

Request For Comments
Amendments To The Tsx Venture Exchange Rule Book
To Change Opening Allocation Methodology And Odd Lot Trading

The Board of Directors of TSX Venture Exchange Inc. has approved amendments (Amendments) to the TSX Venture Exchange Rule Book (Rule Book). The Amendments, shown as blacklined text, are attached at Schedule A. Discussion of the Amendments is provided in Parts I to III below.

The Amendments will be effective upon approval by the Alberta and British Columbia Securities Commissions (collectively, Commissions) following public notice and comment. Comments on the proposed amendments should be in writing and delivered by December 13, 2007 to:

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A copy should also be provided to:

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Terms not defined in this Request for Comments are defined in the Rule Book.

I. Proposed Change

The Amendments make changes that will allow TSX Venture Exchange (TSXV)-listed securities to trade on the faster TSX Quantum™ trading engine. The Amendments: (i) revise the opening allocation algorithm on TSXV; and (ii) delete the TSXV odd lot premium and discount structure.

II. Rationale

Migration to TSX Quantum

TSX Group Inc.'s vision is to build a new trading engine for use by both Toronto Stock Exchange and TSXV that will increase the speed of trading and expand capacity. In order for TSXV to migrate to TSX Quantum, two components of TSXV's trading system must be modified. First, the opening allocation on TSXV must be modified to align with the opening allocation methodology on Toronto Stock Exchange. Second, the odd lot trading rules must be revised to remove the premium and discount pricing.

Opening Allocation Rules

Currently on TSXV, market orders are not guaranteed to be filled at the opening. Only better-priced limit orders are guaranteed to be filled at the opening. This is inconsistent with the Toronto Stock Exchange model where market orders and better-priced limit orders are guaranteed to be filled at the opening. The Amendments will change the current TSXV model to guarantee that market orders will be filled at the opening. We submit that the current Toronto Stock Exchange opening allocation model is a superior model because it rewards those traders who are willing to trade at any price, therefore validating the exchange's price discovery mechanism. This preferred allocation model should therefore be brought into TSXV.

Odd Lot Rules

Odd Lot Members on TSXV are responsible for guaranteeing the fill of odd lot bids or offers through orders generated automatically by the trading system. Premiums or discounts, as applicable, are applied to the transaction. Under the current structure, the customer may receive an order fill that may be lower than the displayed bid price or higher than the displayed ask price due to the application of the premium/discount pricing model.

The Amendments delete odd lot premium and discount pricing. The result will be an increase in transparency when odd lots are traded and a cost savings to end customers trading in odd lots on TSXV. To ensure that Odd Lot Members remain motivated to trade odd lots, TSXV will provide financial incentives directly to Odd Lot Members. This fee structure will be set out in the Toronto Stock Exchange/TSXV trading fee schedule which will be publicly disseminated at least 60 days before the Amendments become effective.

III. Description of the Amendments

Amendments to Opening Allocation

Rule C.2.04 - Execution of Trades at an Opening

Rule C.2.04(2)

Rule C.2.04(2) is revised to provide that market orders are treated the same as better-priced limit orders and are therefore guaranteed to be filled at the opening. The revisions also clarify that the "anti-scooping" provisions that do not guarantee a fill to non-client orders entered in the two minutes before the market opening will not apply when the opening is delayed.

Rule C.2.04(3)

Rule C.2.04(3) is revised to reflect the fact that market orders will now be guaranteed a fill. Clarifying language has been added to be consistent with the clarifying language in Rule C.2.04(2).

Rule C.2.04(4)

Similarly, this rule is revised to reflect that market orders are guaranteed to be filled at the opening. Clarification of the application of anti-scooping provisions is also caught in these revisions.

Rule C.2.04(5)

This rule is being deleted as it is unnecessary.

Rule C.2.04(6)

This rule is now the new Rule C.2.04(5).

Rule C.2.05 - Delayed Openings

This revision provides that the opening will be delayed if guaranteed orders are not filled by offsetting orders. This is the current status on TSXV, but is not reflected in the Rule Book.

Amendments to Odd Lot Trading

Rule C.2.08 - Responsibility for Odd Lots

Rule C.2.08 will be revised to reflect the repeal of premiums and discounts on odd lots.

Rule C.2.09 - Odd Lot Premium and Discount

This rule is being deleted in its entirety because premiums and discounts will no longer be provided to Odd Lot Traders.

Policy Statement CR11 - Odd Lot Trading Policy

This Policy Statement is being revised to clarify the revised odd lot trading regime.

IV Impact

Opening Allocation Rules

We believe that the Amendments provide for a fairer system whereby both better-priced limit orders and market orders are guaranteed to be filled at the opening. The Amendments will also provide a great deal of clarity to participants by making the opening allocation on TSXV the same as the opening allocation on Toronto Stock Exchange.

Under the proposed TSXV allocation methodology, where a symbol is unable to open due to a guaranteed fill imbalance, the opening will be delayed. This result is the same as the outcome on Toronto Stock Exchange today. Currently on Toronto Stock Exchange, when a symbol's opening is delayed due to a guarantee fill imbalance, TSX Trading Services staff are alerted to the delayed opening. TSX Trading Services staff then contacts the Market Maker on the stock to see if it can correct the imbalance or they contact the Participating Organization (PO) whose orders caused the imbalance to have the market orders either changed to limit orders or cancelled, in order to allow the symbol to open. The process on TSXV will be the same as on Toronto Stock Exchange with the exception that TSX Trading Services staff will contact only the Member whose orders caused the imbalance to try to have the orders cancelled or changed to limit orders.

Historically, TSX Trading Services has had great success in working with Toronto Stock Exchange POs when guarantee fill imbalances arise. TSXV believes that the same strong relationships between TSXV Members and TSX Trading Services will allow us to work through any guaranteed fill imbalances that arise.

Odd Lot Trading

The revisions to the odd lot provisions will have a positive impact on investors of TSXV-listed securities. After the Amendments become effective, pricing of TSXV-listed securities will be completely transparent and investors will no longer be required to buy at a premium or sell at a discount when trading odd lots on TSXV.

The Amendments will have a negative financial impact on fewer than ten Members that currently act as Odd Lot Members. After the Amendments are implemented, an Odd Lot Member will receive from TSXV a monthly fee per symbol that the Odd Lot Member is responsible for. TSXV believes that the monthly payment will fairly compensate Odd Lot Members for the contribution that they are making to an orderly TSXV market. Payment by TSXV for this service is more sensible than requiring investors to pay premiums or sell at a discount when trading odd lots.

V. Significant Regulatory Instrument Assessment

We submit that the Amendments are significant regulatory instruments as such concept is set out in the Commission's joint regulatory oversight protocol documents dated November 16, 1999 and February 24, 2000. Further, we submit that the Amendments should be made public for a 30-day comment period.

VI. Questions

Questions concerning this notice should be directed to Deanna Dobrowsky, Director, Regulatory Affairs, TSX Group Inc. at (416) 947-4361.

VII. Enclosures

The Amendments, shown as blacklined text, are attached as Schedule A.

Schedule A