

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 TSX Inc. – Notice of Proposed Change and Request for Comments

TSX INC.

NOTICE OF PROPOSED CHANGE AND REQUEST FOR COMMENTS

TSX has announced its plans to implement the change described below for Toronto Stock Exchange (“TSX” or “Exchange”). We are publishing this Notice of Proposed Changes in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto”.

The change will be effective upon approval by the Ontario Securities Commission (the “OSC”) following public notice and comment. Comments should be in writing and delivered by October 28, 2013 to:

Colin Yao
Legal Counsel, Regulatory Affairs (Equity Trading)
Toronto Stock Exchange
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2
Fax: (416) 947-4461
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

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

Comments will be publicly available unless confidentiality is requested. Upon completion of the review by commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of commission staff's review.

Overview

TSX is seeking public comment on a proposed change to introduce the ability for participating organizations to enter a limit price on dark midpoint orders at a non standard trading increment (“Proposed Change”). As a result of this change, traders will be able to assign an upper or lower limit price to their dark midpoint order to ensure that when that order executes at the National Best Bid/Offer (“NBBO”) midpoint the execution price does not exceed their intended limit price.

Expected Date of Implementation

The expected date of implementation will depend on when approval is received. It is anticipated that this functionality will be introduced in November or December 2013.

Rationale for the Proposal and Supporting Analysis

TSX dark midpoint orders are currently only permitted to execute at the midpoint of the NBBO. The NBBO midpoint may be a standard trading increment or a half trading increment if the NBBO spread is one trading increment wide. Currently on a one trading increment NBBO spread TSX dark midpoint orders will only be eligible to execute at the NBBO midpoint if, for a buy order the limit price is a standard trading increment greater than the NBBO midpoint, or for a sell order, the limit price is a standard trading increment lower than the NBBO midpoint.

The existing requirement for the limit prices on dark midpoint orders to be a standard trading increment introduces the risk that the NBBO midpoint may change and the Dark midpoint order could become eligible to trade at the new NBBO midpoint price which may be more aggressive than what was originally intended.

Example:

NBBO (10.00, 10.01)

NBBO Midpoint: 10.005

Currently on a one trading increment NBBO spread a buy dark midpoint order will not be accepted by the Exchange with a limit set at the price which the order is eligible to execute (in this scenario 10.005). To be eligible to execute at the NBBO midpoint, the order must be submitted with a limit price which is a standard trading increment greater than the NBBO midpoint (ex.10.01). If the National Best Offer is lifted and NBBO midpoint becomes 10.01, the TSX dark midpoint order will be eligible to trade at 10.01, even though the intention was to only execute at the previous NBBO midpoint price of 10.005. The Proposed Change will permit a dark midpoint with a 10.005 limit price to be accepted by the Exchange, eliminating this risk.

Expected Impact on the Market Structure

There is no expected impact on market structure, members, investors, issuers or the capital Markets. This feature will only be extended to the TSX dark midpoint order type. TSX dark midpoint orders will continue to only be eligible to execute at the midpoint of the NBBO in full compliance with UMIR. The limit price of dark midpoint orders will continue to be excluded when determining allocation priority and will not determine the execution price of a dark midpoint order. A result of the Proposed Change is that participants who wish to provide meaningful price improvement and a reduced transaction cost to the opposite side of the trade can do so without incurring the additional risk of executing at a price more aggressive than their desired limit.

Expected Impact of Amendments on the Exchange's Compliance with Ontario Securities Law and in particular on requirements for Fair Access and Maintenance of Fair and Orderly Markets

The Proposed Change does not impact the Exchange's compliance with Ontario securities law and in particular on requirements for fair access and maintenance of fair and orderly markets. The existing TSX dark midpoint order type can now be used by traders that are price sensitive and require the ability to limit the uncertainty of their execution price.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems (or Why a Reasonable Estimate was Not Provided)

We do not anticipate a technology implementation impact on members or service vendors. The TSX dark midpoint order is an optional order type and this change will not necessitate an update to the TSX order entry or feed protocols.

Does this Approach Currently Exist in Other Markets or Jurisdictions

On August 1st, 2013, changes to the Form 21-101F2 of TriAct Canada Marketplace LP (TriAct) were approved to allow for fractional execution price limits to be entered on orders submitted to MATCH Now at permissible trading increments.

On August 21, 2013, the Ontario Securities Commission approved changes proposed by Chi-X Canada ATS Limited, applicable to both Chi-X Canada ATS and CX2 Canada ATS, to introduce the ability for subscribers to enter a limit price on mid-peg orders at a half-tick increment.

The Proposed Change will permit the order message provider to achieve the same result which has recently been approved for TriAct and Chi-X.