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Submitted via E-Mail: [tsxrequestforcomments@tsx.com](mailto:tsxrequestforcomments@tsx.com)

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Dear Sirs/Mesdames:

**RE: AMENDMENTS TO THE ALPHA TRADING POLICY MANUAL (THE “ALPHA RULES”) TO INTRODUCE NEW UNDISPLAYED (OR “DARK”) ORDER TYPES ON ALPHA (THE “AMENDMENTS”)**

The Canadian Forum for Financial Markets (CFFiM)/ Forum Canadien des Marchés Financiers (FCMFi) is dedicated to moving forward proposals to promote the health and competitiveness of Canada’s financial markets for the greater good. We are a mission-first, values-driven, purposeful, and reform-minded organization committed to Canada’s broader economic interests.

If one were to look solely at the proposal from the perspective of simply introducing order types to a venue which exist at other venues that have already been approved; the proposals appear acceptable. But the continual incrementalistic approach to approving market structure changes raises broader issues. We offer the below constructive analysis, as a solutions partner, to stimulate capital raising, regulatory modernization and inclusive growth for the national economic competitiveness needed to meet the next decade’s challenges.

**EXECUTIVE SUMMARY**

Canada faces fragmentation across numerous highly similar venues and order types. Allowing additional dark functionality, accompanied by any ambiguity in broker-priority rules, risks enabling a de-facto internalization system through fragmentation rather than through transparent auction markets amid a perfunctory consultation process.

Confirmation of equidistant and uniform cables is also needed.

Given the pending TMX acquisition of CBOE Canada, which would result in control of at least nine venues with overlapping functionality, it is prudent to pause the Amendments and conduct a holistic post-acquisition review.

## A. THE PUBLIC CONSULTATION PROCESS

The proposed Amendments have not been supported with a substantive cost-benefit analysis.

The proposal provides no meaningful quantitative analysis on the “positive impacts” of the proposed Amendments or the adverse impacts, which could include increased fragmentation, obfuscation of priority for dark order types, and uneven latency. There is, for example, no data or analysis on the current levels of similar dark order type volume across other markets, the expected level such volume on TMX, or the execution quality benefit in strict economic terms. In addition, no detail has been provided on the depth or breadth of the external consultations that were conducted in advance of this proposal.

In the absence of this information, the proposed Amendments raises questions regarding:

- The purpose of an Alpha Dark Order book as a standalone entity and the industry cost;
- When and how the TMX considers order types and venues to be redundant or non-economic;
- The functionality that is not being introduced from Alpha X and Alpha DRK books into Alpha Classic and the reasons, and
- The significance of shifting from price–time priority (the standard “first in line at a given price gets filled first”) to price–broker priority (orders from the same broker get preferential allocation ahead of others at the same price).<sup>1</sup>

If the TMX is going to offer more dark features, it should stipulate the trade-offs are being made:

- Within such a market; across other TMX venues (which may or may not offer these order types); and
- Across the ecosystem (which more and more offer dark orders and promote interaction between lit orders and these order types.).

## B. THE CANADIAN MARKET CONTEXT

Canada is a fragmented market with complex intermediation (e.g. multiple venues) relative to size, resulting in concern for informational and access imbalances.

When the multiple marketplace rules were introduced over two decades ago, the Toronto Stock Exchange (“TSX”) had a virtual monopoly on trading its listings. The TSX sought to become a for-profit publicly traded enterprise, converting from a mutualized, industry owned operator. To bolster competition, “alternative” trading modalities were nurtured, and price-time allocation models, dark functionality, and advanced order types were allowed on non-TSX venues. The purpose of offering these alternatives was to maintain a competitive environment<sup>2</sup> and to allow the marketplace to decide which functionality of differentiated

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<sup>1</sup> The proposal does not explain how many other venues would continue to use pure price–time, or how this change affects competitive balance between different allocation models.

<sup>2</sup> The OSC’s [Recognition Order for Alpha](#) or Alpha stated that Alpha must operate to avoid “anti-competitive activity” and maintain independence from TMX Group in decisions affecting trading rules and functionality. This included: separate governance, including independent directors, independent rule-making distinct from TSX/TSXV and fair access obligations preventing TMX from using Alpha to steer order flow to its other venues. It stated that Alpha must continue to operate “as a separate marketplace providing competitive alternatives for order execution.”

models they chose such that these alternatives would not be overly disruptive to the central auction market.

Early ATS/marketplace rulemaking explicitly recognized fragmentation as a major risk,<sup>3</sup> and the regulatory framework implicitly assumed only limited, differentiated marketplace entry. The intent was to allow alternatives, not a proliferation of indistinguishable order books. Despite this, Canada's market structure has evolved through incremental approvals of new venues and order types leading to a proliferation of undifferentiated venues and "me too" order types. This evolution is exemplified by the following pattern of behaviour:

- Venue A seeks to differentiate by offering distinct "Offering A" vs. the overall marketplace.
- Venue B (now in many cases owned by the same operator as Venue A), seeks to compete with Venue A by introducing "Offering B" on the basis of "competitiveness."
- Venue A then seeks to compete by introducing its version of "Offering B."
- Then Venue B, introduces its version of "Offering A".
- Liquidity, which was concentrated in Venue A, is now fragmented across Venue A & B while not offering distinct advantages for operating on B vs. A or vice versa.

Repeated over decades, this cycle has produced a highly fragmented and increasingly undifferentiated marketplace landscape, which harms the overall price discovery process. This was not the intent of the multiple marketplace regulations which recognized the benefits of concentration of orders to support stronger price discovery.

### C. PRICE-BROKER PRIORITY: ENSURING NO AMBIGUITY

Price–broker priority has long been one of the more contentious features of the Canadian market. Critics argue it entrenches the largest dealers' market share and can be exploited. Supporters state that broker priority can benefit large and small dealers alike, though smaller dealers may be the dominant participants in the symbols they trade and can therefore achieve best execution under this framework.

Generally, Canada preserves some internalization efficiencies for dealers while safeguarding price discovery. Priority is explicitly structured so that broker preferencing applies only to displayed volume, and undisclosed (hidden) iceberg volume is ranked *after* all displayed volume, including after broker-preference displayed volume. Dark liquidity that does not contribute to price discovery is not permitted to jump the queue.

A structural concern arises from the potential proliferation of price–broker-priority venues. If several venues apply price–broker priority to both visible and undisplayed liquidity, Canada risks enabling a market in which liquidity is atomized into small visible fragments while substantial dark liquidity free-rides on the price discovery generated by others. This risks creating a *de facto* internalization system through fragmentation. In the extreme, the largest dealers could effectively operate their own preferred venue at the top of routing tables—using broker priority as a quasi-internalization mechanism under the guise of a visible auction market.

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<sup>3</sup> [https://www.osc.ca/sites/default/files/2020-12/fyr\\_20020905\\_report\\_com\\_ida.pdf](https://www.osc.ca/sites/default/files/2020-12/fyr_20020905_report_com_ida.pdf)

Currently, by presumed drafting oversight, dark orders could fall within the broker-preference rules, enabling fully undisclosed orders to obtain queue priority ahead of visible orders, which we assume was not the intent.

In particular, proposed section 1.8(2) states:

“(2) Broker preference whereby incoming orders will match with other orders ~~from the same dealer~~ (excluding **displayed** orders marked as anonymous) **from the same dealer** ahead of similarly priced orders from other dealers, before time priority is considered”

On its face, this clause appears benign—visible orders would still have broker priority among themselves, and anonymous orders would be excluded. But as written, it leaves open the possibility that undisplayed/dark orders may obtain broker priority, because they are neither anonymous (post-trade attribution remains possible) nor explicitly excluded.

Similarly, section 1.8 (4) states: “An undisclosed portion of an order does not have time priority until it is disclosed”. This refers to icebergs specifically, as a dark order would neither have broker or time priority as it would never be disclosed. The provision’s silence on broker preference could be seen to imply dark order preference. In contrast, the dark book alone specifically allows for broker-priority:

“(2) Broker preference (excluding orders marked as anonymous and smart peg orders trading at discretionary prices) in time priority at a particular price, subject to any minimum quantity and minimum interaction size or other conditions.”<sup>4</sup>

In addition, the proposal suggests the introduction of a new “Undisplayed (Limit/Market)” order, an undisplayed order priced at its limit or market level, alongside midpoint-peg and minimum price. Clear examples of order interaction are needed to confirm the intended behaviour.

#### D. REDUCED TRANSPARENCY AND UNEVEN LATENCY

The proposal states that: “This structure will allow Alpha Classic to offer priced improved interaction while leveraging its existing inverted framework and order processing delay (or “speedbump”). This implies that it has lit protected, lit unprotected, and dark facilities with speedbumps, offering a variety of permutations for choice and protection. This assumes that the architecture and latency of each book are equal.

Though the TMX operates multiple venues both protected (TSX) and unprotected (TSX Alpha, Alpha X and DRK), the proposal does not address latency across the TMX ecosystem. Not all order books are created equal, and therefore, a speedbump in one market, may or may not be comparable to another – for example, a speedbump of only 1-ms may be overwhelmed by any other differential access from the OE Gateways to the various order books.

As a result, the TMX should affirm that all cabling from the gateways to the trading engines are equidistant, that all cables from all forms of co-location are equidistant to the order entry gateway and that all cables are uniform. The affirmation does not give rise to commercially sensitive information<sup>5</sup> and

<sup>4</sup> [https://www.osc.ca/sites/default/files/2025-06/tsx\\_20250612\\_notice-approval.pdf](https://www.osc.ca/sites/default/files/2025-06/tsx_20250612_notice-approval.pdf)

<sup>5</sup> See, [OSC Bulletin](#) Volume 49, Issue 12 (April 2, 2026), page 268: *Notice – TSX/TSXV – Introduction of Enhanced Market Access*.

lays at the foundation of fair market access.

## E. COMPETITION CONCERNS: THE CBOE ACQUISITION

Any micro-structure changes to one or more of TMX existing venues need to be considered across the context of overall competitive impacts. This is particularly true for the proposed CBOE Canada acquisition with potentially 9 venues<sup>6</sup>, many overlapping order types, and redundant systems which serve to proliferate fragmentation. Such fragmentation may discourage competition as TMX Group will control multiple vectors of differentiation from allocation priority, dark vs. lit order types and functionality, fee differentiation, and speedbumps.

Making a series of small, incremental rule changes could effectively block competition because each change seems minor on its own, but together they raise barriers that only (certain) incumbents can easily clear. It could also restrict the ability of regulators to properly assess whether the CBOE acquisition should be approved, by locking in structural barriers that make it harder for new trading venues to enter the market.

Here is the landscape in simplified form:

Venue	Lit/Dark	protected (no speedbump)	pricing	priority
A	Lit	yes	make/take	price broker
B	dark	no	make/take	price broker
C	lit	yes	take/make	price broker
D	dark	no	take make	price time
E	lit	no	flat (take/take)	price time
F	dark	no	flat (take/take)	price broker

TMX could further steer order flow by directing specific order types into whichever venue helps it compete on its own internal metrics. With nine combinations of books and order types to shift between, it can fine-tune these effects to its advantage, particularly against up-and-coming competitors.

After the acquisition, TMX would control at least three venues with this priority model (TMX, Alpha Classic, and Aequitas). That would allow it to offer three separate “quasi-internalization engines,” where large bank-owned dealers could each use a different venue to search for internal crosses, privately reducing their chances of interacting with other major participants<sup>7</sup>.

TMX control of nine venues, some located outside TMX data centres, each with different latency characteristics, could create more opportunities for latency or market-structure arbitrage. Basic questions such as whether the former CBOE Canada venues continue operating in third-party data centres or are integrated into TMX’s own order-entry gateways require clear answers to resolve for fair access.

<sup>6</sup> TSX, TSX Dark, Alpha, Alpha X, Alpha Dark, Aequitas NEO Lit, Aequitas Neo Dark, Aequitas New Speedbump, MatchNow

<sup>7</sup> Allowing for dark order type interaction with queue jumping is a precedent which could easily be rolled across all three with damage to the Canadian market.

## CONCLUSION

The proposal expands dark functionality without clear justification and increases structural and competitive risks within an already highly fragmented market. Given the pending acquisition of CBOE Canada and the significant implications for Canadian market structure, the prudent regulatory approach is to pause the proposal and conduct a holistic, evidence-based review of TMX's integrated marketplace design.

Respectfully submitted,

***The Canadian Forum for Financial Markets***

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**cc.**

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