Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 TSX Trading Rule Amendments Related to Market Making – Request for Comments

REQUEST FOR COMMENTS
TORONTO STOCK EXCHANGE TRADING RULE AMENDMENTS
RELATED TO MARKET MAKING

The Board of Directors of TSX Inc. ("TSX") has approved amendments ("Amendments") to the Rules of the Toronto Stock Exchange ("TSX Rules"). The Amendments, shown as blacklined text, are attached at Appendix "A".

The Amendments will be effective upon approval by the Ontario Securities Commission (Commission) following public notice and comment. Comments on the proposed amendments should be in writing and delivered no later than October 17, 2011 to:

Deanna Dobrowsky
Director, Regulatory Affairs
TMX Group Inc.
The Exchange Tower
130 King Street West, 3rd Floor
Toronto, Ontario M5X 1J2
Fax: (416) 947-4461
e-mail: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Barbara Fydell
Senior Legal Counsel, Market Regulation
Capital Markets Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
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Terms not defined in this Request for Comments are defined in the TSX Rules and TSXV Rules.

I. Proposed Change

The Amendments will assist TSX Market Makers in performing their market making obligations in a multi-marketplace and increasingly electronic trading environment. The Amendments provide for: elimination of the anti-scooping rule; elimination of Market Maker capital requirements; elimination of the Market Maker stabilization rule; the ability for Market Makers to execute booked oddlots at their limit price; and new requirements on the use of the Minimum Guaranteed Fill (MGF) and oddlot facilities. A proposal to eliminate the anti-scooping rule on TSX Venture Exchange has been filed with the British Columbia Securities Commission and the Alberta Securities Commission to ensure consistency of trading rules across the TMX Group equity markets.

II. Background

Market Makers contribute to price discovery and liquidity in the trading of a security by maintaining a continuous two-sided market within a certain spread goal. They are also charged with maintaining a market for the security that is competitive with other markets where the security trades.

Further, Market Makers provide a service to small investors through maintaining the size of the MGF requirements and by providing an automatic and immediate "one-price" execution of MGF eligible orders. With the aforementioned maintenance of a two-sided market, Market Makers ensure, particularly on less liquid securities, that retail investors have an ability to compete for order flow in the marketplace.

Market Makers provide value to all market participants, including alternative trading systems (ATSs), by enhancing price discovery and liquidity on the primary Canadian market. This also helps to lower the market impact cost of trading for all market participants regardless of where they trade.

Many of the principles pertaining to the existing TSX market making system originated in a very different trading landscape. Due to the proliferation of high frequency trading (HFT) activities and algorithmic usage across multiple marketplaces in Canada, Market Makers have found it increasingly more difficult to perform their functions in a viable manner. The Amendments are an initial step to address some of the recent challenges faced by the market making community.

III. Rationale for Amendments

To further strengthen TSX's Market Making system as an effective mechanism to provide market quality and price discovery on Toronto Stock Exchange and for the Canadian market, the Amendments are intended to:

- enable TSX to retain Market Makers and support market making as a viable business model
- continue to enhance liquidity on TSX Market Makers' securities of responsibility

The Amendments show TSX's continued support of the Market Making community by providing appropriate rules and policies to encourage Market Makers to fulfill their responsibilities and retain their status as Market Makers on TSX.

IV. Impact

The impact to the market will be positive as the Amendments will remove the competitive disadvantage to TSX Market Makers that has resulted from a radically changing market structure. The Amendments will have the effect of levelling the playing field between TSX Market Makers and professional type clients like HFTs with sophisticated technologies. We submit that the positive impact that these rule changes will have on TSX Market Makers should have a related positive impact on the retail trading community.

V. Description of Amendments

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

TSX Rule 4-701 – Execution of Trades at the Opening

The Amendments remove the "anti-scooping" rule. The original purpose of this rule, which applies only to "pro" (i.e. professional) orders entered in the two minutes prior to opening, was to prevent pros from shutting out client orders that were already in the book at the Calculated Opening Price (COP), unless the pro order improved the COP. With better and quicker access to trading and real-time market data, it was felt that pros should not be guaranteed a fill at the opening for an order entered in the two minutes prior to the opening unless the pro contributed to the improvement of the COP.

With the changes to Canadian market structure in recent years, the consequence of this rule is now to give an unfair advantage to client order flow, as a large percentage of "clients" are now Direct Market Access (DMA) and/or HFT clients and have the same or better technology than the pros, giving these clients better access to trading and real-time market data. In effect, the anti-scooping rule, which was introduced in 2001, now inadvertently disadvantages the true pro traders. In eliminating the rule, TSX does not believe that this will have a negative impact on market quality as the rule no longer provides the protection that it once did given the shift in market structure to electronic trading among sophisticated clients.

TSX Rule and Policy 4-602-Qualifications

The Amendments remove capital requirements for Market Makers. TSX has determined that no further capital requirements are necessary beyond the existing IIROC capital requirements for dealer-members. These IIROC requirements are sufficient to ensure adequate capital is available to support Market Making activities. Further, the TSX market making performance system, which measures the liquidity, spread goal maintenance and participation of the Market Maker's securities of responsibility, is in place to capture deficiencies in performance of Market Makers. These measurements ensure the market quality that each TSX Market Maker is providing to the Canadian marketplace, and are far more meaningful than minimum capital requirements.

TSX Rule and Policy 4-605 Stabilizing Trades

The stabilization rule outlines the expectation that at least 70% to 80% of Market Makers' trades in their securities of responsibility are stabilizing or neutral[1]. This requirement is not sustainable in a multi-marketplace environment. Approximately 35% of the trading volume on TSX-listed securities takes place on ATSs. Given that TSX Market Makers are not able to stabilize trading on a security when significant trading can take place on other marketplaces, it is our view that this policy is not effective in a multi-marketplace environment. Confirmation of this view is evident in TSX Policy 4-605(2) which currently grants an exemption from this rule on all securities interlisted in the U.S. where 25% of the trading occurs on U.S. markets. This caveat identifies that the stabilization rule loses its effectiveness once trading takes place on other marketplaces, and is further evidence that this rule should be deleted.

Further, it is our view that the removal of the rule will not have a negative impact on the market as this policy is not currently the driving force behind Market Maker stabilizing activity. Practically, it is not a profitable trading strategy for a trader to enter a series of destabilizing trades. Thus, the main incentive for a Market Maker to avoid entering destabilizing trades exists irrespective of TSX Policy 4-605(2). We submit that the profit motive in and of itself is an incentive not to enter destabilizing trades.

TSX Rule and Policy 4-604 -Responsibilities of Market Makers

The existing subsection (3) for "Maintenance of a Two-Sided Market" (Odd-lot Responsibilities) has been amended to clarify that booked oddlots which become tradeable due to a boardlot quote change will execute at their original limit price. This change protects Market Makers from unfair fills while still respecting the legitimate use of the oddlot facility. This Amendment is important because in recent years, there has been a large increase in the use of the oddlot facility as result of the proliferation of algorithmic trading and hedging activities by Market Makers on exchange-traded funds. Facilitating the oddlot market has become a major component of many Market Makers' responsibilities.

TSX Rule and Policy 4-802- Allocation of Trades

The existing subsection (1) "MGF Facility" has been amended to add the definition of MGF ineligible orders, and corresponding guidelines on MGF fills occurring in violation of specific conditions. Subsection (4) "Oddlot Facility" has been added to refine the use of the oddlot facility and clarify actions TSX may take upon violation of these rules. These requirements have existed for some time, initially as rulings in the Toronto Stock Exchange Equities Trading Manual ("Equities Manual"), and then as published guidance via TSX Interpretation Notices. Formerly, section 5.1 of the Equities Manual included rulings that prescribed requirements for MGF-eligible orders; prohibition on splitting orders; multiple MGF orders from the same client; execution of orders; and oddlot front-ending. When the Equities Manual was discontinued, the spirit of the rulings continued but was evidenced in less formal interpretive notices. Incorporating these current guidelines into the TSX Rules will give clear powers to TSX in this area and will protect against abuses of the MGF Facility.

VI. Consultation and Review

TSX has consulted extensively with its Market Making Advisory Committee which includes representatives from 22 firms that provide Market Making services. TSX has also discussed the Amendments with IIROC.

VII. Alternatives

No alternatives were considered.

VIII. Comparable Rules

With respect to the anti-scooping rule, no Canadian marketplace with a pre-open or opening session (other than TSX Venture Exchange) offers an anti-scooping mechanism. TSX Venture Exchange is also proposing to delete its anti-scooping rule at this time.

The other Amendments pertain directly to the TSX Market Making system. CNSX is the only other Canadian marketplace that offers market making functionality for securities that are listed on CNSX. The Market Making rules in the CNSX trading rules (sections 4-112 to 4-115) do not impose capital requirements on CNSX Market Makers. There is no rule imposing stabilization

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[1] "Neutral Trades" means trades that would otherwise be destabilizing trades except that:
(a) the Market Maker is unwinding a long or short position in a security taken previously
(b) the trades is made pursuant to the Market Maker's obligation to fill a MGF order
(c) the trade is made pursuant to the Market Maker's obligation to maintain a specific maximum spread between bid and ask quotes; or
(d) the trades is made for the purpose of maintaining a proportionate market (based on the conversion ratio) in a security that another security is convertible into or in the convertible security; provided that , in the case of the exceptions in (b), (c), and (d) above, the Market Maker is on the passive side of the trade.

requirements on CNSX Market Makers. CNSX Rule 4-113(3) governs executions by Market Makers of tradeable orders, but it does not include the level of price execution detail TSX is proposing for booked oddlots that become tradeable. CNSX Rule 4-114 is the general rule that Market Makers are not obliged to accept or handle a non-client or principal order. The Amendments go beyond CNSX's provision. The new language proposed in TSX Policy 4-802(1) provides additional clarity on orders that are not eligible to participate in the MGF Facility.

IX. Public Interest Assessment

We submit that in accordance with the Protocol for Commission Oversight of Toronto Stock Exchange Rule Proposals, the Amendments will be considered "public interest" in nature. The Amendments would, therefore, only become effective following public notice, a comment period and the approval of the Commission.

X. Questions

Questions concerning this notice should be directed to Victor Ciampini, Manager, Market Quality, TSX Markets at victor.ciampini@tmx.com or Deanna Dobrowsky, Director, Regulatory Affairs, TMX Group Inc. at deanna.dobrowsky@tmx.com.

APPENDIX "A"

Rules of the Toronto Stock Exchange

Rule 4-602 Qualifications (Amended)

(1) No person shall be approved as a Market Maker unless such person has demonstrated market making experience that is acceptable to the Exchange.

(2) No Participating Organization shall be approved as a Market Maker Firm unless the Participating Organization:

(a) has provided sufficient trading desk and operations area support staff~~,~~; and

(b) has installed a terminal acceptable to the Exchange that will permit it to properly carry out its market making responsibilities~~, and~~.

~~(c) satisfies the minimum capital requirements as determined by the Exchange in order for the Participating Organization to support its market making responsibilities.~~

(c) Repealed (•)

Amended (~~July 23, 2004~~•)

Policy 4-602 Qualifications

(1) Designated Market Maker Contact

Market Maker Firms are required to have experienced personnel to effectively perform the market making assignments. In addition to appointing a Responsible Designated Trader for each security of responsibility, a Market Maker Firm must designate an individual within the firm to manage the firm's market making responsibilities and to be the primary contact with the Exchange with respect to the firm's market making assignments.

(2) Capital Requirements

~~Market Maker Firms are required to satisfy and maintain minimum capital requirements as determined by the Exchange from time to time, and shall notify the Exchange promptly in the event of a failure to meet such capital requirements. An example of the financial data that must be provided by a Market Maker Firm is set out in the form provided on the TSX website. The Exchange believes that it is paramount that Market Maker Firms have sufficient financial resources to effectively perform their market making responsibilities. Failure to satisfy the capital requirements may result in a reallocation of security assignments by the Exchange to another Market Maker.~~
Repealed (•)

~~Amended (July 23, 2004)~~

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Rule 4-604 Responsibilities of Market Makers (Amended)

Market Makers shall trade on behalf of their own accounts to a reasonable degree under existing circumstances, particularly when there is a lack of price continuity and lack of depth in the market or a temporary disparity between supply and demand and in each of their securities of responsibility shall:

(a) contribute to market liquidity and depth, and moderate price volatility;

(b) maintain a continuous two-sided market within the spread goal for the security agreed upon with the Exchange;

(c) maintain a market for the security on the Exchange that is competitive with the market for the security on the other exchanges on which it trades;

(d) perform their duties in a manner that serves to uphold the integrity and reputation of the Exchange;

(e) in the case of a Market Maker Firm, arrange for a back-up Responsible Designated Trader for each security assignment, and in the case of a Market Maker that is an Approved Trader, arrange for a back-up Market Maker, who in their absence, will carry out the responsibilities set out in this Rule;

(f) guarantee fills for incoming tradeable odd lot and mixed lot orders at the current board lot quotation~~;~~ , and fill booked oddlots which become tradeable due to a boardlot quote change at the oddlot's original limit price

(g) maintain the size of the Minimum Guaranteed Fill requirements agreed upon with the Exchange;

(h) comply with the Minimum Guaranteed Fill requirements agreed upon with the Exchange, which include guaranteeing an automatic and immediate "one price" execution of disclosed MGF-eligible orders;

(i) be responsible for managing the opening of their securities of responsibility in accordance with Exchange Requirements and, if necessary, for opening those securities or, if appropriate, requesting that a Market Surveillance Official delay the opening;

(j) assume responsibility for certain additional listed securities in accordance with applicable Exchange Requirements;

(k) assist Participating Organizations in executing orders; and

(l) assist the Exchange by providing information regarding recent trading activity and interest in their securities of responsibility.

Amended (~~March 1, 2011~~•)

Policy 4-604 Responsibilities of Market Makers

(1) Assistance to Market Surveillance Officials and Participating Organizations

Market Makers shall report forthwith any unusual situation, rumour, activity, price change or transaction in any of their securities of responsibility to a Market Surveillance Official. As much as possible, Market Makers shall assist Participating Organizations' traders by providing them with information regarding recent trading activity and interest in their securities of responsibility. They shall assist traders in matching offsetting orders. Based on their knowledge of current market conditions, Market Makers shall, on a best efforts basis, identify anomalies in Participating Organizations' orders in the Book and bring them to the attention of those Participating Organizations or to the Exchange.

(2) Availability and Coverage

Each Market Maker must ensure that its securities of responsibility are continuously monitored during the trading day. In this regard, Market Makers must have adequate back-up procedures and coverage by qualified individuals in cases of any absences due to illness, vacation or other reasons.

(3) Maintenance of a Two-Sided Market

Market Makers must call a continuous two-sided market in their securities of responsibility. In order to assist them in carrying out this responsibility, Market Makers are given certain privileges and are exempted pursuant to Rule 3.1 of UMIR from the short sale rule when carrying out their market making obligations.

1. **Spread Maintenance**—Market Makers shall maintain the spread goal agreed upon with the Exchange in each of their securities of responsibility on a time-weighted average basis. The Exchange monitors spreads on an ongoing basis, and assesses the performance of Market Makers on a monthly basis.

2. **Relief from Spread Goals**—The initial establishment of a spread goal for a security is subject to negotiation between each Market Maker and the Exchange. The Market Maker shall notify the Exchange if the Market Maker is unable to maintain its spread goal. Any further changes to the spread goal are also subject to negotiation.

3. **Odd-lot Responsibilities**—General—Market Makers shall maintain an odd lot market at the board lot quotation for immediately tradeable incoming oddlots. Booked oddlots which become tradeable due to a boardlot quote change will execute at their original limit price.

Expiring Rights and Warrants—Market Makers shall not be responsible for providing bids and offers for odd lots in rights and warrants within 10 days of the date of expiry of the right or warrant. If a Market Maker chooses to trade odd lots of such securities during this period, the Market Maker must do so at the board lot quotation unless prior consent of a Market Surveillance Official for a wider spread is obtained.

Special Circumstances—The above exemption is also available in any securities that are affected by special circumstances relative to that security. If a Market Maker wishes to call an odd-lot market at a different price than the board lot market, the prior consent of a Market Surveillance Official must be obtained.

4. **Relief from Responsibilities in Unusual Situations**—In extreme cases, such as illiquidity in a security on expiry of a take-over bid, a Market Surveillance Official may relieve a Market Maker from its responsibility to maintain a posted bid or offer. This exemption is also available when a Market Maker's obligation to post an offer would require it to assume or to increase a short position in a security that the Market Maker cannot reasonably be expected to cover because of the relative liquidity of that security or lack of securities available for borrowing.

5. **Client Priority and Frontrunning**

Client Priority—The in-house client priority rule in UMIR Rule 5.3 requires Participating Organizations to execute their client orders ahead of any non- client orders at the same price. This rule applies to trading by Market Makers. Market Makers may participate in trading with one or more of their firm's client orders if the Participating Organization obtains the express consent of the client(s) involved.

Frontrunning Client Orders—UMIR Rule 4.1 prohibits Participating Organizations, Approved Persons and persons associated with a Participating Organization from taking advantage of non-public material information concerning imminent transactions in equities, options or futures markets. Information about a trade is material if the trade would reasonably be expected to move the market in which the frontrunning trade is made. The frontrunning restrictions apply to Market Makers. Participating Organizations, Approved Persons and persons associated with a Participating Organization are prohibited from taking advantage of a client's order by trading ahead of it in the same or a related market. A trade made solely for the benefit of the client for whom the imminent transaction will be made, and a trade that is a bona fide hedge of a position that the Participating Organization has agreed to assume from a client, are exempt from the restrictions.

Frontrunning in Options and Futures—The restrictions further prohibit a frontrunning trade in the options or futures markets with knowledge of an imminent undisclosed material transaction in any of the equities, options or futures markets, including transactions by another Participating Organization. Again, a trade made solely for the benefit of the client for whom the imminent transaction will be made, and a trade that is a bona fide hedge of a position that the Participating Organization has assumed or agreed to assume from a client, are exempt from the restrictions.

Tipping and Trading Ahead—Participating Organizations and Approved Persons and persons associated with a Participating Organization are prohibited from tipping others about an imminent undisclosed material order to be executed for one of the firm' s clients in any market, including the equities market.

The Participating Organization executing the order may, however, contact the Market Maker to ask for assistance (for example, to ask if the Market Maker knows of Participating Organizations who may want to take the other side of the trade). If details of an imminent material trade in one of their securities of responsibility have been disclosed by another Participating Organization to the Market Maker, the Market Maker is prohibited from trading ahead of that order unless the Market Maker receives the express consent of the Participating Organization involved.

6. **Client-Principal Trading**—Trades by Market Makers with clients of their Participating Organization, whether made pursuant to their market-making obligations or not, must comply with all UMIR Requirements governing client-principal trading.

Amended **(**~~July 23, 2004~~**•)**

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Rule 4-605 Stabilizing Trades (Amended)

~~(1) In this Rule, "neutral trades" means trades that would otherwise be destabilizing trades except that:~~

~~(a) the Market Maker is unwinding a long or short position in a security taken previously;~~

~~(b) the trade is made pursuant to the Market Maker's obligation to fill a MGF order;~~

~~(c) the trade is made pursuant to the Market Maker's obligation to maintain a specific maximum spread between bid and ask quotes; or~~

~~(d) the trade is made for the purpose of maintaining a proportionate market (based on the conversion ratio) in a security that another security is convertible into or in the convertible security;~~

~~provided that, in the case of the exceptions in (b), (c), and (d) above, the Market Maker is on the passive side of the trade.~~

~~(2) At least 70% of Market Makers' trades in their securities of responsibility shall be stabilizing or neutral trades.~~

~~Amended (July 23, 2004)~~
Repealed (•)

Policy 4-605 Stabilizing Trades

~~(1) Reporting and Performance Measurement~~

~~In accordance with Rule 4-605(2), it is expected that at least 70% to 80% of Market Makers' trades in their securities of responsibility shall be stabilizing or neutral trades. Performance in this area will be measured periodically by the Exchange and reported to the Exchange. If 30% or more of a Market Maker's trades in their securities of responsibility are destabilizing trades, based on the number of transactions, share volume, dollar value of trading or any combination of those factors, the Market Maker's performance shall be considered unsatisfactory and the Market Maker may be subject to any of the penalties set out in this Policy.~~

~~(2) Exemption for Certain Interlisted Securities~~

~~In order to encourage trading in certain interlisted securities on the Exchange, Market Makers shall be exempt from the stabilization requirements in dealing in all U.S.-based interlisted issues and in those Canadian-based interlisted issues in which more than 25% of the trading occurred on exchanges in the United States or on NASDAQ in the preceding year.~~

~~(3) Application of Stabilization Requirement to Trading in Other Markets~~

~~The stabilization requirements apply to all trading by Market Makers in listed securities, whether on the Exchange or on another Canadian exchange. The exemptions contained in this Policy also apply to such trading.~~

~~Amended (July 23, 2004)~~

Repealed (•)

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Rule 4-701 Execution of Trades at the Opening

(1) Subject to Rule 4-702, listed securities shall open for trading at the opening time, and any opening trades shall be at the calculated opening price.

(2) The following orders shall be completely filled at the opening:

(a) market orders and better-priced limit orders~~ for client accounts~~; and

(b) MBF orders~~;~~.

~~(c) market orders and better-priced limit orders for non-client accounts that were entered prior to the two minutes immediately preceding the opening time; and~~

~~(d) market orders and better-priced limit orders for non-client accounts that were entered during the two minutes immediately preceding the opening time where the opening of the security is delayed pursuant to Rule 4-702, or where the order affected the Calculated Opening Price.~~

(c) Repealed (•)

(d) Repealed (•)

Amended (~~September 12, 2008~~•)

(3) The following orders are eligible to participate in the opening but are not guaranteed to be filled:

(a) Repealed (August 7, 2001)

(b) limit orders at the opening price~~; and~~.

~~(c) market orders and better-priced limit orders for non-client accounts that were entered during the two minutes immediately preceding the opening time and that did not affect the Calculated Opening Price, where the security opens at the opening time.~~

(c) Repealed (•)

Amended (~~September 12, 2008~~•)

(4) Unless otherwise provided, trades shall be allocated among orders at the opening price in the following manner and sequence:

(a) trades shall be allocated to orders guaranteed a fill pursuant to Rule 4-701(2) then;

(b) all possible crosses shall be executed; then

(c) Repealed (August 7, 2001)

(d) to limit orders at the opening price according to time priority.

(5) Repealed (August 7, 2001)

(6) Repealed (August 7, 2001)

(7) Orders at the opening price that are not completely filled at the opening shall remain in the Book, at the opening price.

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Policy 4-802 Allocation of Trades

(1) MGF Facility

The MGF facility provides an automatic and immediate "one price" execution of Participating Organizations' disclosed client market orders and disclosed client tradeable limit orders, of up to the MGF in the security at the current displayed market price. For purpose of the MGF Facility, client order means any order that does not satisfy definition under Policy 4-802-1(a)(ii) – MGF Ineligible Orders.

~~(~~a) Obligations

(i) Market Makers shall buy or sell the balance of an incoming MGF-eligible disclosed order at the current market price when there are not sufficient committed orders to fill the incoming order at that price. Market Makers shall also purchase or sell to any imbalance of MGF-eligible disclosed orders on the opening that cannot be filled by orders in the Book.

(ii) MGF Ineligible Orders must be marked as MGF-NO, and are defined as orders that meet any or all of the conditions specified below:

1. If a client order is entered on the Exchange in a size smaller than the MGF for that security, but is part of a larger order (including an order that is split and sent to more than one marketplace for execution), or if multiple orders smaller than the MGF for a security are received from/entered by the same client, on a given day, the orders are MGF Ineligible.

2. Any order entered by a Direct Market Access (DMA) client, whether an individual, or broker, is MGF Ineligible (unless the DMA client is a broker acting as an “agent” for retail client order flow).

3. Any client order generated by a computer algorithm is MGF Ineligible.

4. Generally any order from customer who is involved in trading the markets directly on an active and continuous daily basis is MGF Ineligible.

5. Any order on behalf of a U.S. broker-dealer ("U.S. dealer"). This restriction does not include orders on behalf of a client of a U.S. dealer. See Policy 4-802(3) below.

MGF fills which occur in violation of the guidelines detailed above may be cancelled by the Exchange upon request by the Market Maker. Notwithstanding the above, the Exchange may cancel any trades deemed to be improper use of the MGF facility, or take such other action as the Exchange considers appropriate in the circumstances.

(b) Size of MGF

The minimum size of MGF is calculated as one share less than two board lots.

For example, for securities with a board lot size of 100 securities, the minimum is 199 securities. This minimum is acceptable for Tier A securities and Tier B securities. The calculated minimum MGF may; however, be set at a size that is higher than the minimum. For example, the minimum size of the MGF for Tier A securities is usually greater than 599 shares (for securities with a 100 share board lot).

(2) Market Maker Participation

At the option of the Market Maker, the Market Maker may participate in any disclosed immediately tradeable orders (including non-client and MGF-ineligible orders) that are equal to or less than the size of the Market Maker's MGF for the security. The Market Maker may participate for 40% of the MGF order at the bid price, the ask price, or both. While the Market Maker is participating, all disclosed client orders that are equal to or less in size than the MGF for the security, including those marked "~~BK~~MGF-NO", shall be guaranteed a fill. If the Market Maker is not participating, only disclosed MGF-eligible orders shall be guaranteed a fill.

(3) Use of MGF by US Dealers

Orders on behalf of ~~American securities dealers ("~~U.S. dealers~~")~~ to buy or sell listed securities ~~that are interlisted with NASDAQ~~ are not eligible for entry into the MGF system. The orders (if they would otherwise be MGF-eligible) must be marked ~~"BK"~~MGF-NO in order to avoid triggering the responsible Market Maker's MGF obligation. This Policy applies even if the U.S. dealer is paying a commission. Orders on behalf of clients of U.S. dealers are eligible for entry into the system. Participating Organizations accepting an order from a U.S. dealer must ascertain whether the order is on behalf of a client. If the Participating Organization is unable to determine the status of the order, the order is to be treated as ineligible for entry into the MGF system. Orders on behalf of U.S. dealers that are facilitating a trade for a client of that dealer (i.e. the dealer has already filled the client's trade in the US by acting as the counterparty to the trade, and is now offsetting that position on the Exchange) are not eligible for entry into the MGF system and must be marked ~~"BK".~~ MGF-NO.

Amended (•)

(4) Oddlot Facility

Market Makers also guarantee incoming tradeable odd lots at the best posted market on the Exchange. The Market Maker's responsibilities in regard to odd lots are the same as its responsibilities for MGF's. Participating Organizations are not permitted to: split larger orders from a single account into odd lots; enter multiple odd lots from a single account on a specific security on a given day; or enter the odd lot portion of a mixed lot order immediately prior to entering the board lot portion.

~~Amended (March 1, 2011)~~

Oddlot fills which occur in violation of the guidelines detailed above may be cancelled by the Exchange upon request by the Market Maker. Notwithstanding the above, the Exchange may cancel any trades deemed to be improper use of the Odd Lot facility, or take such other action as the Exchange considers appropriate in the circumstances.