

## Chapter 13

# SROs, Marketplaces and Clearing Agencies

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### 13.2 Marketplaces

#### 13.2.1 Alpha Exchange Inc – Notice of Approval and Summary of Comments and Responses to April 13, 2012 Proposal on Changes to Alpha IntraSpread™ Facility and Opening

**ALPHA EXCHANGE INC.  
NOTICE OF APPROVAL  
AND  
SUMMARY OF COMMENTS AND RESPONSES TO APRIL 13, 2012  
PROPOSAL ON CHANGES TO ALPHA INTRASPREAD™ FACILITY AND OPENING**

#### **Background**

The Ontario Securities Commission (OSC) published on April 13, 2012 (35 OSC Bulletin 15), Alpha Exchange Inc.'s (Alpha)'s notice regarding changes to Alpha's IntraSpread™ Facility and Opening.

#### **Comment Process**

The OSC and Alpha received one comment letter from one marketplace<sup>1</sup>. The summary and response to comment follows the summary of the amendments being approved.

#### **Nature and Purpose of the Amendments**

##### ***Changes to IntraSpread™***

The proposed changes to IntraSpread™ functionality are intended to promote block trading, and attract more natural institutional flow in IntraSpread™ to achieve additional benefits for participants.

##### ***Changes to the Opening***

With the amendments, the price of the opening trades will better reflect the current environment of a multi-marketplace environment and be more in line with the market conditions at the time of the opening.

The new mechanism will also allow for a speedy resolution of a delayed opening state through natural market activity, as opposed to the current, manual intervention by Alpha Trading Services, thus reducing the market risk for Members and end investors.

#### **Description of Amendments**

##### ***Changes to IntraSpread™***

The amendments to the IntraSpread™ functionality allows for matching among Dark orders at the mid-point of the NBBO.

The amendments include two new attributes for Dark orders:

- (1) A Contra Order Type Matching Preference (COMP) attribute, which determines which of the types of orders the Dark order will trade against:
  - Trade only with incoming SDL™ orders
  - Trade only with other Dark orders, whether resting or incoming

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<sup>1</sup> Chi-X Canada ATS Limited

- Trade with both SDL™ and Dark orders

Dark orders with COMP attribute that supports matching with Dark orders can only be priced at 50 per cent of the spread.

- (2) A Minimum Acceptable Quantity (MAQ) attribute, which optionally limits the size that the Dark order will trade against, when trading with other Dark orders. The MAQ condition does not apply to trades against SDL orders.

Under the amendments, a Dark order marked for Self Trade Management (STM) will not trade with a matching STM Dark order on the other side of the book. Two such orders will remain in the book, and continue to be eligible for trading with other orders, but will not trade with each other.

### **Changes to the Opening**

The amendments to the Opening Auction functionality provide additional validation of the Calculated Opening Price (COP) and provide more flexibility for managing the delayed opening state of the CLOB.

#### **(1) Validating the COP**

The amendments include an additional validation of the COP to ensure it falls within the Opening Market Conditions Price Band, which is determined as the highest/lowest of the NBB, NBO and NLSP plus/minus the Opening Market Conditions parameter. The NBB and NBO represent the best displayed prices of any market with the exception of Alpha and any halted or frozen markets. Opening Market Conditions Price Band validation is optional and is enabled on a security by security basis.

Securities where the COP is validated against the Opening Market Conditions Price Band will open with a price which is in line with the current market conditions on other markets.

#### **(2) Managing the Delayed Opening**

With the amendments, Members can also enter new and amend existing orders when a security is delayed from opening. With every order change in the book, the COP is recalculated and re-validated using updated market conditions. In the absence of user activity, the re-validation is performed periodically by the system.

Under proposed Amendments, the book will automatically transition into Continuous Trading session once the COP falls within the applicable price bands. In addition, as with the current functionality, Alpha Trading Services can manually force the opening at the COP if deemed necessary.

### **Text of the Amendment**

The amendments were published on April 13, 2012 (35 OSC Bulletin 15) for comment. No changes were made to the amendments.

### **Effective Date**

The amendments will become effective on June 11, 2012.

### **Summary of Comment and Responses**

#### **Comment**

Chi-X commented on and supported the functionality of allowing Dark Orders to interact with other Dark Orders. It stated that the Amendments take “a major step forward in addressing our fundamental concern about a two-tiered market” and establishing a pool of liquidity that “will now be able to be accessed by all.” Chi-X also commented that it believes that the choices made available to users of dark orders on dark pools should also be made available to users of dark orders on lit marketplaces. It suggests that Alpha amendments should only be approved if lit marketplaces are permitted to adopt the same structures as well.

**Alpha Response:** While Alpha does not necessarily disagree with the comments made by Chi-X, Alpha does not believe that the regulators are required to make a decision at this time regarding similar functionality on lit markets. Any proposal should follow the established approval process, at which time the regulators and the public can determine if the proposal is appropriate from a market integrity and public interest perspective.