13.2.2   Nasdaq CXC Limited – Notice of Proposed Changes and Request for Comment

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 2018 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 June 18, 2018 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 changes in Q4, 2018 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

A)   Minimum Acceptable Quantity at the Touch (MAQ ATT)

Nasdaq Canada is proposing to introduce the MAQ ATT order for the CXD Trading Book. The MAQ ATT is an active order which specifies a minimum size quantity that must be met by individual contra-side resting orders at the NBBO (at the touch) in order to trade, after all other better priced orders have been displaced in the CXD Trading Book. The minimum size requirement is only required to be met by individual orders posted at the NBBO; the MAQ ATT will trade against any sized order that is posted at a price level that is better than the NBBO. If the MAQ ATT minimum size quantity is not met at the NBBO after all other better prices orders have been displaced the order will be cancelled back to the Member.

Members are able to customize the minimum size quantity of MAQ ATT orders to meet their trading objectives. MAQ ATT orders can only include multiples of Board Lots. If the remaining amount of shares of an MAQ ATT order becomes less than the minimum size quantity specified by the order, the minimum size quantity will become the amount of remaining shares. Execution of MAQ ATT orders is only available at the NBBO if the size of the MAQ ATT order meets the minimum size requirement set by IIROC.[1] If the order does not meet IIROC's minimum size requirement the order will be cancelled back.

How it Works

Example 1:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	500
			10.12	500
			10.13	6000
Total Ask Size on CXD at NBBO				**(6,000)**

Action: MAQ ATT buy order is entered for 10,000 shares with a 10.13 limit price and a 6000 share minimum size requirement.

Result: The order executes against the 500 shares offered at 10.11 and against the 500 shares offered at 10.12 leaving 9,000 shares remaining. Because there is a resting order at 10.13 that satisfies the order's minimum size requirement of 6,000, 6,000 shares of the order are executed at 10.13 and the remaining 3,000 shares are cancelled back.

Example 2:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	500
			10.12	500
			10.13	5,000 (P1)
			10.13	5,000 (P2)
Total Ask Size on CXD at NBBO				**(10,000)**

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[1]   IIROC's Minimum Size Requirements is defined as an order for more than 50 standard trading units or has a value of more than $100,000.

Action: MAQ ATT buy order is entered for 10,000 shares with a 10.13 limit price with a 6000 share minimum size requirement.

Result: The order executes against the 500 shares offered at 10.11 and against the 500 shares offered at 10.12 leaving 9,000 shares outstanding. Because there is not a resting order at 10.13 that satisfies the order's minimum size requirement of 6,000, the order is cancelled back.

Example 3:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	2000
			10.12	2500
			10.13	6,000 (P1)
			10.13	6,000 (P2)
Total Ask Size on CXD at NBBO				**(12,000)**

Action: MAQ ATT buy order is entered for 10,000 shares with a 10.13 limit price with a 6000 share minimum size requirement.

Result: The order executes against the 2000 shares offered at 10.11 and against the 2500 shares offered at 10.12 leaving 5,500 shares. Because the residual size of the order is less than the minimum size requirement the minimum size becomes the size of the order (5,500 shares). There is sufficient liquidity at 10.13 to satisfy the new MAQ minimum size requirement of 5,500 which executes at 10.13 (against the 6,000 sell order with priority in the order book (P1)).

B)   Minimum Quantity at the Touch (MQ ATT)

Nasdaq Canada is proposing to introduce the MQ ATT order for the CXD Trading Book. The MQ ATT is an active order which specifies a minimum size quantity that must be satisfied by the aggregate of contra-side resting orders at the NBBO (at the touch) in order to trade, after all other better priced orders have been displaced in the CXD Trading Book. The minimum size requirement is only required to be met by orders posted at the NBBO; the MQ ATT will trade against any sized order posted at a price level that is better than the NBBO. If the MQ ATT minimum size quantity is not met by the aggregate share size at the NBBO after all other better prices orders have been displaced the order will be cancelled back.

Members are able to customize the minimum size quantity of MQ ATT orders to meet their trading objectives. MQ ATT orders can only include multiples of Board Lots. If the remaining amount of shares of an MQ ATT order becomes less than the minimum size quantity specified by the order, the minimum size quantity will become the amount of shares remaining. Execution of MQ ATT orders is only available at the NBBO if the size of the MQ ATT order meets the minimum size requirements of IIROC's Dark Rule Framework. If the MQ ATT order does not meet IIROC's minimum size requirement the order will be cancelled back.

How it Works

Example 1:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	500
			10.12	500
			10.13	5000 (P1)
			10.13	5000 (P2)
Total Ask Size on CXD at NBBO				**(10,000)**

Action: MQ ATT buy order is entered for 10,000 shares with a 10.13 limit price and a 6000 share minimum size requirement.

Result: The order executes against the 500 shares offered at 10.11 and against the 500 shares offered at 10.12 leaving 9,000 shares remaining. Because there is sufficient liquidity at 10.13 to satisfy the minimum size requirement of 6,000 and the residual size of the order, the remaining 9,000 shares are executed at 10.13 (5000 shares against the 5,000 share order with priority in the order book (P1) and 500 shares against the 5,000 share order with priority next in the order book (P2)).

Example 2:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	500
			10.12	500
			10.13	3,000 (P1)
			10.13	2,000 (P2)
Total Ask Size on CXD at NBBO				**(5,000)**

Action: MQ ATT buy order is entered for 10,000 shares with a 10.13 limit price with a 6000 share minimum size requirement.

Result: The order executes against the 500 shares offered at 10.11 and against the 500 shares offered at 10.12 leaving 9,000 shares remaining. Because there is not sufficient liquidity at 10.13 to satisfy the MQ ATT minimum size requirement of 6,000 shares (there are only 5,000 shares available) the remaining 9,000 shares are cancelled back.

Example 3:

	BID Size	BID	ASK	ASK Size
NBBO		10.10	10.13	
CXD Book			10.11	2000
			10.12	2500
			10.13	3,000 (P1)
			10.13	2,500 (P2)
Total Ask Size at NBBO				**(5,500)**

Action: MQ ATT buy order is entered for 10,000 shares with a 10.13 limit price and a 6000 share minimum size requirement.

Result: The order executes against the 2000 shares offered at 10.11 and against the 2500 shares offered at 10.12 leaving 5,500 shares remaining. Because the residual size of the order is less than the minimum size requirement (6,000 shares) the minimum size becomes the size of the order (5,500 shares). There is sufficient liquidity at 10.13 to satisfy the new MQ ATT minimum size requirement of 5,500 which executes at 10.13 (3,000 shares against the 3,000 share order with priority in the order book (P1) and 2,500 shares against the 2,500 share order with priority next in the order book (P2)).

C)   Seek Price Improvement Order (SPI)

Nasdaq Canada is proposing to introduce the SPI order for all Trading Books. SPI orders are active IOC orders intended to execute against available dark liquidity within the NBBO. An SPI order will execute against dark resting orders at prices up to (or down to) and including orders one tick increment inside of the opposite side of the NBBO (or up to the SPI order's limit price if the limit price is less aggressive). When the NBBO spread is one tick increment wide, the SPI order will execute against dark resting orders at the mid-point of the NBBO. Any shares of an SPI order that are not immediately executed will be cancelled back to the Member.

How it Works

Example 1:

	BID Size	BID	ASK	ASK Size
NBBO		10.00	10.05	
CXD Book	100	10.02		
	500	10.01		
	500	10.00		

Action: An SPI sell order for 1,000 shares is entered with a limit price of 10.00.

Result: The order executes against the 100 shares offered at 10.02 and against the 500 shares offered at 10.01 and the remaining 400 shares of the SPI order are cancelled back.

Example 2:

	BID Size	BID	ASK	ASK Size
NBBO		10.00	10.01	
CXD Book			10.005	100
			10.01	500

Action: An SPI buy order for 1,000 shares is entered with a limit price of 10.01.

Result: The order executes against the 100 shares offered at 10.005 and the remaining 900 shares of the SPI order are cancelled back.

Expected Date of Implementation

Subject to regulatory approval we are expecting to introduce these features in Q4 2018.

Rationale and Relevant Supporting Analysis

MAQ ATT

Nasdaq Canada is proposing to introduce the MAQ ATT order for the CXD Trading Book to maximize price improvement opportunities for Members while at the same time providing them a tool to mitigate the risk of information leakage. By specifying a minimum size requirement to trade at the NBBO Members can prevent small size orders from trading against their orders and in turn mitigate the risk of participants gaining information that a large size order has been entered in the market. In order to interact with an MAQ ATT order, participants will be required to post sufficient size and absorb commensurate risk.

MQ ATT

Nasdaq Canada is proposing to introduce the MQ ATT order for the CXD Trading Book which will allow Members to maximize price improvement opportunities while at the same time providing them a tool to mitigate the risk of information leakage. The MQ ATT provides added flexibility for Members that want to set a minimum size requirement but are willing to trade against all available orders at the NBBO to trade. In order to interact with an MQ ATT order, participants will be required to post sufficient size and absorb commensurate risk.

SPI

Nasdaq Canada is proposing to introduce the SPI to provide Members with an additional tool to be used for dark trading strategies where a Members' objective is to trade against all available dark liquidity before trading against the lit NBBO.

Expected Impact on Market Structure Impact of the Changes

Nasdaq Canada is introducing these changes in response to consultations with Members that have expressed the need to have additional trading tools available to execute their dark trading strategies. We expect that these order types will assist Members in this regard by providing price and size improvement opportunities while reducing information leakage.

Consultation and Review

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

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

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 MQ ATT, MAQ ATT and SPI orders into their trading systems.

Discussion of any alternatives considered

No alternatives were considered.

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

The MAQ ATT and MQ ATT are variations of existing order types already supported by the market. The SPI order is supported by other marketplaces in Canada today.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited:
matthew.thompson@nasdaq.com, T: 416-647-6242