NASDAQ CXC LIMITED
NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Nasdaq CXC Limited (Nasdaq Canada) has announced plans to implement the changes described below in Q4 2019 subject to regulatory approval. Nasdaq Canada is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto (Exchange Protocol). Pursuant to the Exchange Protocol, market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by July 2, 2019 to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Fax 416 595 8940
Email: marketregulation@osc.gov.on.ca

And to

Matt Thompson
Chief Compliance Officer
Nasdaq CXC Limited
25 York St., Suite 900
Toronto, ON M5J 2V5
Email: matthew.thompson@nasdaq.com

Comments received will be made public on the OSC website. Upon completion of the Review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

NASDAQ CXC LIMITED
NOTICE OF PROPOSED CHANGES

Nasdaq Canada has announced plans to introduce the following change in Q4 2019 subject to regulatory approval. Nasdaq Canada is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Exchange Protocol.

Summary of Proposed Changes

Midpoint Extended Life Order

Nasdaq Canada is proposing to introduce the Midpoint Extended Life Order (M-ELO) for the CXC Trading Book. The M-ELO is a non-displayed order that trades at the midpoint of the NBBO. Unlike a Mid Peg order, the M-ELO order must meet a minimum resting time requirement in the order book before it becomes eligible to trade (Minimum Resting Time or MRT).[1] M-ELO orders are only eligible to trade against contra-side M-ELO orders – they will not interact with other orders in the order book. An execution between two M-ELO orders will only occur after each M-ELO order has met the MRT. Modifications made to an M-ELO order (other than a reduction in quantity) will result in the MRT being reset. M-ELO orders can be cancelled at any time including the time before the MRT has been satisfied and the M-ELO order becomes eligible to trade. M-ELO executions will only occur at the midpoint of the NBBO.

Similar to Mid-Peg orders Members have the option to enter a limit price when entering an M-ELO that can be either a full or a half-tick increment. In the case where an M-ELO is entered with a limit price, the M-ELO will only be eligible to trade if the midpoint of the NBBO on a security is within the limit price of the order. Adding a pegged offset is not permitted for M-ELO orders.

M-ELO orders are available to trade during regular trading hours between 9:30 a.m. and 4:00 p.m. M-ELO orders are accepted by the Nasdaq Canada System between 8:00 a.m. and 9:30 a.m. but held until 9:30 a.m. when the orders are booked and become eligible to trade after the MRT has been satisfied. Open M-ELO orders are cancelled at 4:00 p.m. M-ELO orders will not trade if the NBBO for a security is locked or crossed.

M-ELO orders can be entered with or without attribution by selecting the anonymous order marker. Matching priority for M-ELO orders is based on Broker/Time priority. Unique to M-ELO orders, broker priority is applicable to both anonymous and attributed orders. M-ELO orders will be entered with a unique FIX tag value identifying that the order is a M-ELO order.

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[1] The specific time for the Minimum Resting Time will be communicated to Nasdaq Canada Exchange members by way of Notice.

How it Works[2]

Example 1:

		BID	ASK	
NBBO (midpoint 10.005)		10.00	10.01	
CXC Book	M-ELO (500)	10.005		

Action: M-ELO sell order is entered in the CXC Trading Book for 500 shares

Result: The M-ELO sell order will execute against the M-ELO buy order for 500 shares after it meets the MTR

Example 2:

		BID	ASK	
NBBO (midpoint 10.005)		10.00	10.01	
CXC Book	M-ELO (500)	10.005		

Action: M-ELO sell order is entered in the CXC Book for 500 shares

M-ELO buy order is cancelled before the M-ELO sell order meets the MRT

		BID	ASK	
NBBO (midpoint 10.005)		10.00	10.01	
CXC Book			10.005	M-ELO (500)

Result: The M-ELO sell order will not execute against the M-ELO buy order because it did not meet the MRT prior to the M-ELO buy order being cancelled.

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[2] Mid Peg M-ELO orders are used in all examples.

Example 3:

		BID	ASK	
NBBO (midpoint 10.005)		10.00	10.01	
CXC Book	M-ELO (500)	10.005		

Action: A sell order is entered in the CXC Book with a limit price of $10.00 moving the NBBO from 10.00 – 10.01 to 9.99 – 10.00

		BID	ASK	
NBBO (midpoint 9.995)		9.99	10.00	
CXC Book	M-ELO (500)	9.995		

Result: The sell limit order will not interact with the M-ELO. M-ELO orders are only eligible to interact with other M-ELO orders.

The sell limit order will establish a new NBBO of 9.99 – 10.00.

The M-ELO buy order will be repriced to the midpoint of the new NBBO (9.995).

Action: A sell M-ELO is entered on CXC for 500 shares.

Result: The sell M-ELO will execute against the buy M-ELO at 9.995 after it meets the MRT

Example 4:

		BID	ASK	
NBBO (midpoint 10.01)		10.00	10.02	
CXC Book	M-ELO LP 10.01 (500)	10.01		

Action: A buy order is entered on the CXC Book with a limit price of 10.01 moving the NBBO to 10.01 – 10.02 and a new midpoint price of 10.015

		BID	ASK	
NBBO (midpoint 10.015)		10.01	10.02	
CXC Book	M-ELO LP 10.01 (500)	10.01		

Result: The M-ELO buy order will not be repriced to the new midpoint (10.015) because it is above its limit price. The buy M-ELO order will remain in the trading system at its limit price of 10.01 but will not be eligible to trade.

Action: A sell Mid-Peg M-ELO is entered for 500 shares.

		BID	ASK	
NBBO (midpoint 10.01)		10.01	10.02	
CXC Book	M-ELO LP 10.01 (500)	10.01	10.015	M-ELO (500)

Result: The sell M-ELO will float at the midpoint (10.015)

The buy M-ELO will continue to remain in the trading system at its limit price (10.01)

Action: A sell order is entered in the CXC Book with a limit price of $10.01 moving the NBBO from 10.01 – 10.02 to 10.00 – 10.01 and a new midpoint price of 10.005.

		BID	ASK	
NBBO (midpoint 10.005)		10.00	10.01	
CXC Book	M-ELO LP 10.01 (500)	10.005	10.005	M-ELO (500)

Result: The buy M-ELO will be repriced and at the new midpoint (10.005) becoming eligible to trade because this midpoint price is below its limit price.

The sell M-ELO will be repriced to the new midpoint (10.005) and will execute against the buy M-ELO order.

Expected Date of Implementation

Subject to regulatory approval, we are expecting to introduce the M-ELO in Q4 2019.

Rationale and Relevant Supporting Analysis

The M-ELO is designed to attract and unite counterparties with longer-term investment horizons. By de-emphasizing speed and immediacy, the M-ELO facilitates long-term strategies by reducing the opportunity for latency arbitrage and adverse selection for non-latency sensitive participants. The M-ELO will limit market impact when managing large sized orders. By combining the benefits of reducing adverse selection with limiting market impact, the M-ELO is ideally suited for institutional investors and the algorithms they

use. In addition, by permitting cancellations of M-ELO orders prior to the MRT, Members are able to effectively manage risk.

By making the M-ELO available on the CXC Trading Book the M-ELO provides an alternative to a speedbump market without disrupting current dealer routing practices. Members will also be able to leverage existing connectivity to Nasdaq Canada which in turn will reduce costs.

<u>Expected Impact on Market Structure</u>

Nasdaq Canada is introducing the M-ELO in response to consultations with Members that have expressed the need to have additional trading tools available to facilitate non-latency sensitive trading strategies. We expect the M-ELO will assist Members in this regard by decreasing adverse selection and trading costs.

<u>Expected Impact on the Exchange's Compliance with Ontario Securities Law</u>

The proposed changes will not impact Nasdaq Canada's compliance with Ontario securities law.

<u>Consultation and Review</u>

This change is being made in response to feedback solicited by Members.

<u>Estimated Time Required by Subscribers and Vendors (or why a reasonable estimate is not provided)</u>

Some optional development work will be required by Members and vendors that choose to incorporate the proposed order types into their trading systems. Based on the intended implementation date we anticipate that there will be at least 90 days between regulatory approval of the proposed changes and implementation, which should be sufficient for those who decide to implement the M-ELO into their trading systems.

<u>Will Proposed Fee Change or Significant Change introduce a Fee Model or Feature that Currently Exists in other Markets or Jurisdictions</u>

Yes, The M-ELO is supported by Nasdaq in the United States. In Canada the CMO order is a similar order type supported by the TSX and TSX-V.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited: matthew.thompson@nasdaq.com, T: 647-243-6242