



Neo Exchange Inc.

Trading Notice

Date: June 28, 2019

Notice #: 2019-006

Proposed Public Interest Rule Amendments to NEO's Trading Policies Adding Anonymous Broker Preferencing in NEO-D

Currently, anonymous orders are not taken into consideration for broker preference matching priority in NEO-D. We are proposing to amend the matching logic for dark orders in NEO-D in paragraph 7.04(4)(a) of the Trading Policies to apply broker preferencing to all orders, other than jitney orders.

Expected Date of Implementation

We are planning to implement the Public Interest Rule Change in August, 2019.

Rationale for the Proposed Rules

Public Interest Rule Change

We are proposing to add broker preference matching priority for anonymous dark orders due to client demand for consistency with other marketplaces in Canada that offer similar functionality. The addition of broker preferencing for anonymous orders in NEO-D will not change the way dark trades are reported publicly and the anonymous side(s) of the trade will remain undisclosed.

Expected Impact of Proposed Changes on Market Structure, Members, Investors, Issuers and Capital Markets

The Public Interest Rule Change will provide those that trade anonymously in the dark with an additional venue on which to trade such orders. We have raised previously that we do not believe that a dealer should benefit from broker preferencing without disclosing its broker number, under general principles of fairness, and that the fact that there is no quantifiable harm because it is a dark pool should not be the deciding factor. If the OSC and other Canadian regulators determine that this practice should be discontinued by all marketplaces, we would be supportive of that decision and immediately remove this functionality. Having said that, given the amount of dark trading generally, and the subset

of dark trading that results from anonymous broker preferencing, we do not expect any material impact on market structure, members, investors, issuers or the capital markets, and expect a minor positive impact for some members and investors.

Impact on Exchange's Compliance with Ontario Securities Law and on Requirements for Fair Access and Maintenance of Fair and Orderly Markets

There would be no foreseeable impact on compliance with securities law generally or fair access. As noted above, we feel that anonymous broker preferencing has issues from a general principles perspective, but this is not a change that we foresee having a material impact.

Consultation

We consulted with some of the significant users of other dark marketplaces. We also had received feedback at the time we were preparing the NEO-D proposals from a number of market participants.

Impact on the Systems of Members or Service Vendors

The Public Interest Rule Change will have no impact on the systems of members or service providers.

New Feature or Rule

The Public Interest Rule Change functionality is currently in place on both MATCHNow and the CSE.

Text of the Public Interest Rule Change

The text of the proposed Public Interest Rule Change is attached at Appendix A.

Comments

Comments should be provided, in writing, no later than July 29, 2019 to:

Cindy Petlock
Chief Legal Officer & Corporate Secretary
Neo Exchange Inc.
155 University Avenue, Suite 400
Toronto, ON M5H 3B7
e-mail: legal@neostockexchange.com

with a copy to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Please note that, unless confidentiality is requested, all comments will be made publicly available.

Appendix A

Text of the Public Interest Rule Change to the NEO Trading Policies

7.04 Continuous Trading Session in NEO-D

- (1) In NEO-D, subject to the Contra Election, orders from all accounts may interact with each other.
- (2) Trades will execute at or within the NBBO in a manner consistent with UMIR dark rules.
- (3) A Liquidity Providing Order resting in NEO-D at a particular price will be executed in priority to all orders at inferior prices.
- (4) A Liquidity Providing Order resting in NEO-D at a particular price will be executed prior to or after any orders at the same price in accordance with the following priority rules:
 - (a) against an offsetting order entered in NEO-D by the same Member (if there is more than one, then against offsetting NEO Trader™ orders by the same Member according to Size-Time priority of the offsetting order, then all other offsetting orders by the same Member, according to Size-Time priority of the offsetting order, provided none of the orders is ~~a an-anonymous-or~~ jitney order); then
 - (b) against offsetting NEO Trader™ orders in NEO-D, according to Size-Time priority of the offsetting order; then
 - (c) against offsetting orders in NEO-D according to Size-Time priority.