

# Chapter 13

## SROs, Marketplaces, Clearing Agencies and Trade Repositories

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### 13.2 Marketplaces

#### 13.2.1 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”.

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by July 27, 2020 to:

Denno Chen  
Director, Regulatory Affairs  
TMX Group  
100 Adelaide Street West, Suite 300  
Toronto, Ontario M5H 1S3  
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  
Email: marketregulation@osc.gov.on.ca

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

#### Background

TSX is proposing to post for trading sustainable bonds (“**Sustainable Bonds**”) that satisfy the eligibility criteria set by TSX. The eligibility criteria is set forth in the table below in the row titled “Eligible Securities”. It is anticipated that TSX will post for trading Sustainable Bonds issued in Canadian or US dollars, and the Sustainable Bonds will trade in the currency in which they are issued. TSX anticipates initially posting for trading approximately 30 Sustainable Bonds.

The posting of Sustainable Bonds for trading on TSX is intended to increase the accessibility and transparency of these securities to Canadian investors.

TSX is proposing changes to the TSX Rule Book and to certain TSX marketplace functionality (collectively, the “**Proposed Amendment**”) to accommodate trading of Sustainable Bonds on TSX. The Sustainable Bonds will not be listed by TSX, but will only be posted for trading similar to how a Canadian ATS posts TSX-listed securities for trading today.

#### Proposed Amendment

The following table outlines the key features of trading Sustainable Bonds on TSX. As Sustainable Bonds are intended to trade and clear through existing TSX and The Canadian Depository for Securities Limited (“**CDS**”) infrastructure and processes, the trading functionality and processes associated with these securities will generally mirror those associated with trading TSX-listed securities on TSX (including listed notes and debentures).

<p><b>TSX Participating Organizations (“TSX POs”) Access</b></p>	<ul style="list-style-type: none"> <li>No new connections required to access trading in Sustainable Bonds as all trading will be conducted on the TSX trading platform and through existing TSX PO connections/sessions.</li> <li>TSX POs will automatically have access to trading in Sustainable Bonds so long as they have acknowledged receipt of certain risk disclosures required to be made prior to the TSX PO's first order of a Sustainable Bond. If acknowledgement of receipt is not obtained, TSX will not allow the TSX PO to trade the Sustainable Bonds.</li> </ul>
<p><b>Eligible Securities</b></p>	<ul style="list-style-type: none"> <li>TSX will post for trading Sustainable Bonds that satisfy the criteria set by TSX, which criteria includes: <ul style="list-style-type: none"> <li>the Sustainable Bonds must be issued in Canadian or US dollars;</li> <li>the Sustainable Bonds must be CDS-eligible;</li> <li>the Sustainable Bonds issue size must be Cdn\$75 million or greater;</li> <li>the Sustainable Bonds must have received a “second opinion” from an independent third party Environmental, Social and Governance research and rating service provider; and</li> <li>the Sustainable Bonds must not be subject to any resale restrictions under National Instrument 45-102 – <i>Resale of Securities</i>.</li> </ul> </li> <li>TSX will not post for trading Sustainable Bonds issued by any corporate issuer (including TSX-listed issuers) other than quasi-governmental corporations.</li> </ul>
<p><b>Symbology</b></p>	<ul style="list-style-type: none"> <li>TSX will assign a unique symbol and adding the extension “.SB”, followed by an alpha character to denote the specific issue. For Sustainable Bonds denominated in USD, the alpha character will be “U” for the first issue and subsequent letters as needed for additional issues (e.g. ONT.SB.U, ONT.SB.V).</li> </ul>
<p><b>Trading Functionality</b></p>	<ul style="list-style-type: none"> <li>Not a new trading destination. Same destination tag as applicable for TSX.</li> <li>Orders are to be entered with a price denominated in Canadian Dollars (“CAD”) or United States Dollars (“USD”) depending on which currency the Sustainable Bonds are issued in. Orders will be posted, displayed and traded in CAD or USD, as the case may be.</li> <li>Standard TSX trading functionality applies, subject to the following exceptions: <ul style="list-style-type: none"> <li>No Must-Be-Filled (“MBF”) session or closing auction</li> <li>No odd lot book</li> <li>No dark orders</li> <li>No formal market making program</li> </ul> </li> <li>TSX will apply its existing volatility control mechanisms.</li> <li>Given the expected retail nature of the Sustainable Bonds, bid/ask tick limits will be set tighter compared to TSX-listed stocks to protect market orders from executing too far away from the best price at the time of entry.</li> </ul>
<p><b>Data</b></p>	<ul style="list-style-type: none"> <li>No new real-time data feeds.</li> <li>Real-time order and trade data regarding Sustainable Bonds will be disseminated through the existing real-time data feed products for TSX-listed securities.</li> <li>Sustainable Bonds will be identified with product type of “Bond” on the symbol status messages.</li> </ul>
<p><b>Clearing and Settlement</b></p>	<ul style="list-style-type: none"> <li>Only Sustainable Bonds that are CDS-eligible will be permitted to trade on TSX.</li> <li>Clearing and settlement will be the same as currently listed notes and debentures.</li> <li>As all executed trades in Sustainable Bonds will be between TSX POs and for securities that are CDS-eligible, they will clear and settle through the same CDS infrastructure and processes applicable to trades in TSX-listed securities.</li> </ul>

Please see **Appendix A** for a blackline of the Proposed Amendments. The Proposed Amendments and their rationale are outlined in more detail below.

## **Details and Rationale**

### **1. Expansion of the security types that can be traded on TSX to include Sustainable Bonds**

Although TSX currently has the option to post for trading securities that are not listed by TSX, this is limited to securities that are listed by another recognized exchange in Canada. The Proposed Amendments would expand this limitation to allow for the trading of Sustainable Bonds.

Sustainable Bonds are debt securities where the proceeds are used to fund projects for environmental and/or socio-economic benefits. Sustainable Bonds are not new to the Canadian marketplace. In Canada, the majority of Sustainable Bonds are typically distributed to institutional investors. While Canadian retail investors are already able to trade Sustainable Bonds through their Canadian registered dealers, such trade occurs over-the-counter. This over-the-counter trading often involves a lack of transparency.

By permitting marketplace participants to trade Sustainable Bonds directly on TSX, Canadians will have increased accessibility and transparency to trade such securities. This will leverage the existing TSX trading ecosystem that retail clients already have access to in order to trade TSX-listed securities.

All current TSX trading functionality will be available for Sustainable Bonds other than a few features not applicable to bonds, including a MBF session, closing auction, dark orders and odd lots. Given the expected retail nature of the Sustainable Bonds, TSX will enforce tighter bid/ask tick limits that will prevent the trading of market orders through too many price levels to protect orders from adverse pricing.

See the Proposed Amendments in Appendix A to Rule 4-1201 to allow for the trading of "Other Securities," such as Sustainable Bonds, on TSX.

### **2. Opening mechanisms for Sustainable Bonds on TSX**

All TSX-listed securities are currently eligible to trade in the opening call auction. Sustainable Bonds will also be eligible for the opening call auction. The Proposed Amendments introduce the term "Opening Eligible Securities" to delineate all securities eligible for the opening call auction. In the future, TSX may determine that certain securities would benefit from alternative opening mechanisms.

See the Proposed Amendments in Appendix A to TSX Rules 4-701 and 4-702 that define the application of the current TSX opening mechanism to Opening Eligible Securities. New Rule 4-703 is also being proposed to introduce a framework to allow for the future introduction of a separate opening mechanism for securities that are not Opening Eligible Securities.

### **3. Ancillary Amendments**

The following additional change to the TSX Rules will be necessary to accommodate the trading of Sustainable Bonds on TSX:

- Removal of references to 'listed' securities where the TSX Rules would otherwise apply to any security posted for trading on TSX. (TSX Rules 4-1103, 5-203 and 5-302)

## **Expected Date of Implementation**

The Proposed Amendment is expected to be implemented following receipt of regulatory approval. Trading of Sustainable Bonds is expected to commence in Q4 2020.

## **Expected Impact**

As described above, the Proposed Amendment is expected to increase the accessibility of Sustainable Bonds to Canadian retail investors and increase transparency in the sustainable bond market.

In support of TSX's public interest mandate, TSX will apply various mechanisms to help increase transparency, minimize confusion and avoid negative outcomes for investors. For example, to help facilitate increased transparency for investors, TSX will devote a section of its website to display information about the Sustainable Bonds and its issuers. Transparency of order and trade data will be achieved through dissemination of order and trade data through the existing TSX real-time market data feeds.

## Expected Impact of Proposed Amendment on TSX's Compliance with Ontario Securities Law

The Proposed Amendment will not impact TSX's compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. TSX notes that once Sustainable Bonds are posted for trading on TSX, all TSX POs will automatically have access to trading in Sustainable Bonds in the same manner as they currently access trading on TSX for TSX-listed securities, except to the extent that access is not permitted under securities law because the TSX PO has not acknowledged receipt of certain risk disclosures. Further, because the trading functionality for Sustainable Bonds will generally mirror the current functionality for trading in TSX-listed securities (including listed notes and debentures), TSX is of the view that the Proposed Amendment will not negatively impact the maintenance of fair and orderly markets.

### **Risk Disclosure for Trades in Sustainable Bonds**

It is TSX's intention that the Sustainable Bonds will be marketed as a separate offering of securities that are not listed but rather are posted for trading on TSX. This will be clearly identified and explained to the public on TSX's website.

From time to time, certain of the Sustainable Bonds may be listed on a marketplace outside of Canada, and may constitute "foreign-exchange traded securities"<sup>1</sup> under National Instrument 21-101 – *Marketplace Operation* ("NI 21-101"). NI 21-101 currently contemplates that a marketplace may trade "foreign-exchange traded securities" subject to certain requirements. It is anticipated that TSX will provide TSX POs with a risk disclosure, similar to the disclosure required by NI 21-101, prior to permitting trading in any Sustainable Bonds.

TSX does not expect the risk profile for Canadian clients to significantly change by the introduction of Sustainable Bonds on TSX. Canadian clients today are already able to trade Sustainable Bonds through their registered dealers. It is anticipated that Sustainable Bonds posted for trading will be issued with an issue size of Cdn\$75 million or greater. As part of their regulatory obligations, TSX expects that such dealers would already have to consider know-your-client, know-your-product, and suitability requirements prior to permitting a client access to trading of Sustainable Bonds.

### **Order Protection Rule**

As it relates to compliance with regulatory requirements by TSX POs, TSX notes that the Order Protection Rules ("OPR") under National Instrument 23-101 – *Trading Rules* ("NI 23-101") will not apply on the basis that OPR applies to 'exchange-traded securities'.<sup>2</sup> To the extent that more than one Canadian marketplace is displaying orders on the same Sustainable Bonds, TSX understands that these orders will therefore not be protected from being 'traded-through' (as such term is defined in NI 23-101). TSX will, however, apply its OPR trade-through prevention mechanisms in the same way as it does currently for TSX-listed securities to provide consistent outcomes for dealer routers and algorithms should another Canadian marketplace trade the same symbols. Best execution obligations will continue to apply, and TSX expects that it will apply in the same way as is applicable for trading on an unprotected market.

TSX understands that all requirements under Universal Market Integrity Rules ("UMIR") not otherwise specifically limited to 'listed securities' will also apply.<sup>3</sup> This would mean that core UMIR requirements will continue to apply.

Despite the foregoing, TSX understands that dealers are not obligated to trade Sustainable Bonds on TSX since OPR does not apply to the Sustainable Bonds, and because dealers will continue to be allowed to trade these securities pursuant over-the-counter pursuant to the 'Unlisted or Non-Quoted Security' exception under Subsection 6.4(2)(a) of UMIR. TSX also understands that the continued application of this off-marketplace trading exception also means that order exposure requirements under Section 6.3 of UMIR do not apply.

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

The introduction of the Proposed Amendment is being implemented in a way that leverages existing TSX trading and CDS clearing infrastructure in order to minimize impact on dealers and vendors.

Dealers choosing to trade Sustainable Bonds on TSX may need to consider changes to incorporate these into trading input systems and routing logic. However, TSX expects dealers will likely handle orders for Sustainable Bonds in a manner that is

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<sup>1</sup> Under NI 21-101, "foreign exchange-traded security" is defined as "a security that is listed on an exchange, or quoted on a quotation and trade reporting system, outside of Canada that is regulated by an ordinary member of the International Organization of Securities Commissions and is not listed on an exchange or quoted on a quotation and trade reporting system in Canada."

<sup>2</sup> Under NI 21-101, "exchange-traded security" is defined as "a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of this Instrument and NI 23-101." [Emphasis added]

<sup>3</sup> "Listed securities" are defined under UMIR as securities "listed on an Exchange". [Emphasis added] Such definition of "listed securities" therefore does not include Sustainable Bonds that are not listed on a Canadian recognized exchange.

similar to how they currently treat orders for bonds or debentures listed on TSX, other than for any differences that arise due to the fact that OPR will not apply and there will be no obligation under Section 6.4 of UMIR to trade these on TSX. TSX expects that systems changes on the part of the broker and access vendors to handle trading of Sustainable Bonds will be minimal.

**Does the Proposed Amendment Currently Exist in Other Markets or Jurisdictions**

In December 2010, the Ontario Securities Commission approved a proposal by Omega ATS to post "select unlisted Government of Canada Debt securities and Canadian corporate (public corporations), listed and unlisted debt securities" for trading.<sup>4</sup>

Outside of Canada, bonds are posted for trading (but not listed) on the Vienna Stock Exchange and the Prague Stock Exchange.

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<sup>4</sup> Please see: [https://www.osc.gov.on.ca/en/Marketplaces\\_ats\\_20100903\\_rfc-omega.htm](https://www.osc.gov.on.ca/en/Marketplaces_ats_20100903_rfc-omega.htm) IE: <https://www.investmentexecutive.com/news/industry-news/omega-to-trade-canadian-debt-u-s-equities/>

APPENDIX A

BLACKLINE OF AMENDMENTS TO TSX RULE BOOK

**PART 1 - INTERPRETATION**

**Rule 1-101 Definitions (Amended)**

[...]

(2) In all Exchange Requirements, unless the subject matter or context otherwise requires:

[...]

“eligible foreign exchange-traded security” means a foreign exchange-traded security as defined in National Instrument 21-101 – Marketplace Operation which has been posted for trading on the Exchange.

Added ([•], 2020)

[...]

“Opening Eligible Securities” means securities in respect of which opening trades may be executed at the calculated opening price as designated by the Exchange.

Added ([•], 2020)

“opening time” means the time fixed by the Board for the opening of Sessions of trading in ~~listed~~securities.

Amended ([•], 2020)

“Other Security” means a security that is posted for trading on the Exchange, but not listed by the Exchange, which may include eligible foreign exchange-traded securities.

~~[...]~~Added ([•], 2020)

“security” when used to describe a security that trades on the Exchange means:

- (a) a listed security (as such term is defined herein); and
- (b) ~~a security that is posted for trading on the Exchange, but not listed by the Exchange,~~an Other Security.

~~Added~~Amended (February 24, 2012 and [•], 2020)

[...]

**DIVISION 7 - OPENING**

**Rule 4-701 Execution of Trades at the Opening for Opening Eligible Securities**

(1) Subject to Rule 4-702, ~~securities~~Opening Eligible Securities shall open for trading at the opening time, and any opening trades shall be at the calculated opening price.

Amended (February 24, 2012 and [•], 2020)

[...]

**Rule 4-702 Delayed Openings for Opening Eligible Securities (Amended)**

(1) ~~A security~~An Opening Eligible Security shall not open for trading if, at the opening time:

- (a) orders that are guaranteed to be filled pursuant to Rule 4-701 cannot be completely filled by offsetting orders;  
or

- (b) the COP exceeds price volatility parameters set by the Exchange.

Amended ([•], 2020)

- (2) A Market Maker or Market Surveillance Official may delay the opening of ~~a security~~an Opening Eligible Security for trading on the Exchange if:
  - (a) the COP differs from the previous closing price for the security or from the anticipated opening price on any other recognized stock exchange where the security is listed by an amount greater than the greater of 5% of the previous closing price for the security and \$0.05;
  - (b) the opening of another recognized exchange where the security is listed for trading has been delayed; or
  - (c) the COP is less than the permitted difference from the previous closing price for the security, but is otherwise unreasonable.

Amended ([•], 2020)

- (3) Repeal proposed August 9, 2002 (pending regulatory approval)
- (4) If the opening of the ~~security~~Opening Eligible Security is delayed, the Market Maker or Market Surveillance Official, as the case may be, shall open the security for trading according to Exchange Requirements.

**Amended (February 24, 2012 and, November 27, 2017 and [•], 2020)**

Rule 4-703 Securities that are not Opening Eligible Securities

- (1) Subject to Rule 3-103, securities that are not Opening Eligible Securities shall open for trading at the opening time and shall trade in the Regular Session using the normal rules of priority and allocation.

Added ([•], 2020)

**DIVISION 11 - SPECIAL TERMS**

[...]

**Rule 4-1103 Exchange for Physicals and Contingent Option Trades**

Orders which are conditional upon a simultaneous trade in a derivative on another exchange shall be special terms trades and shall be traded in accordance with the prescribed procedures and conditions.

**Policy 4-1103 Exchange for Physicals and Contingent Option Trades**

[...]

- (3) Procedure for Exchange for Physicals

If a person to whom this Policy applies seeks to exchange a futures contract for the equivalent number of securities underlying the futures contract (including an equivalent number of units of the applicable Index Participation Fund or mutual fund), the following provisions shall apply:

- (a) the trade in the security and the trade in the futures contract must be for the same account;
- (b) the equities component may be made as a cross or as a trade between persons with trading access on the Exchange;
- (c) the futures portion of the trade must be approved by a floor governor or other exchange official of the stock exchange on which the future is listed and such approval shall be evidenced by the initials of the governor or official on the futures trade ticket;
- (d) the futures trade ticket shall be time stamped;

- (e) the person shall telephone Trading and Client Services of the Exchange at (416) 947-4440 and provide the details of the exchange including the name of the person with trading access to the Exchange with whom the exchange has been made;
- (f) the trade in the ~~listed~~ securities made during the Regular Session will be at the bid price of the ~~listed~~ securities on the Exchange at the time of the telephone call to Trading and Client Services and the trade in securities made after the end of the Regular Session will be at the last sale price of the securities on the Exchange provided that where the last sale price is outside of the closing quotes for any security the price for that security shall be the bid or offer which is closest to the last sale price;
- (g) a copy of the futures trade ticket as initialed by a floor governor or exchange official and time stamped shall be provided ~~by facsimile transmission~~ to Trading and Client Services ~~at (416) 947-4280~~ within ten minutes following the time stamp on the ticket; and

provided the trade has been made and reported in accordance with the above rules, the Exchange shall manually execute the trade in the securities as a special terms trade with the marker "MS" effective as of the time stamped on the futures trade ticket.

**Amended (February 24, 2012) and [•], 2020**

## **DIVISION 12 - TRADING OF SECURITIES NOT LISTED BY THE EXCHANGE**

### **Rule 4-1201 Requirements**

- (1) The Exchange, in its discretion, may post for trading ~~securities that are listed by another exchange recognized in a jurisdiction in Canada~~ Other Securities.
- (2) The Exchange may remove a posted security from trading at any time without prior notice.
- (3) The Exchange will halt the trading of a posted security if:
  - (a) the security is subject to a regulatory halt; or
  - (b) if applicable, the security is no longer listed by ~~a recognized~~ an exchange or is suspended from trading by the ~~recognized~~ exchange.

**Added Amended (February 24, 2012) and [•], 2020**

## **PART 5 - CLEARING AND SETTLEMENT OF TRADES IN SECURITIES**

[...]

### **Rule 5-203 Certificates Not Good Delivery**

Delivery of any of the following certificates shall be deemed not to be good delivery:

- (a) a defaced or torn certificate;
- (b) a certificate registered in the name of a firm or company that has made an assignment for the benefit of creditors or has been declared bankrupt;
- (c) a certificate on which the form of power of attorney to transfer has been signed by:
  - (i) a trustee, or
  - (ii) an executor or administrator;
- (d) a certificate with document attached;
- (e) a certificate of a company maintaining share registers in Ontario and elsewhere that is registered only on a register located outside of Ontario and is therefore not transferable on the Ontario register except after transfer to the Ontario register;



- (f) a certificate indicating that subsequent transfer by the purchaser is restricted in any way, unless the entire class of ~~listed~~-securities traded on the Exchange is subject to the same restriction or unless the trade was made subject to that restriction; or
- (g) a certificate not acceptable as good transfer by the transfer agent.

[Amended \(\[•\], 2020\)](#)

[...]

**Rule 5-302 Special Provisions for Buy-Ins from Securities Loans and Other Failed Positions**

In connection with a buy-in that is the result of a default pursuant to Rules 5-301(2) or (3), the following rules shall apply in addition to the provisions of Rule 5-301:

1. If the Participating Organization in default wishes to dispute the claim, the Participating Organization shall file a dispute in writing with the Exchange before 1:00 p.m. on the day that the Notice is effective and if the dispute is not resolved by agreement between the Participating Organizations or the buy-in is disapproved by a Market Surveillance Official, the dispute shall be determined by arbitration in accordance with Rule 2-308.
2. Where the Participating Organization in default delivers the securities subject to the Buy-In Notice prior to execution of the buy-in, the Participating Organization in default shall notify the Exchange and the buy-in will be cancelled upon confirmation by the Exchange of the delivery of the ~~listed~~ securities.
3. The Participating Organization which has issued a Buy-In Notice may extend the buy-in by delivering a notice of extension in writing to the Exchange before 3:00 p.m. on the day the buy-in is to be executed.
4. Failure to settle a trade that is the result of a buy-in that is the result of a default in accordance with the terms of the buy-in, if not resolved by the Participating Organizations concerned, shall be resolved by cancellation of the buy-in contract and issuance of a further buy-in and, in such case, the Participating Organization selling to the original buy-in shall be liable for any loss or damage resulting from failure to deliver.
5. Following execution of a buy-in, the Participating Organization that issued the Buy-In Notice shall notify the Participating Organization in default in writing of the amount of the difference between the amount to be paid on the Exchange Contract closed out, and the amount paid on the buy-in, if any, and such difference shall be paid to the Participating Organization entitled to receive the same within 24 hours of receipt of such notice.
6. Where more than one buy-in has been arranged in connection with the same securities, the Market Surveillance Official may combine any number of the trades.

**Amended (February 24, 2012 [and \[•\], 2020](#))**