



Why Choice Matters
CSTA Annual Conference

August 13th, 2010

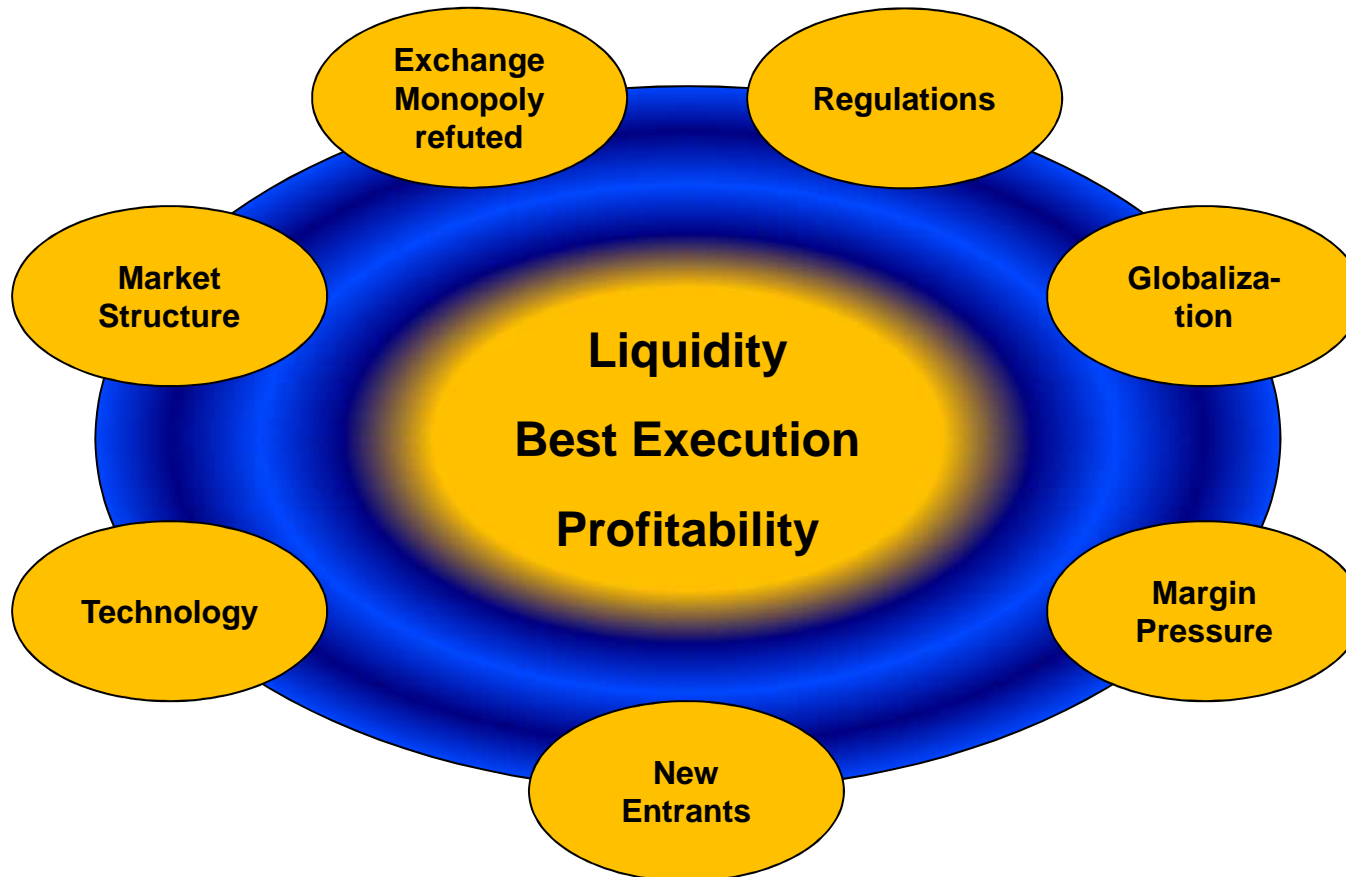


Agenda

- **Understanding the Challenges**
- **What Alpha stands for**
- **The Alpha Choice**
- **The Way Forward**

Understanding the Challenges

We are in a period of Transformational Change



Understanding the Challenges

We are in a period of Transformational Change

- **Marketplaces play a critical role**
 - Trading Fees
 - Market Data Fees
 - Quality of Trading
 - Technology
 - Innovation
 - Servicing
 - Regulatory mandate



**Objectives and
Strategies are
different**

Question to the Audience

Results collected by CSTA Audience Response System



Audience Response Question #1

Is the cost of trading in Canada:

1. Outrageous



2. High



3. Acceptable



4. Low

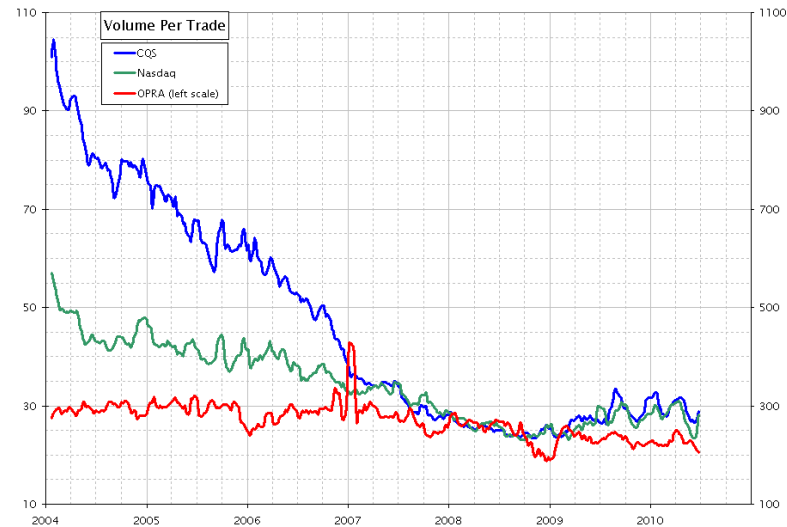
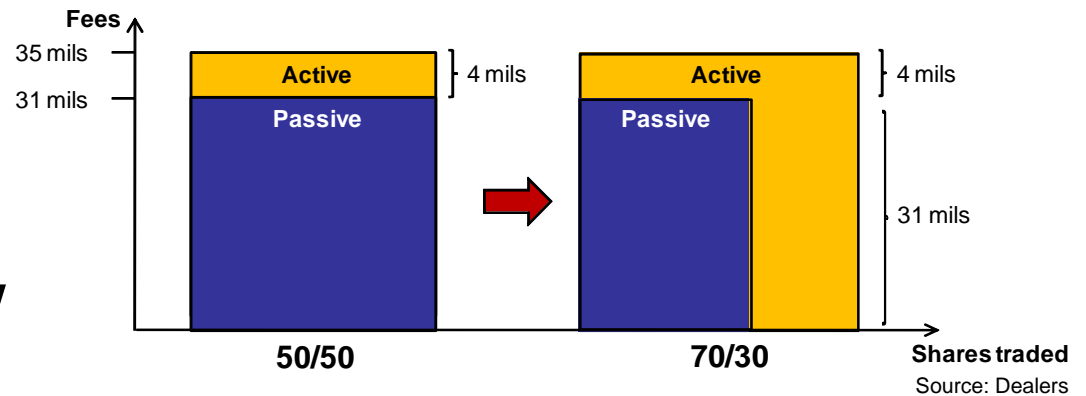




What Alpha stands for

The Cost of Trading – Some Facts

- **Evolution Active / Passive ratio**
- **High active fees (and rebates) for low value securities**
- **Premium fees (opening, closing, icebergs, ...)**
- **Fragmentation of trades (back-office cost)**
- **Technology investments**



What Alpha stands for

The Cost of Trading

Our Position

- Cost of Trading is still too high
 - Marketplaces' spread
 - Abuse of maker-taker model
 - Active fees vs. price of security
 - Fill size impacts back-office costs
 - Cost of Technology
- Level playing field needs to be ensured
- Fee structure needs to be simple and transparent

Our Strategy

- Reducing the market place spread
- Aligning fees with price of security
- No preferential fees
- No premium fees
- No complexity
- IntraSpread™ Facility
- Alpha EcoSystem™
 - Co-location
 - Connectivity
 - Consolidated market data
 - US market data
 - Etc.

Results so Far

- Cost of trading went down across all marketplaces
- Reduced Active / Passive ratio when all flows on Alpha
- Larger average trade size on Alpha
- Technology solutions at reduced cost
- IntraSpread™



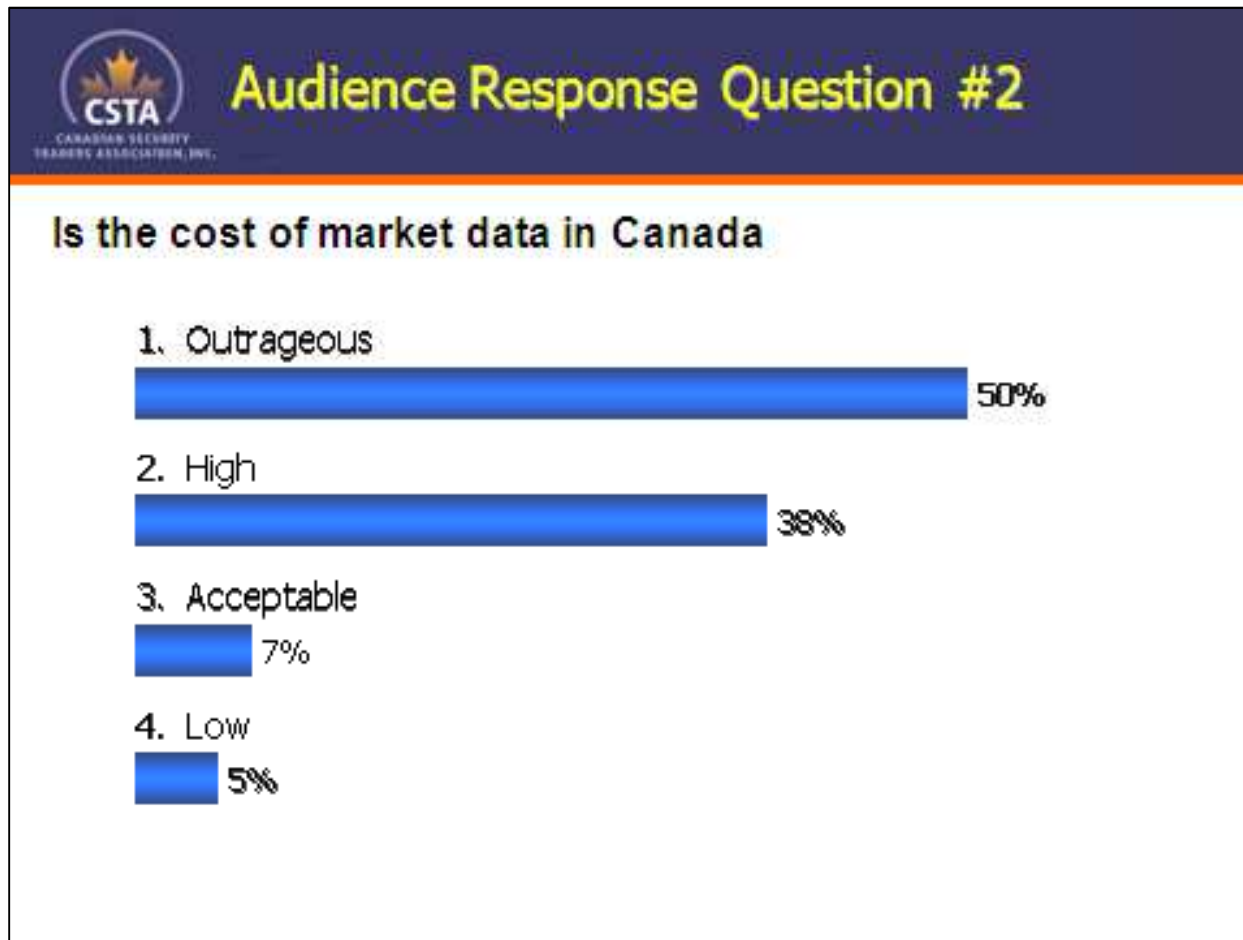
What Alpha stands for

The IntraSpread™ Fee Structure

- Fees will be charged on a net basis i.e. no maker / taker or active / passive fees
 - For securities < \$1, the net fee will be 1 mils
 - For securities >= \$1, the net fees will be 2 mils
 - Fee holiday until March 1st, 2011 based on a launch in November 2010
-
- At least 50% lower than standard net fees charged by any other Canadian marketplace
 - For select dealers benefitting from preferential fees on the TMX, the savings would be lower

Question to the Audience

Results collected by CSTA Audience Response System

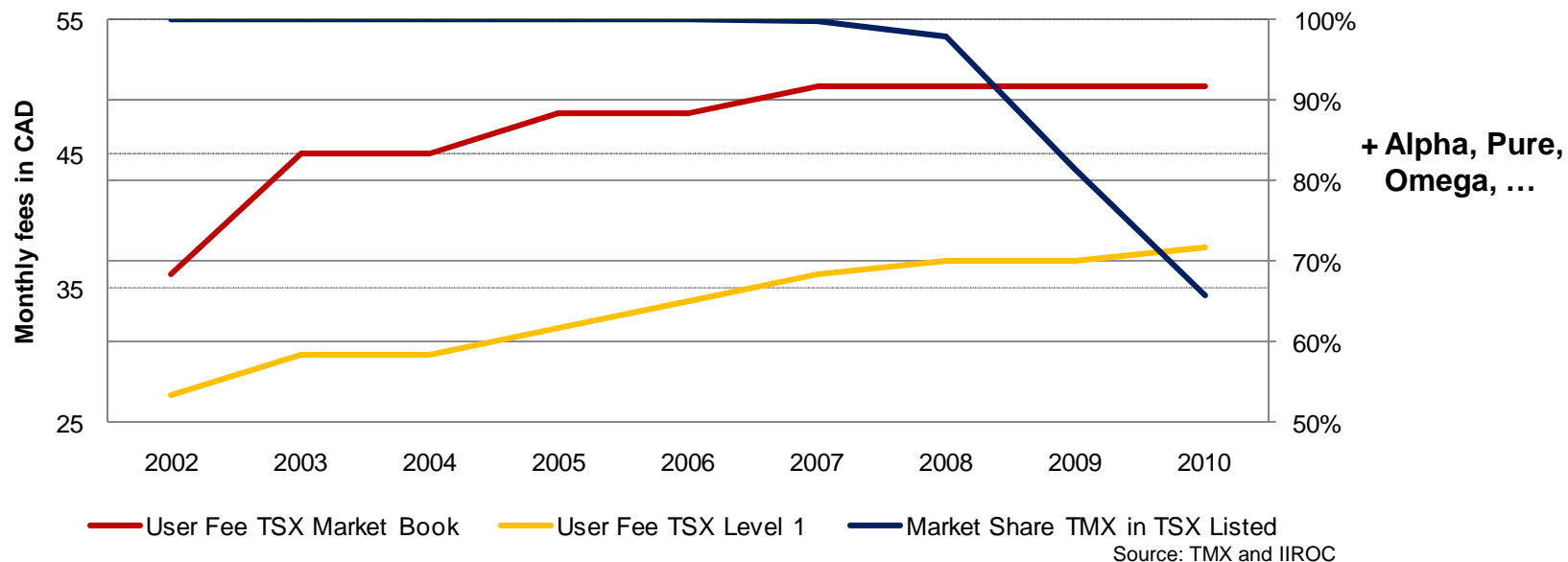




What Alpha stands for

The Cost of Market Data – Some Facts

TSX Data Fees vs Market Share



US

- National Market System established in 1975 for core market data (Level 1) ensuring consolidation and regulation of this data
- On August 6, 2010, District of Columbia Court rejects SEC approval of NYSE Arca depth-of-book fee as SEC failed to demonstrate that NYSE Arca was subject to significant competitive forces

Europe

Committee of European Securities Regulators' advice to EU Commission with regards to the revision of MIFID:

- A European consolidated tape for EU market data is a "necessity"
- The consolidated tape must be easily accessible to markets and investors and be available at a reasonable cost
- EU Securities and Markets Authority should also be allowed to intervene with respect to prices charged for market data

What Alpha stands for

The Cost of Market Data

Our Position

- Cost of Market Data is outrageous
 - Summing up all fees
 - Ignoring value of data provided
- Level playing field needs to be ensured
- Fee structure needs to be simple and transparent
- Market data is not the sole ownership of marketplaces

Our Strategy

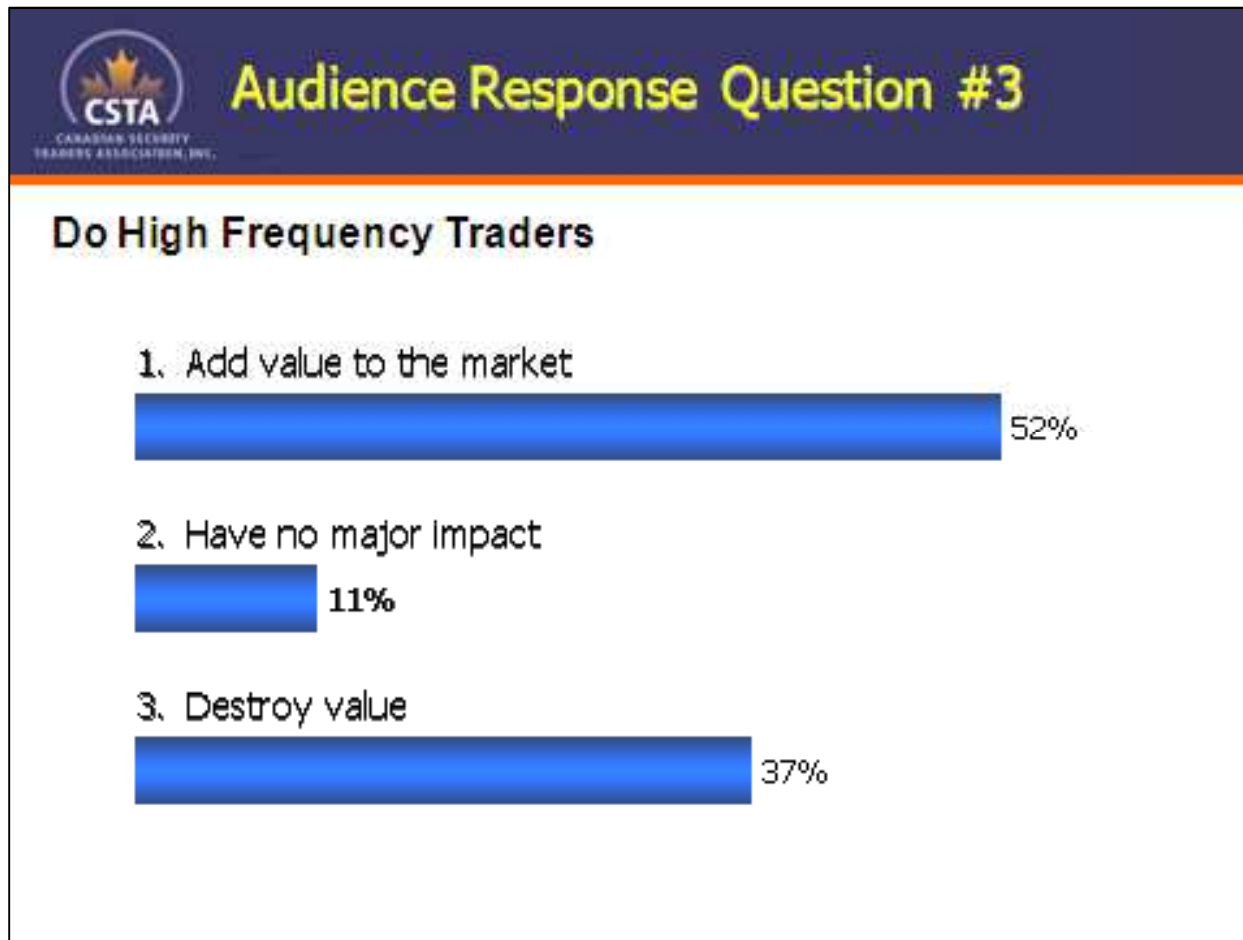
- Align fees with market share
- Fee holiday for those under heaviest pressure
- Recommend regulation of top of book
- No complexity / special deals
- Fostering technological innovation allowing choice
- Establishing Alpha data as alternative
- Data revenue sharing initiative

Results so Far

- Continuous improvement of Alpha market data
- New technology solutions are being rolled out
- Growing awareness of the issue
- The “battle” goes on

Question to the Audience

Results collected by CSTA Audience Response System



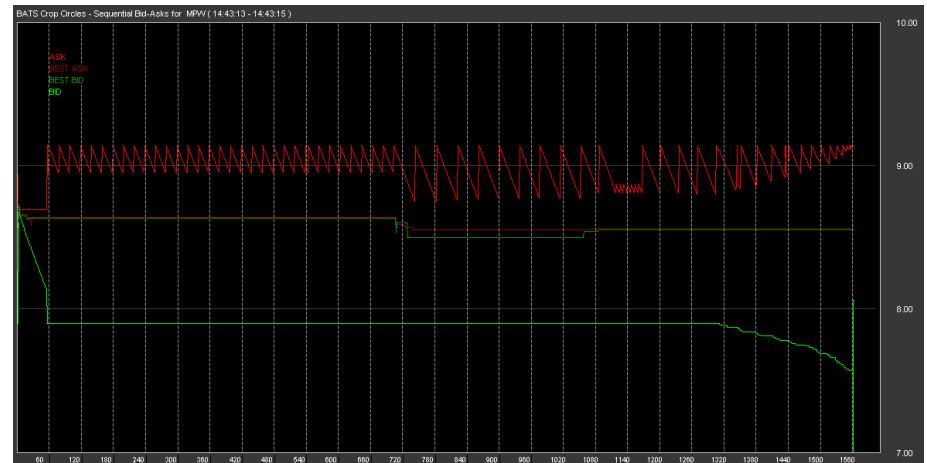


What Alpha stands for

The Quality of Trading – some Facts

- **Bid & Ask Spreads across all TSX-listed securities 5% tighter YoY**
- **Bid & Ask Quote Sizes 31% larger YoY**
 - Excluding ETFs, 150% since 2008
 - Including ETFs, 483% (Alpha stronghold)
- **Trading impact costs went down**
- **Message traffic exploded without a corresponding increase in volume**
- **And what is this...**

Source: ITG



Source: NANEX

What Alpha stands for

The Quality of Trading

Our Position

- HFT's
 - Add value when driven by sound arbitrage strategies
 - Destroy value when driven by passive rebates only and when not managed
- The issue is not the HFT's but the marketplaces
- Technological and business innovation are tools to enable liquidity and best execution

Our Strategy

- No incentives leading to misbehavior
- Flow threshold mechanism
- Implementing business innovation with the better interest of dealers and investors in mind
 - Static / dynamic price bands
 - IntraSpread™
 - Liquidity initiatives
- Continuous investment in technology as an enabler

Results so Far

- Overall liquidity improved
- Higher Alpha fill rates (order to trade ratio)
- Larger average fill size on Alpha
- No trade cancels on May 6th on Alpha
- IntraSpread™ guaranteed price improvement
- Taking the roundtrip < 1ms (September)

Question to the Audience

Results collected by CSTA Audience Response System



Audience Response Question #4

Should Exchanges have regulatory authority over member and market conduct / listings?

1. Yes



2. No



3. Only member and market conduct



4. Only listings





What Alpha stands for

Regulatory Mandate – Some Facts

- **FAIR indicates that the TMX has “no specific conflict management mechanisms” with regards to the listing business**
- **Exchanges, when outsourcing member and market conduct oversight, have the right to assess the outsourcer and re-internalize the mandate**
 - This still requires an adequate conflict management mechanism
 - Is the outsourcer able to make the best decisions to execute upon its mandate i.e. why is monitoring of the TMX still based on old technology while all ATSS moved to new technology?



GROUP

What Alpha stands for

Regulatory Mandate

Our Position

- Regulatory mandate must be sheltered from conflicts of interest
- Outsourcing only works if governance at the exchange is appropriate
- Regulatory mandate is not critical to an exchange

Our Strategy

- Ensure appropriate governance model in place when becoming an exchange
- Recommend a policy debate to consider externalization of regulatory mandate

Results so Far

- Awareness about the challenges
- Debate initiated



The Alpha Choice

Competing for the Industry

- **Alpha is a for-profit organization aiming, not for maximizing its own value, but for optimizing it**
- **Value is optimized by taking into account**
 - The value of the organization
 - The value for the industry stakeholders achieved through cost savings, efficiencies and revenue opportunities
- **Our key differentiators**
 - Our value optimization model
 - Our smart-sourcing model
 - Our client intimacy
 - No preferencing

The Industry-driven Catalyst of Change

The Way Forward

Predictions about the Future Landscape

- **Convergence towards a new market activity distribution**
 - 3-4 marketplaces
 - 40% / 40% / 20% - 33% / 33% / 33%
- **Dark will emerge in Canada**
 - Driven by the core marketplaces
 - Driven by the new issues our Industry is facing
- **Competition will expand into new areas**
 - Listing business
 - Other asset classes
 - Clearing business
 - Related technology and business offerings

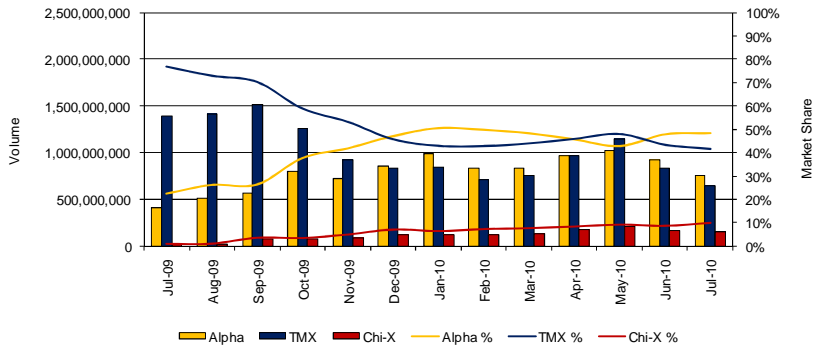


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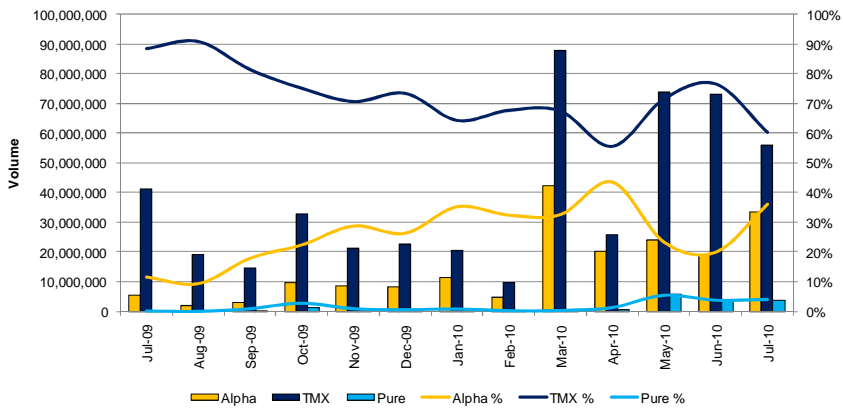
The Way Forward

The Future is in Sight...

**TSX Listed ETF's
Shares Traded**



**KWG
Shares Traded**



**BBD.B
Shares Traded**

