considerations, some of which arose in connection with the originally announced proposal.

Accessibility to the program

The originally announced ALP program restricted participation to Trader IDs that were certified as representing the proprietary trading interests of an individual trader or proprietary trading desk of either the Exchange Member or a client. Under the current proposal for which comments are being sought, this restriction has been removed.

The current proposal expands eligibility for participation to all of an Exchange Member's Trader IDs regardless of the nature of the order flow, subject to certain parameters governing the grouping of IDs for the purposes of measurement and the application of fee reductions. The general objective of the conditions for the grouping of IDs is to allow for participation to be measured at the level at which control over the passive volume is reasonably exercised. The purpose of this is to reasonably align the incentive to provide passive liquidity on TSX Alpha with the level at which control over the posting destination is being exercised.

At the Exchange Member level, we propose to use IDs that are under routing arrangements (RA) or DEA arrangements as a proxy for the IDs over which an Exchange Member would not have control. This means that an Exchange Member may therefore group all of its non-DEA and non-RA IDs together as one Alpha ID Group, but may not include its DEA and RA IDs within that Alpha ID Group.

For the grouping of DEA IDs or IDs under an RA, the same general principle is applied. Trader IDs associated with RAs or DEA arrangements may be grouped together to comprise an ALP ID Group for a RA or DEA client where that RA or DEA client reasonably exercises control over the posting destination, or otherwise where the Trader IDs are associated with the same underlying client.

Exchange Members that wish to have their Trader IDs participate in the program will have to submit a form identifying what IDs it wishes be grouped together, and identifying whether the IDs are under: (1) an RA; (2) a DEA arrangement; or (3) neither. Where the Exchange Member is requesting the grouping together of IDs under an RA or under a DEA arrangement, it must also certify that the RA client or DEA client controls the posting destination for the passive order flow sent through the grouped IDs or that the IDs are associated with the same underlying client.

Impact in the context of industry concerns around segmentation

Any industry concerns regarding the perceived impact to market quality of any segmentation of order flow that might arise from the TSX Alpha trading model are separate and apart from this fee

proposal. The extent to which volumes on TSX Alpha might increase under this proposal and exacerbate any such perceptions is not relevant as increased activity on TSX Alpha can arise for any number of reasons – including as a result of a standard fee change, or because of increased interest in the TSX Alpha model (the driver of TSX Alpha's recent record market share highs).

As it relates specifically to this fee proposal, we do not believe that the model itself is a form of segmentation that raises public interest concerns. Participation in the ALP program is available to all, and participation across Alpha ID Groups is on reasonably similar terms.

Other changes since originally announced proposal

The originally announced ALP program also included a requirement for an agreement to be signed between TSX Alpha and the TSX Alpha Exchange Member. This has been removed. There is no need for any agreement to be signed, as all details related to the program as described in this notice will be included in the publicly available TSX Alpha fee schedule.

Expected Date of Implementation

The proposed ALP program is expected to take effect on November 1, 2018, at the earliest.

Expected Impact

We expect that the ALP program will help to incent quoted liquidity more continuously on TSX Alpha throughout the day and across more symbols. This should translate into better fill rates, larger fill sizes and lower trading costs for dealers that route their active order flow to TSX Alpha.

Expected Impact of Proposed Changes on the Exchange's Compliance with Ontario Securities Law

The proposed changes will not impact TSX Alpha's compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets.

Specifically in the context of fair access requirements, we note that the program is available to all TSX Alpha Exchange Members and the program applies the same principles for the grouping of Trader IDs across and within Exchange Members.

Participation in the program is also optional. Because the program is intended to incent passive liquidity, the discount applies only with respect to passive traded volume. As an inverted venue, passive traded volume on TSX Alpha is charged a fee. Participation in the program therefore first necessitates that an Exchange Member or its client has chosen to post on TSX Alpha and forgo a passive rebate that might otherwise be earned on another market.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments

Members and service vendors do not need to make any changes to accommodate the proposed fee changes. TSX Alpha will incorporate the program into its billing system so that the fees

charged and reported upon in existing billing summaries and detailed reports will reflect the discounted rates.

Do the Changes Currently Exist in Other Markets or Jurisdictions

While examples of liquidity provision incentive programs also exist in the US, we do not believe that commenters would consider these relevant in the context of this proposal.

The closest current example among Canadian equities marketplaces is reflected in the fee schedule applicable to TSX Market Makers. Currently, TSX Market Makers receive a higher passive rebate than applicable to non-Market Makers to help compensate TSX Market Makers for the cost of meeting their quoting obligations. Unrelated to their quoting obligations, TSX Market Makers also have the opportunity to receive a higher rebate (referred to as the Bonus Rate) where their passive traded volume for a symbol exceeds a specified threshold percent of TCCV for that symbol (currently set at 3% for Tier A stock and 8% for Tier B stock). The Bonus Rates provide TSX Market Makers with the opportunity to earn an additional rebate in the range of 3 to 5 mils per share. Although different in how the threshold and discounts are applied, it is worth noting that the ALP program is more broadly accessible than the TSX Market Maker Bonus Rates, which are only available to TSX Market Makers.

TSX also previously offered an Electronic Liquidity Provider program that provided discounted fees / additional rebates to pre-qualified liquidity providers. The TSX Electronic Liquidity Provider program restricted access to proprietary trading activity by traders / trading firms with experience in high frequency trading. It also imposed requirements for volume thresholds across a minimum number of symbols, and for a minimum passive:active ratio to be met in order to receive the preferential rates for the month. By comparison, the ALP program does not impose similar eligibility criteria or the same degree of performance conditions.

Finally, TSX previously offered volume tiering that provided fee discounts / additional rebates that were measured and applied at the Participating Organization (PO) level. In substance, the ALP program is also a volume tiering program available to all Exchange Members, with the primary difference being that the measurement and application of discounts applies at a more granular level – being at the Alpha ID Group level as opposed to the Exchange Member level.