

13.2.3 Alpha ATS LP – Notice of Proposed Changes

ALPHA ATS LP NOTICE OF PROPOSED CHANGES

Alpha ATS LP has announced its plans to implement the changes described below in Q4 2010. It is publishing this Notice of Proposed Changes in accordance with the requirements set out in OSC Staff Notice 21-703.

Any questions regarding these changes should be addressed to Randee Pavalow, Head of Operations and Legal, Alpha ATS LP: randee.pavalow@alphatradingsystems.ca, t: 647-259-0420

Description of Proposed Changes and Reasons for Changes

Alpha IntraSpread™ facility, a set of new order types offered by Alpha ATS, allows Subscribers to seek order matches within their firm without pre-trade transparency, with guaranteed price improvement for active orders. The IntraSpread™ facility is available to all Subscribers and for all symbols traded on Alpha ATS.

The two new order types introduced by Alpha IntraSpread™ facility are Dark order and Seek Dark Liquidity™ (SDL™) order.

Dark Order

Dark order is a fully hidden order, used to manage passive interest with no pre-trade transparency, and offer price improvement to tradable incoming orders.

- Dark orders have no pre-trade transparency as information on Dark orders is not disseminated on any public data feeds.
- Price of a Dark order is calculated as an offset of the NBBO by adding the price offset to the national best bid for a buy order and subtracting it from the national best offer for a sell order. Price of the Dark order can optionally be capped.
- Price offset is calculated as a percentage of the NBBO spread with value expressed as 10%, 20%, 30% ... 90%, but capped to one standard price increment. If either side of the NBBO is not set, or the NBBO is locked or crossed, Dark orders will not trade.
- Dark orders are day only orders and must be for a board lot quantity. Dark orders cannot be Iceberg, On-Stop, Inside Match, AON, FOK, FAK, MOO, LOO, MOC, Special Terms, Bypass, Passive Only, TTM or ROC.
- Dark orders can be amended, including quantity, price offset and price cap, in addition to other standard amendable order attributes.
- Dark orders trade only with incoming SDL™ orders that are tradable at the calculated price of the Dark order. Dark orders do not trade with each other.
- Trades are disseminated on the public data feed in real-time. These trades do not set the Alpha last sale price (ALSP) or the NLSP. Trade prices may have up to three decimal places for prices above \$0.50 and up to four decimal places for prices below \$0.50.
- Dark orders are accepted in Pre-Open and Continuous trading sessions (from 7:00am to 4:00pm). Dark orders trade in the Continuous trading session but do not participate in opening or closing auctions.

Seek Dark Liquidity™ (SDL™) Order

SDL™ order is used to interact with the dark liquidity of the same Subscriber.

- SDL™ orders are “immediate-or-cancel” - they trade with eligible Dark orders to the extent possible, and any residual is cancelled. Price can be market or limit.
- SDL™ orders only trade with Dark orders and do not interact with other transparent orders in the Alpha CLOB. SDL™ orders only match with Dark orders from the same Subscriber.
- SDL™ orders must be for a board lot quantity, and cannot be Iceberg, On-Stop, Inside Match, AON, FAK, MOO, LOO, MOC, Special Terms, Bypass, Passive Only, TTM or ROC.

- SDL™ orders are accepted only during Continuous trading session (from 9:30am to 4:00pm)

Example

NBBO is 25.02 – 25.05

Alpha order book on the bid side is set as follows:

Order #	Visibility	Bid Dealer	Bid Size	Bid Price
1	Dark	A	1,000	NBBO+50%
2	Dark	B	1,000	NBBO+20%
3	Dark	A	1,000	NBBO+10%
4	Transparent	B	100	25.02
5	Transparent	A	100	25.02

If dealer A enters SDL™ order #6 to sell 3,000 at 25.02, the following trades will occur:

- 1,000 @ 25.03 (order #6/order #1. Peg offset for order #1 capped to one penny.)
- 1,000 @ 25.023 (order #6/order #3)

Remaining 1,000 shares of order #6 are cancelled.

Note that order #6 did not trade with order #2 as they are from two different dealers. Also, order #6 did not trade with orders #4 and #5 as SDL™ orders do not interact with transparent orders in Alpha CLOB.

Expected Impact of the changes

The Alpha IntraSpread™ facility will give Alpha Subscribers the opportunity to minimize market impact and take advantage of guaranteed price improvement. The Alpha IntraSpread™ facility offers additional alternatives to Subscribers when making order routing decisions.

Consultations

Alpha received requests for this facility from its Subscribers. Discussions were held with Subscribers to refine requirements and review feedback from the Regulators. In addition, a Notice to Subscribers describing the functionality and changes to the Trading Policies have been published on the Alpha ATS web site.

Current implementation of changes in the Canadian marketplace and any alternatives considered

Dark matching facilities and orders are currently available in the Canadian capital markets. The implementation of the Alpha IntraSpread™ Facility was designed to address comments and requests made by its Subscribers. Alternatives considered focused on the interaction between dark orders and the CLOB, price improvement variables, and sub-penny pricing. Alpha also modified details of its proposal in response to comments made by the regulators.