

B.11.2.5 Cboe Canada Inc. – Proposed Public Interest Rule Amendments to the Cboe Canada Trading Policies – Request for Comments

CBOE CANADA INC.

**PROPOSED PUBLIC INTEREST RULE AMENDMENTS TO
THE CBOE CANADA TRADING POLICIES**

REQUEST FOR COMMENTS

Introduction

Cboe Canada Inc. (“**Cboe Canada**” or the “**Exchange**”) is publishing certain proposed public interest rule amendments (the “**Public Interest Rule Amendments**”) to Cboe Canada’s trading rules (the “**Trading Policies**”) in accordance with the *Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto*, which is attached as Schedule 4 to the Exchange’s recognition order. The Public Interest Rule Amendments were filed with the Ontario Securities Commission (the “**OSC**”) and are being published for comment. A description of the Public Interest Rule Amendments is set out below, and the text of the Public Interest Rule Amendments is set out in Appendix A. Subject to any changes resulting from the comments received, the Public Interest Rule Amendments will be effective upon publication of the notice of approval on the OSC’s website.

I. Reaffirmation of Broker Preferencing over MMVA on NEO-L and NEO-N in All Circumstances

Description of the Public Interest Rule Amendment

We are proposing to reaffirm the predominance of broker preferencing as the first matching priority on Cboe Canada’s NEO-L and NEO-N Trading Books (as those terms are defined in Section 1.01 of the Trading Policies), including in cases where Market Maker Volume Allocation (or “**MMVA**”) would otherwise prevail.

The main purpose of the proposed change is to ensure that broker preferencing is always predominant on NEO-L and NEO-N—even in edge cases where a Designated Market Maker’s (“**DMM**”) resting order would be entitled to matching priority based on MMVA, as is the case today under the existing matching logic of the NEO-L and NEO-N Trading Books.

The proposed change does not require any modification to the main text of Sections 6.07 and 8.04 of the Trading Policies, which describe matching priorities on NEO-L and NEO-N, respectively; rather, it is reflected in amendments to the commentary for those two rules, which call out specific edge cases. The amendments include a clarification for how MMVA works (i.e., to expressly acknowledge that DMM orders are a subset of Latency Sensitive Trader (“**LST**”) orders and that broker preferencing prevails over MMVA).

Expected Date of Implementation

We are seeking to implement the Public Interest Rule Amendment in Q2 of 2024.

Rationale and Relevant Supporting Analysis

The proposed change is in line with the original intention of the Exchange for NEO-L and NEO-N and with the general thrust of the matching priorities for those two Trading Books as already outlined in the main text of Sections 6.07 and 8.04—namely, to respect broker preferencing above all other matching priority factors. Furthermore, we believe it is in line with the expectations of our Members, not to mention a positive factor for execution quality overall. See, e.g., Joint CSA/IROC Staff Notice 23-327, Update on Internalization within the Canadian Equity Market (2020), 43 OSCB 6504 (Aug. 20) (available at https://www.osc.ca/sites/default/files/2020-11/csa_20200820_23-327_csa-iroc-internalization-canadian-equity-market.pdf), s. IV (“[B]roker preferencing is a longstanding part of Canadian market structure. As currently functioning, broker preferencing may allow dealers to benefit from interaction with their own orders, and may also benefit individual clients with improved execution quality.”).

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

We do not expect this proposed change to have a negative impact on market structure, our Members, or any other stakeholders.

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

The proposed change will not impact Cboe Canada’s compliance with Ontario securities law and, in particular, the requirements for fair access and maintenance of fair and orderly markets. The change will be well publicized in advance of implementation and will simply result in a different matching allocation in certain edge cases going forward.

Expected Impact on the Systems of Members or Service Vendors

We do not expect any impact on the systems of Members or service vendors, as no systems changes will be required on their end.

Alternatives Considered

No alternatives were considered.

New Feature or Rule

Broker preferencing is a long-standing and fundamental principle of trading on Canadian marketplaces, and the proposed change simply further aligns NEO-L and NEO-N with that principle.

II. Removal of Matching Priority Factors to Make NEO-D a Simple Price-Time Priority Model

Description of the Public Interest Rule Amendments

We are proposing to remove broker preferencing, NEO Trader order priority, and Size-Time (as those terms are used and/or defined in the Trading Policies) as matching priorities in the NEO-D Trading Book, resulting in a simple price-time priority model. The proposed change is reflected in amendments to Section 7.04, namely, the replacement of the former paragraphs (a), (b), (c) with a simple description of the new price-time priority that will apply to continuous trading on NEO-D. We have also proposed a consequential change (a minor deletion) in the defined term “Size-Time” in Section 1.01.

Expected Date of Implementation

We are seeking to implement the Public Interest Rule Amendment in Q2 of 2024.

Rationale and Relevant Supporting Analysis

We have received several requests from Cboe Canada Members for the proposed change to NEO-D. In addition, the proposed change will help to differentiate the functionality of NEO-D (a dark book) from that of the Exchange’s other dark book—the MATCHNow Trading Book—thereby providing our clients with a more diverse array of service offerings to meet their needs.

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

We do not expect this proposed change to have a negative impact on market structure, our Members, or any other stakeholders. We believe the simpler matching priority being proposed for NEO-D will offer Members a more meaningful alternative between the NEO-D and MATCHNow Trading Books by making the respective matching logic of the two books more distinctive from one another. Furthermore, the removal of broker preferencing from NEO-D may help small and mid-sized dealers compete more successfully with larger dealers for liquidity on the new NEO-D Trading Book, as compared with other dark (or lit) venues. We believe this is a fair and worthwhile counterbalance to the predominance of broker preferencing on Canadian marketplaces as a whole.

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

The proposed change will not impact Cboe Canada’s compliance with Ontario securities law and, in particular, the requirements for fair access and maintenance of fair and orderly markets. The change will be well publicized in advance of implementation and will result in a different (simpler) matching allocation going forward, as a result of the proposed removal of certain existing matching priorities. The differentiation of matching priorities and other key features is summarized in the following table:

Feature	NEO-D Current	NEO-D Proposed	MATCHNow
Matching Model	Midpoint & MPI matching only - with ability to segment on size (“MAQ”) and counterparty election Auto-ex odd lots	Back to basics (No order preferencing, including no broker preferencing – price/time allocation only)	Price improvement for active order flow Midpoint, MPI, and At The Touch trading Odd Lot Liquidity Provider program Size discovery Cboe BIDS Canada (Conditionals) integration
Allocation	Price / Broker / Size-Time ¹ for Neo Trader / Other	Price / Time	Regular: Broker / Pro-rata Conditional: Price / Broker / Size / Time
Pricing	Inverted for Retail Fee-Fee for Non-Retail	Inverted for Retail Fee-Fee for Non-Retail ²	Fee - Fee

We note that, given the much larger size of order flow on the NEO-L and NEO-N Trading Books as compared to NEO-D³, the proposed changes to the latter Trading Book will have no material impact whatsoever on the overall approach of the Exchange, which will continue to promote, through NEO-L and NEO-N, a more level playing field between high-frequency traders (referred to as “Latency Sensitive Traders” or “LSTs” in the Trading Policies) and traders who work on behalf of long-term investors (referred to as “NEO Traders” in the Trading Policies).

Expected Impact on the Systems of Members or Service Vendors

We do not expect any impact on the systems of Members or service vendors, as no systems changes will be required on their end.

Alternatives Considered

No alternatives were considered.

New Feature or Rule

The CSE2 order book of the Canadian Securities Exchange is based on a similar simple price-time priority matching logic, with no broker preferencing. See, e.g., In re Canadian Securities Exchange – Significant Change Subject to Public Comment – Amendments to Trading System Functionality & Features – Notice and Request for Comment, (2022), 45 OSCB 2437 (Mar. 3) at 2438 (“[CSE2] [t]rades both lit and dark orders with Price/Time priority. There is no broker priority (‘broker preferencing’).”) (available at https://www.osc.ca/sites/default/files/2022-03/cse_20220303_significant-change-subject-to-public-comment.pdf), approved by In re Canadian Securities Exchange – System Functionality – Second Trading Book – CSE2 – Notice of Approval (2022), 45 OSCB 7835 (Sept. 1) (available at https://www.osc.ca/sites/default/files/2022-09/cse_20220901_second-trading-book.pdf).

¹ Size-Time ranking based on order size, time entered, and time of last partial fill.
² We are currently studying potential changes to fees applicable to the different types of order flow on NEO-D; any such changes would be part of a future Form 21-101F1 amendment.
³ For 2023, in terms of volume traded, NEO-L and NEO-N flow combined represented approximately 118 times the flow of NEO-D. Source: Canadian Investment Regulatory Organization, Reports of Market Share by Marketplace (<https://www.iroc.ca/markets/reports-statistics-and-other-information/reports-market-share-marketplace>).

Comments

Comments should be provided, in writing, no later than April 22, 2024, to:

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

APPENDIX A

TEXT OF THE PUBLIC INTEREST RULE AMENDMENT

Trading Policies Section	Amendment
<p>Part I. Definitions and Interpretations</p> <p>1.01 Definitions</p>	<p>“Size-Time” means the following allocation methodology utilized in NEO-D and NEO-N when multiple potential matches have been identified at a given price:</p> <ol style="list-style-type: none"> (1) if an incoming order can be completely filled by a single resting order, that resting order will trade; or (2) if more than one resting order is large enough to completely fill the incoming order, the lowest Size-Time Rank will determine which one of those orders will trade; or (3) if no resting orders are large enough to completely fill the incoming order, the Size-Time Rank of all orders at that price level will determine in which order they will trade from lowest to highest.
<p>Part VI. Trading in NEO-L</p> <p>6.07(2)</p>	<p>Commentary</p> <p><i>A DMM order can only receive MMVA priority over other LST orders, including in certain circumstances where both offsetting DMM and LST orders are by the same Member and there are no offsetting NEO Trader orders in the Trading Book when the LST order is from the same Member as the incoming order. However, for greater clarity, we note that offsetting orders by the same Member always execute first, notwithstanding any other matching priorities, including MMVA.</i></p>
<p>Part VII. Trading in NEO-D</p> <p>7.04(4)</p>	<p>(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 time priority rules:</p> <ol style="list-style-type: none"> (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 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.
<p>Part VIII. Trading in NEO-N</p> <p>8.04(3)</p>	<p>Commentary</p> <p><i>A DMM order can only receive MMVA priority over other LST orders, including in certain circumstances where both offsetting DMM and LST orders are by the same Member and there are no offsetting NEO Trader orders in the Trading Book when the LST order is from the same Member as the incoming order. However, for greater clarity, we note that offsetting orders by the same Member always execute first, notwithstanding any other matching priorities, including MMVA.</i></p>