

## Chapter 13

# SROs, Marketplaces, Clearing Agencies and Trade Repositories

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### 13.2 Marketplaces

#### 13.2.1 Canadian Securities Exchange – Significant Change Subject to Public Comment – Amendments to Trading System Functionality & Features – Notice and Request for Comment

Notice 2017-015

September 21, 2017

#### CANADIAN SECURITIES EXCHANGE

#### SIGNIFICANT CHANGE SUBJECT TO PUBLIC COMMENT

#### AMENDMENTS TO TRADING SYSTEM FUNCTIONALITY & FEATURES

#### NOTICE AND REQUEST FOR COMMENT

CNSX Markets Inc., (CSE or the Exchange) is filing this Notice in accordance with the process for the Review and Approval of Rules and Information Contained in Form 21-101F1 and the Exhibits Thereto attached as Appendix B to the Exchange's recognition order ("Protocol"). The Exchange intends to implement enhancements to its trading system in response to customer feedback. The enhancements, including new order types and additional features for existing order types, are described below.

#### A. Description of the Proposed Changes

##### *Primary Price Improvement Peg Order Type*

Primary Price Improvement peg orders are dark orders that will be pegged to same side of the Protected NBBO with one increment<sup>1</sup> of price improvement.

- Buy orders will be pegged one increment better than the best bid and sell orders being pegged one increment better than the best offer.
- If the NBBO is locked or crossed (i.e. The NBBO bid is greater than or equal to the NBBO offer), the Primary Peg order will not trade. Pegged orders can be entered when the NBBO is locked or crossed but will not be priced or placed into the book until the condition is cleared.
- Peg orders will expire at the end of each day.
- Peg orders can be entered in any session where order entry is permitted but are only tradeable in continuous trading and only when the pegged order matching session has been enabled. (Peg Session is 9:30am - 4:00pm)

<sup>1</sup>increment is one tick or one half tick in the case of a \$0.01 spread

##### *Seek Dark Liquidity Only Order*

Seek Dark Liquidity orders are active IOC orders that will trade against dark resting orders only.

- Seek Dark orders will trade at prices up to and including one tick inside the opposite side of the Protected NBBO (or at the order's limit price if less aggressive).
- Seek Dark orders may trade against existing odd lots or odd lot portions of mixed lot tradable contra dark orders at or between the NBBO including automated odd lot fills by the CSE market maker where one is assigned.
- Any volume that is not immediately traded will be cancelled.
- The order behaves like an IOC order that will only execute against dark orders

##### *Pegged Order – Post Only option*

Support of the Post Only order option will be extended to pegged (dark) order types. Coincidental with the introduction of this option, pegged orders which are not marked as Post Only will be allowed to trade with tradeable opposing pegged orders already in the book.

- A pegged order that is not marked Post Only will be allowed to trade against any tradeable contra dark order already in the book.
- A pegged order marked Post Only will book rather than trade even if an otherwise tradeable contra dark order is already in the book.

*Pegged Order – Minimum Quantity option*

Minimum Quantity will be introduced as an option on pegged orders to restrict the pegged order to only trading with contra orders of a specified volume or greater.

- An active contra order for less than the specified minimum volume will not interact with a booked Min Qty order and will be allowed to trade through the Min Qty order to interact with other dark or lit orders in the book.
- On receipt, a Min Qty order interact with existing contra dark orders in the book having volumes at or greater than the specified minimum volume.
- Min Qty will only be supported on pegged order types (excluding Fade to Dark).

*Pegged Orders Outside the NBBO*

The behaviour of pegged orders will be corrected so that when the limit of a pegged order moves outside the NBBO, the pegged order will no longer be cancelled.

- This will be true for both cases where the NBBO moves away from the limit on a booked pegged order as well as for cases where the pegged order is entered with a limit already outside the NBBO.

*Minimum Quantity Order*

Minimum Quantity order is a visible order that will trade only against contra orders with a combined volume equal to or greater than the specified minimum.

- The Minimum Quantity order will trade actively against lit orders in the book and dark orders, but only if there is a sufficient combined volume to completely fill the Minimum Quantity order.
- If the Minimum Quantity order does not fill, it will be posted in the terms book.
- An active contra order with remaining volume equal to or greater than the specified minimum volume will trade with Minimum Quantity orders after any similarly priced orders in the lit book have traded.

*Fade to Dark Order*

Fade to Dark (FTD) orders are peg orders that, upon entry, trade against lit and/or dark resting orders at the NBBO before booking, then become hidden peg orders after a fixed display time of one second.

- FTD orders are mid-point, market, or primary peg orders.
- FTD orders will trade as active orders against resting dark or lit orders up to and including the NBBO.
- The unfilled balance of the active order will be displayed at the last traded (displayed) price, subject to OPR requirements.
- After a fixed display time of one second, the displayed order will effectively be cancelled and the hidden peg order booked.

*Step Limit Order*

Step Limit orders are lit orders, similar to regular limit orders but with self-adjusting limit prices (moving only in the direction of less aggressive) triggered by partial fills.

- Step Limit orders will trade as normal against lit and/or dark resting orders or post.
- Any portion of the order that is not immediately tradable will post in the lit book at the initially specified limit price.
- If after being booked the order receives a partial fill (including a fill resulting from broker preferencing), the limit price will automatically adjust to be one tick less aggressive. The limit will continue to adjust with no maximum or minimum price.
- The limit price on a Limit Improvement order will not be adjusted based on fills during an opening match. Adjustments will only be made following fills in continuous trading.

**B. Expected Implementation Date:** Q1 2018

**C. Rationale and Analysis**

CSE is offering the Primary Price Improvement Peg Order Type, Seek Dark Liquidity Only Order, Pegged Order Minimum Quantity option and the Pegged Order Post Only option in response to customer demand. The demand is for the functionality as well as consistency with the other marketplaces in Canada that have offered similar order types and options.

The Step Limit Order and Fade to Dark Order will assist with meeting the challenges of participating in a market where automation continues to play a larger role in competition and cost reduction. These order types represent minimal automation of functions already performed manually by customers that do not have the technology to facilitate automation.

The Minimum Quantity Order will address the demand for functionality that was removed by marketplaces with the advent of multiple markets in Canada, primarily because of the technical challenges to marketplaces and vendors but also decline in demand owing to lower commission fees.

The use of these order types is optional for participants.

**D. Expected Impact**

The expected impact is a more seamless and simplified workflow for Industry stakeholders. The changes respond to customer demand, and provide competition with the offerings of other marketplaces. The use of these order types is optional.

**E. Systemic Risk**

The CSE does not believe that any increase in systemic risk would be introduced with the approval or implementation of the proposed changes.

**F. Compliance with Ontario Securities Law**

There will be no impact on the CSE's compliance with Ontario securities law. The changes do not alter any of the requirements for fair access or the maintenance of fair and orderly markets.

**G. Consultation**

The CSE has consulted with a number of dealers and industry stakeholders and considered the feedback received during informal dialogue.

**H. Technology Changes**

As many of the proposed features are supported on other Canadian marketplaces, there should be no material effort required. The new order types are optional and would require minimal effort to implement.

**I. Alternatives**

The proposed changes address the feedback provided by clients and comply with regulatory requirements.

**J. Other Markets or Jurisdictions**

Most of the proposed functionality already exists in Canada and is currently provided by one or more marketplaces.

**K. Comments**

Please submit comments on the proposed amendments no later than October 16, 2017 to:

**Mark Faulkner**

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