REQUEST FOR COMMENTS
PRIORITIZATION OF NON-DISPLAYED ORDERS (DARK ORDERS) THAT HAVE A
MINIMUM QUANTITY CONDITION

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.

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 August 8, 2011 to:

Amer Chaudhry
Legal Counsel
TSX Group Inc.
The Exchange Tower
130 King Street West, 3rd Floor
Toronto, Ontario   M5X 1J2
Fax: (416) 947-4461
e-mail: amer.chaudhry@tsx.com

A copy should also be provided to:

Michael Brady
Senior Legal Counsel, Capital Markets Regulation Division
British Columbia Securities Commission
701 West Georgia Street, 5th Floor
Vancouver, BC V7Y 1L2
Fax: (604) 899-6658
e-mail: mbrady@bcsc.bc.ca

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

I.   Proposed Change

The Amendments allow non-displayed orders ("Dark Orders") with a minimum size condition to have trading priority over other Dark Orders without such a condition, provided the Dark Orders are at the same price.

II.   Background

On March 14, 2011 dark order types were successfully launched on Toronto Stock Exchange and TSX Venture Exchange (collectively, the "Exchanges"). Dark orders are orders that are not displayed in the central limit order book (i.e. are not visible) and are fully integrated into the existing order book on each Exchange, meaning the new dark orders will interact and trade with displayed orders as well as other dark orders. The recently introduced dark orders include an undisclosed order pegged to the mid-point of the national best bid or offer ("Dark Midpoint"), as well as a dark limit order ("Dark Limit") where price and volume are not displayed.

The Dark Midpoint and Dark Limit orders types were introduced as native order features available in our displayed order book and can be entered using two new tags to the FIX and STAMP order entry protocols.

Dark Midpoint orders always provide price improvement of at least a full trading increment unless the national best bid or offer ("NBBO") spread is one trading increment. In this case, the price improvement provided will be half a trading increment.

Dark Limit orders generally offer price improvement but may trade at the NBBO. Dark Midpoint orders are pegged to execute at the floating mid-point of the NBBO with an optional limit price. Mid-point orders will only execute at the NBBO mid-point. If the NBBO mid-point is beyond the range of the limit price the Dark Midpoint order will not execute (remain queued retaining priority). When the NBBO mid-point floats back within range of such order's limit price, the order will become executable again and maintain its previous time priority.

Dark limit orders are entered with a full tick limit price, or a market price. TSX/Venture may assign a limit price based on the original limit or the existing bid/ask tick limits. TSX/Venture automatically protects these orders from unintentional trade-throughs by only executing these orders at prices at or inside the NBBO.

Dark orders interact with displayed orders as well as other dark orders through an allocation sequence that ensures the priority of displayed orders over dark orders. A description of the allocation sequence, in the context of the Amendments is provided in paragraph 4.1 of this Request for Comment.

There is no pre-trade transparency of dark orders, which means order responses and changes in order attributes are not disseminated publicly. All order responses are fully encrypted in the broadcast feed. There is full post-trade transparency of dark execution prices which will update the last sale price and be provided to the TMX information processor's Consolidated Last Sale (CLS) feed, however all dark tag details are classified as private content and therefore fully encrypted. As dark orders are fully hidden, they do not contribute to the symbol's quote.

The TSX/Venture securities that are enabled to accept dark orders are identified based on information communicated by the Exchanges through notices to Participants/Members, as well as designations on a daily basis within the symbol status message distributed on TMX market data feeds. During the trading day, a symbol may become ineligible to accept and trade dark orders due to market issues such as price volatility triggering a market quality safeguard or technical issues such as an alternative trading system (ATS) sending erroneous quote data. Any change to a symbol's eligibility is communicated to all participants through a stock status message which has the "Accept Undisplayed" tag set to "N". Once the issue has been addressed that symbol may have its eligibility reinstated. When this occurs a stock status message will be disseminated with the "Accept Undisplayed" tag set to "Y". These events are followed by external notification by TSX/Venture (Trading Support).

The introduction of the Dark Midpoint and Dark Limit orders provides users an effective facility to seek liquidity with complete pre-trade anonymity, minimizing market impact costs, and protecting their proprietary trading information. Dark Orders maximize execution opportunities by being continuously exposed to Canada's largest pool of streaming visible orders with equal access by all investor types.

Visible orders routed to the Exchanges are provided the opportunity to significantly reduce execution costs and receive price improvement by executing against Dark Orders, and benefit

from efficiencies in accessing both dark and visible liquidity through a single destination and transaction.

III. Prioritization of Dark Orders

The Amendments allow for an additional trade prioritization feature for Dark Orders. Such a feature will provide users with the option to "tag" their Dark Orders that meet a certain order size requirement, as an Undisclosed Order (as defined in the current Rule Book) with a "Minimum Quantity" (as defined in the Amendments). By tagging such an order, it will trade ahead of any other Undisclosed Order at the same price that has not been tagged as an Undisclosed Order with a Minimum Quantity. Before such an order can be tagged it must meet a certain size/volume threshold of shares. The size/volume requirement for the Minimum Quantity will be determined by the Exchange, subject to change at the Exchange's discretion, and will be made public through Exchange documentation. Appropriate advance notice will be provided to Participating Organizations and others of any changes to the size/volume requirement. We are currently in the process of seeking feedback from participants in determining an appropriate minimum volume setting and request specific comments on this item.

The Minimum Quantity functionality will apply only to Dark Midpoints upon approval of the Amendments by the Commission. Appropriate advance notice will be provided to Participating Organizations if we expand this functionality to Dark Limit orders.

Throughout the board lot allocation, fully visible orders and disclosed and undisclosed volume of iceberg orders will have priority over dark orders at the same price. With the proposed amendments to the trade allocation sequence, at each price level the allocation will adhere to the following sequence:

1) Broker preference amongst displayed volume in time priority;
2) Displayed volume in time priority:
3) Undisclosed Iceberg volume in time priority;
4) Broker preference amongst dark volume with a Minimum Quantity in time priority;
5) Dark volume with a Minimum Quantity in time priority;
6) Broker preference amongst dark volume without a Minimum Quantity in time priority; and
7) Dark volume without a Minimum Quantity in time priority.

IV. Rationale for Amendment

To further strengthen TMX's Dark Midpoint and Dark Limit orders as an effective mechanism to facilitate the trading of size we believe it necessary to provide an appropriate incentive to encourage the placement of dark orders of larger size. The Amendments provide such an incentive by providing dark orders of larger size fill priority over dark orders of a smaller size. Furthermore, TMX's ability to set a minimum volume threshold will ensure that those that use the Minimum Quantity condition can only do so for larger size orders, which will facilitate the matching of blocks and larger institutional order flow.

With the rapid electronification of our market, it has become increasingly difficult for participants, specifically institutional investors, to execute large size volume, and to do so without signalling their intentions to the market through information leakage. The Amendments are intended to assist participants with this challenge. The feedback that we have received from interested users supports the introduction of fill priority for larger size orders.

The Minimum Quantity condition will provide an additional anti-gaming benefit for users of Dark Orders. A minimum quantity feature allows the participant to manage the trade-off between the minimum fill they will receive against the potential leakage of post trade information. Certain users of dark pools that do not have an appropriate minimum quantity feature have been known to submit single board lot orders inside the visible quote in order to identify dark liquidity. For example, if a trader determines that there may be a resting buy dark order pegged to the NBBO midpoint, they can push up the visible bid by entering small incremental buy orders, which will increase the executable price of the dark buy order. The trader then submits a sell order which will trade with the dark order at the inflated price. The minimum quantity condition can mitigate such information leakage risk by increasing the potential trading cost for traders attempting to identify dark liquidity.

V.   Impact

For the reasons noted above, the impact to the market will be positive because prioritization will:

- Promote the trading of size for institutional order flow;

- Facilitate the matching of blocks; and

- Enhance the anonymity of Dark Order proprietary trading information and discourage gaming activity.

VI.   Description of Amendments

Provided below is a summary of the Amendments. A blacklined text of the amendments is provided in Appendix "A".

Rule Book A1.01 - Definitions: The Amendments add one new definition to each of the Exchange's trading rules. "Minimum Quantity" is defined as the minimum size/volume (as determined by the Exchange) of an order that is required for a trade.

Rule Book C.2.01 - Establishing Priority: The existing subsection (1) has been amended to allow a Dark Order with a Minimum Quantity to execute prior to a Dark Order without a Minimum Quantity at the same price. Furthermore the subsection clarifies that a portion of an undisclosed order (i.e. iceberg order) will execute prior to a Dark Order.

Rule Book C.2.06 - Allocation of Trades: The existing subsection (1) for "Allocation of Trades" has been amended to clarify that the trading rule for "Establishing Priority" (subsection (1) therein) applies to such allocations.

VII.   Consultation and Review

The decision to prioritize dark orders with a minimum quantity condition over dark orders without this condition is the result of feedback from interested participants and our commitment to provide a service to facilitate the matching of larger sized orders without revealing proprietary trading information or adversely impacting the market.

VIII.   Alternatives

No alternatives were considered.

IX. <u>Comparable Rules</u>

A minimum quantity condition has become a standardized feature associated with dark orders and facilities, and is currently offered on marketplaces such as MatchNow, CHI-X Canada, CS Crossfinder, and Sigma X Canada. In addition, the prioritization of orders with size are reflected in the matching allocations of venues such as Crossfinder and Alpha's Intraspread facility.

X. <u>Questions</u>

Questions concerning this notice should be directed to Kevin Sampson, Director, Product Development and Business Management, TMX Markets at kevin.sampson@tsx.com or Amer Chaudhry, Legal Counsel, TSX Group Inc. at amer.chaudhry@tsx.com.

APPENDIX "A"

RULE A. 1.00 – INTERPRETATION

A1.01 – Definitions

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""Minimum Quantity" means the minimum volume, as determined by the Exchange, of an order that is required for a trade.

Added ●, 2011

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RULE C.2.00 – TRADING PROCEDURES AND PRACTICES

Priority

C.2.01 – Establishing Priority

(1)   A disclosed order shall be executed prior to an Undisclosed Order or any undisclosed portion of an order at the same price; an undisclosed portion of an order shall be executed prior to an Undisclosed Order at the same price; and an Undisclosed Order with a Minimum Quantity shall be executed prior to an Undisclosed Order without a Minimum Quantity at the same price.

Amended ●, 2011

(2)   Subject to Rule C.2.01(1) and Rule C.2.06, an order at a particular price shall be executed prior to any orders at that price entered subsequently, and after all orders entered previously ("time priority"), except as may be provided otherwise.

(3)   An order shall lose time priority if its disclosed volume is increased and shall rank behind all other disclosed orders at that price.

Rule C.2.01 Amended March 1, 2011

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C.2.06 – Allocation of Trades

(1)   Subject to Rule C.2.01(1), An order that is entered for execution on the Exchange may execute without interference from any order in the Book if the order is:

(a)   part of an internal cross;

(b)   an unattributed order that is part of an intentional cross; or

(c)   part of a Designated Trade.

Amended May 4, 2009 and ●, 2011

(2)   Subject to subsection (1), an intentional cross is executed without interference from orders in the Book, other than attributed orders entered in the Book by the same Member according to time priority.

(3)   A tradeable order that is entered in the Book and is not a Bypass Order (an "incoming order") shall be executed on allocation in the following sequence:

(a)   to offsetting orders entered in the Book by the same Member that entered the incoming order according to the time priority of such offsetting orders in the Book, provided that neither the incoming order nor the offsetting order is an unattributed order; then

(b)   to offsetting orders in the Book according to time priority.

(4)   A tradeable order that is entered in the Book and is a Bypass Order shall execute against the disclosed portion of offsetting orders in the Book according to the price/time priority established in Rule C.2.01.

Amended January 19, 2009