

**B.11.2.2 TSX Inc. – Notice of Proposed Amendments and Request for Comments**

**TSX INC.**

**NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS**

TSX Inc. (“**TSX**”) is publishing this Notice of Proposed Amendments and Request for Comments in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto” to reflect the introduction of Providing Dark Liquidity functionality (the “**PDL Amendments**”) and a Do Not Trade Self-Trade Prevention Order Feature (the “**Self-Trade Prevention Amendments**”, and together with the PDL Amendments, the “**Amendments**”).

Market participants are invited to provide comments. Comments should be in writing and delivered by June 14, 2022 to:

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100 Adelaide Street West, Suite 300  
Toronto, Ontario M5H 1S3  
Email: [tsxrequestforcomments@tsx.com](mailto:tsxrequestforcomments@tsx.com)

A copy should also be provided to:

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
Email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by staff at the Ontario Securities Commission (“**OSC**”), and in the absence of any regulatory concerns, a notice will be published to confirm approval by the OSC.

**Background**

*PDL Amendments*

TSX DRK provides deep liquidity and rich functionality, and offers fully non-displayed orders (“**Dark Orders**”) and features on TSX listed securities and is uniquely integrated with the TSX displayed order book. TSX DRK allows institutional investors to trade without being displayed until after the trade has been executed and reported.

TSX DRK provides a dark-only active order called Seek Dark Liquidity (“**SDL**”) where orders are marked for immediate execution or cancelled. This order attribute is intended to be used when seeking a dark-only liquidity taking strategy, including when seeking solely to obtain price improvement for a client order. The PDL Amendments seek to introduce a dark-only passive order type to TSX DRK that does not currently exist.

*Self-Trade Prevention Amendments*

Currently, four types of solutions (“**Self-Trade Prevention Order Features**”) to assist trading participants in managing accidental trades with themselves (wash trades) are currently available on TSX:

- (i) Cancel Newest Self-Trade Prevention;
- (ii) Cancel Oldest Self-Trade Prevention;
- (iii) Decrement Largest and Cancel Smallest Self-Trade Prevention; and
- (iv) Self-Trade Management Order Feature.

The four options that TSX currently provides will result in canceling one side of the order or allowing the orders to trade and not printing the trade on the public feed. With the introduction of the PDL Amendments, a fifth option, Do Not Trade Self-Trading Prevention option, will be available to prevent unintentional wash trading while providing liquidity on both sides of the DRK book.

**Outline and Rationale of the Amendments**

*PDL Amendments*

As mentioned above, TSX DRK does not currently have dark-only passive order types. By offering a dark-only liquidity providing order (“**PDL**”) pursuant to the PDL Amendments, liquidity providers and institutional clients can limit possible adverse selection by not interacting with the displayed market. Additionally, liquidity providers have the option for their PDL order to only interact passively (using the existing post-only feature in combination with PDL) and optionally prevent unintentional wash trading while providing liquidity on both sides of the TSX DRK book (please see “Background - Self-Trade Prevention Amendments” above).

TSX expects more dark liquidity if liquidity providers are offered this form of price protection and order interaction, and by potentially not being filled simultaneously by the same contra order that could impact the National Best Bid Offer. More passive dark liquidity will result in additional quality and price improving executions for both the active (retail) orders and our liquidity providers. TSX anticipates that PDL will be beneficial to liquidity providers and algorithmic/institutional clients looking to interact with dark liquidity only and posted dark orders, while avoiding spread crossing liquidity.

*Self-Trade Prevention Amendments*

As mentioned above, the four Self-Trade Prevention Order Features that TSX currently provides will result in canceling one side of the order or allowing the orders to trade and not printing the trade on the public feed. Pursuant to the Self-Trade Prevention Amendments, TSX will provide a fifth option, Do Not Trade Self-Trading Prevention option, to prevent unintentional wash trading while providing liquidity on both sides of the DRK book. The Do Not Trade option is only valid with PDL and SDL order types during the continuous trading session.

The Self-Trade Prevention Amendments will introduce an optional order feature that prevents two orders from the same broker from executing against each other based on unique trading keys defined by the broker. TSX anticipates that the Self-Trade Prevention Amendments will provide more opportunities for our clients to participate on both sides of the market (ie. buy/sell) without unintentionally violating ‘wash trading’ rules under Universal Market Integrity Rules (“**UMIR**”). UMIR permits participants to place buy and sell orders on a market for a given stock at the same price so long as that participant only trades with others and does not cross its own orders. When used by our clients, the Self-Trade Prevention Amendments may ensure that there is no misleading appearance of additional trading in a stock.

**No changes to the TSX Rule Book are necessary as a result of, or to implement, the Amendments.**

Set out below, are three example scenarios that reflect a trade in TSX DRK pursuant to the (i) current rules; (ii) PDL Amendments; and (iii) the PDL and Self-Trade Prevention Amendments.

Scenario 1 - Current Rules: Seek Dark Liquidity Order

Order book before SDL order is received:

Bid			Ask		
Market	Quantity	Price	Price	Quantity	Market
TSX (Dark)	300	10.03			
TSX (Displayed)	1000	10	10.05	1000	TSX (Displayed)

Client sends a SDL sell order at \$10.02 for 1000 quantity.

Result: Execution of 300 shares at 10.03 from TSX DRK, the remaining quantity is cancelled.

**B.11: SROs, Marketplaces, Clearing Agencies and Trade Repositories**

Scenario 2 - PDL Amendments: Provide Dark Liquidity Order

Order book before PDL order is received:

Bid			Ask		
Market	Quantity	Price	Price	Quantity	Market
TSX (Dark)	300	10.03			
TSX (Displayed)	1000	10	10.05	1000	TSX (Displayed)

Client sends a PDL sell order at \$10.00 for 1000 quantity.

Result: Execution of 300 shares at 10.03 from TSX DRK, remaining quantity is repriced one-tick inside displayed quote and booked in the dark book at \$10.01.

Updated order book after execution:

Bid			Ask		
Market	Quantity	Price	Price	Quantity	Market
			10.01	700	TSX (Dark)
TSX (Displayed)	1000	10	10.05	1000	TSX (Displayed)

Scenario 3 - PDL order with Self-Trade Prevention option 'NoTrade' does not execute against own order; trades with another Participating Organization:

Order book before PDL order is received:

ID	Bid			Ask			ID
	Market	Quantity	Price	Price	Quantity	Market	
Broker A, Unique STP Key "BAYS9"	TSX (Dark)	100	10.00	10.02	400	TSX (Dark)	Broker B
Broker B	TSX (Dark)	100	9.99	10.02	100	TSX (Dark)	Broker C
	TSX (Displayed)	500	9.80	10.02	200	TSX (Dark)	Broker A, Unique STP Key "ABCD7"
				10.03		TSX (Displayed)	

*\*Please note broker letters are used for example purposes instead of the three-character Participating Organization number.*

An incoming PDL order from Broker A with Unique Key 'ABCD7' to buy 100 shares at \$10.02 is entered, then based on Price/Broker/Time priority, the trading engine seeks the contra sell-side order from Broker A at \$10.02 first. However, since the unique keys match, the order would execute against the quote based on time priority (Broker B's sell order at \$10.02).

Updated Order Book after execution:

ID	Bid			Ask			ID
	Market	Quantity	Price	Price	Quantity	Market	
Broker A, Unique STP Key "BAYS9"	TSX (Dark)	100	10.00	10.02	300	TSX (Dark)	Broker B
Broker B	TSX (Dark)	100	9.99	10.02	100	TSX (Dark)	Broker C
	TSX (Displayed)	500	9.80	10.02	200	TSX (Dark)	Broker A, Unique STP Key "ABCD7"
				10.03		TSX (Displayed)	

**Expected Date of Implementation**

Following receipt of regulatory approval, the Amendments are expected to be implemented into production and available in August 2022.

Additionally, the Amendments will be available in the General Test Environment (“GTE”) in June 2022. Release notices will be published prior to GTE and production implementation.

In the event that the PDL Amendments are not approved, TSX will not proceed with the Self-Trade Prevention Amendments. TSX will proceed with the PDL Amendments regardless of whether the Self-Trade Amendments are approved.

**Expected Impact**

The Amendments are not expected to have a negative impact on the markets. TSX expects the Amendments will have a positive impact on the available liquidity in the dark book, quality of dark executions and the client experience, particularly for liquidity providers when trading in the market. As such, TSX is of the view that the Amendments will support the maintenance of fair and orderly markets.

**Expected Impact of the Amendments on TSX’s Compliance with Ontario Securities Law**

The Amendments are in compliance with Ontario securities laws and do not impact fair access to markets or the maintenance of fair and orderly markets.

**Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Amendments**

The Amendments are expected to have a positive impact on the market participants. Members would need to adjust their trading workflows and strategies to benefit fully from the Amendments. This is not expected to be a large effort because we are leveraging the existing dark liquidity solution with a new order attribute. Service vendors would also need to make technology changes to consume and display the PDL message tags and additional self-trade prevention option.

**Do the Amendments Currently Exist in Other Markets or Jurisdictions**

With respect to the Self-Trade Prevention Amendments, the option to not trade and allow both orders to rest is currently available on MatchNow.

With respect to the PDL Amendments, both MatchNow and Nasdaq Canada currently have the ability to book liquidity providing orders that interact only with dark orders.