

## Chapter 13

# SROs, Marketplaces, Clearing Agencies and Trade Repositories

---

### 13.2 Marketplaces

#### 13.2.1 Tradelogiq Markets Inc. – Lynx ATS – Notice of Proposed Changes and Request for Comments

##### TRADELOGIQ MARKETS INC.

##### NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENTS

##### LYNX ATS

Tradelogiq Markets Inc. is publishing this Notice of Proposed Changes and Request for Comments in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto”.

Market Participants are invited to provide comments on the Proposed Changes. Comments should be in writing and delivered by April 12, 2021 to:

Paul Romain  
Chief Compliance Officer, and  
Head of Market Structure  
Tradelogiq Markets Inc.  
133 Richmond St. W., Suite 302  
Toronto, Ontario M5H 2L3  
Email: [paul.romain@tradelogiq.com](mailto:paul.romain@tradelogiq.com)

A copy should also be provided to:

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

Comments will be made publicly available. 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.

Tradelogiq Markets Inc. (**Tradelogiq**) is filing proposed significant changes to Lynx ATS (**Lynx**) in accordance with the Process for the Review and Approval of the Information Contained in Form 21-101F2 (**F2**) and the Exhibits Thereto (**Protocol**). Tradelogiq is filing this change as a significant change subject to public comment as the proposed change is categorized within paragraph 6.1(4)(a) of National Instrument 21-101CP (**NI 21-101CP**). Collectively, Tradelogiq refers to the changes identified below as the proposed changes (**Proposed Changes**).

A. The proposed Fee Change or Significant Change:

1. *Create LST Trader definition*

Tradelogiq is proposing to create a latency sensitive trader (**LST**) definition category. A trader will meet the LST definition if they submit orders that:

- are entered by proprietary traders of dealers and direct electronic access (**DEA**) clients<sup>1</sup> of dealers that use automated order systems<sup>2</sup>, and use co-location trading strategies.

Currently, Tradelogiq does not offer co-location services to its subscribers. The co-location reference in the LST definition would apply to proprietary traders of dealers and DEA clients who use automated trading strategies and are co-located in a Canadian domiciled co-location facility. Any type of client order flow where the client has no control over which marketplace their orders get

---

<sup>1</sup> DEA client means a client that is granted direct electronic access by a dealer.

<sup>2</sup> Automated order system means a system used to automatically generate or electronically transmit orders on a pre-determined basis.

routed to is not considered to be LST. Marketplace participants will be required to certify, and self-report a list of trader IDs that meet the LST definition to Tradelogiq prior to the implementation of the Proposed Changes. This list must be kept current by marketplace participants and will be subject to audit by Tradelogiq.

Tradelogiq intends to monitor the trading conducted on Lynx to ensure that the proposed functionality is operating as designed which will be done by measuring certain trading metrics often associated with LST trading. Tradelogiq will use established monitoring tools for trader IDs which will include, but not be limited to:

- order to trade ratios<sup>3</sup> – high order to trade ratios are often associated with LST trading strategies. We intend to monitor the amount of messaging frequency and trade frequency.
- Fill rates<sup>4</sup> – very low fill rates are often associated with LST trading strategies.
- Number of orders entered daily; and
- If a Trader ID trades both proprietary and client flow and falls under the definition of LST, then that ID will be categorized as LST.

For any trader IDs that are not marked as LST and display trading metrics consistent with LST trading strategies, Tradelogiq will contact the applicable subscriber to re-certify the trader ID(s) and have that trader ID placed in the appropriate category.

## 2. *Introduction of a speed bump*

We are proposing to introduce a speed bump on Lynx. The speed bump will be imposed on certain orders that originate from LST trader IDs. This will include both active orders and passive orders. Change Formal Order (**CFO's**) and cancels of these orders will also be subject to the speed bump.

Orders entered from LST trader IDs marked with post only will NOT be subject to the speedbump. CFO's and cancels of these LST post only orders will also NOT be subject to the speedbump. Upon implementation, the matching priority for all executions will be based on industry standard price / broker / time.

The length of the speed bump will be random within a set lower limit and upper limit. The lower limit will be 1 millisecond and the upper limit will be 3 milliseconds.

B. The expected date of implementation of the proposed Fee Change or Significant Change:

Tradelogiq is planning on launching the Proposed Changes in or about Q3 or Q4, 2021 which is dependent on receiving all required regulatory approvals and meeting all internal scheduled timelines.

Tradelogiq plans to require that subscribers complete a Lynx trader ID user form where subscribers must certify which of their trader IDs meet the definition of LST. After receiving the trader ID forms and ensuring that the certified IDs are checked for proper classification, Tradelogiq will begin a full GTE session that adheres to the testing and technology timelines of section 12.3 of NI 21-101.

C. The rationale for the proposal and any relevant supporting analysis:

Tradelogiq believes that the Proposed Changes will lead to improved quality of executions and reduced execution costs for retail and institutional investors as they will have a greater likelihood of accessing the available posted liquidity than other speed bump models that apply the speed bump to all orders. On the passive side, we expect that the speed bump will allow liquidity providers to quote tighter spreads and provide greater depth at the top of the quote as well as full depth liquidity as the speed bump will provide a certain degree of price protection to their passive orders and will prevent them from being picked off from faster LST trading participants.

We believe that the Lynx Proposed Changes will create enhanced competition for order flow on the same or similar terms as other already approved market structure models with the goal of improving the overall experience for investors.

D. The expected impact, including the quantitative impact, of the proposed Fee Change or Significant Change on the market structure, subscribers and, if applicable, on investors and the capital markets:

We believe that the Proposed Changes will not have a negative impact on market structure, members, investors, issuers, or capital markets. A recent UK regulator paper from the Financial Conduct Authority (**FCA**) Occasional Paper published in January 2020<sup>5</sup> quantifies the high frequency trading "Arms Race" and calculates its main estimates suggest that eliminating latency arbitrage

---

<sup>3</sup> For each trading ID, the number of orders received relative to the amount of trade executions that occurred.

<sup>4</sup> For each trading ID, the number of fills or executions received relative to the total number of orders received.

<sup>5</sup> [https://www.fca.org.uk/publication/occasional-papers/occasional-paper-50.pdf?mod=article\\_inline](https://www.fca.org.uk/publication/occasional-papers/occasional-paper-50.pdf?mod=article_inline)

would reduce the cost of trading by 17% and that the total sums at stake in global equity markets are in the order of \$5 billion annually. While this is a UK paper, the paper specifically highlights estimated trader revenues from latency arbitrage in 2018 from the TMX Group to be \$61 million alone. Further, the paper concludes that liquidity provision is useful and latency arbitrage is harmful.

Reducing latency arbitrage will reduce the costs of trading in Canada and will benefit natural trading participants as they will not be subject to any speed bumps and it will allow liquidity providers to quote in larger sizes and with tighter spreads. We believe that tighter spreads, greater depth, and accessible liquidity benefits natural investors without harming Canada's market structure.

While certain LST trading strategies may be impacted with the speed bump in place, we note that one other Canadian exchange provides a similar speed bump model where active orders entered from LST trading IDs are subject to a speed bump. To date, we are not aware of any negative impacts that this current model has had on Canada's market structure.

To limit any new complexities in the market, we have chosen this similar definition of LST trader ID and application to the speed bump as marketplace participants have become accustomed to these similar limitations. As Canadian market participants are already accustomed to this market structure and we do not expect that the implementation of a Lynx speedbump will be onerous on our subscriber base both from a technical and routing perspective.

- E. The expected impact of the Fee Change or Significant Change on the ATS's compliance with Ontario securities law requirements and in particular requirements for fair access and maintenance of fair and orderly markets:

This proposed change will comply with securities laws and the requirements for fair access and maintenance of fair and orderly markets will be met.

#### Order Protection Rule

The Canadian Securities Administrators (**CSA**) Staff Notice 23-324 maintains that Lynx will be considered as unprotected because of the implementation of the intentional order processing delay.<sup>6</sup> As a result, marketplace participants can choose to ignore or avoid orders posted on Lynx if they do not see any improved market quality metrics or trading opportunities for their clients.

#### Fair Access

Tradelogiq respectfully submits that the differentiated treatment of LSTs in the unprotected Lynx trading book is consistent with the same policy rationale that was applied to two other Canadian exchanges which allowed them to treat certain marketplace participants differently in their respective speed bump models. We believe that slowing down predatory active LST trading is not a barrier on the fair access requirements as it will reduce the cost prohibitive "Arms Race" barrier which will allow slower participants to compete on a more equal basis thus allowing them to commit to more available passive liquidity for natural investors.

#### Segmentation of Order Flow

Tradelogiq does not believe that the Proposed Changes will have any negative impacts to the Canadian market and more specifically to segmentation concerns that have previously been identified by marketplace participants and studied by Canadian regulators. We understand that the concerns identified are more related to segmentation of retail order flow only. The Canadian market already supports a certain level of segmentation whether it be through auto-execution guaranteed top up facilities, odd-lots, broker preferencing, and inverted marketplaces. In order to not raise any segmentation of order flow concerns, we purposely placed no limitations on all natural trading order flow of which retail order flow is just a subset of the natural flow while maintaining that all order flow can access Lynx. Since we are not applying any tags to identify any of the types of order flow or executions, we believe that passive and active participants will not have any knowledge of the type or order flow they are trading against thus limiting or reducing any potential segmentation concerns.

In terms of a overall segmentation of retail order flow in Canadian markets, Tradelogiq strongly believes that is better to have retail order flow remain on lit markets than it is to have this flow traded off market like it does in the US. Ultimately, retail investors are better served if all participants are able to compete transparently on equal terms for this retail order flow. Our model does not provide any advantages or disadvantages to passive participants and they can all compete on an equal price / broker / time priority basis.

- F. A summary of consultations, including consultations with external parties, undertaken in formulating the Fee Change or Significant Change, and the internal governance process followed to approve the Change:

Tradelogiq is in the process of improving Lynx's competitive structure and have discussed the Proposed Changes with select subscribers. While some marketplace participants may be opposed to speed bumps in general, subscribers who we consulted were supportive of our proposed approach. This approach was discussed and approved by the senior executives of Tradelogiq prior to filing the Proposed Changes seeking regulatory approval.

---

<sup>6</sup> [https://www.osc.gov.on.ca/documents/en/Securities-Category2/csa\\_20190131\\_23-324-order-protection-rule.pdf](https://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20190131_23-324-order-protection-rule.pdf)

G. For a proposed Fee Change:

1. The expected number of marketplace participants likely to be subject to the new fee, along with a description of the costs they will incur, and

N/A.

2. If the proposed Fee Change applies differently across types of marketplace participants, a description of this difference, how it impacts each class of affected marketplace participants, including, where applicable, numerical examples, and any justification for the difference in treatment.

N/A.

H. If the Significant Change will require subscribers or service vendors to modify their systems after implementation of the Change, the expected impact of the Change on the systems of subscribers and service vendors together with an estimate of the amount of time needed to perform the necessary work and how the estimated amount of time was deemed reasonable in light of the expected impact or the Significant Change on the ATS, its market structure, subscribers, investors or the Canadian capital markets;

Subscribers and vendors will have enough time to prepare for the implementation of the proposed changes as we intend to provide a subscriber notice, if approved, stating that we will allow for at least 90 days testing in our general testing environment (**GTE**) before we go live in our production environment.

I. Where the proposed Significant Change is not a Significant Change subject to Public Comment, the rationale for why the proposed Significant Change is not considered a Significant Change subject to Public Comment:

N/A.

J. A discussion of any alternatives considered; and

We had considered a different approach which went out for public comment on March 5, 2020.<sup>7</sup> This approach raised fair access concerns which were identified by certain marketplace participants. We have since changed our approach of protecting passive liquidity providers using a speed bump model.

K. If applicable, whether proposed Fee Change or Significant Change would introduce a fee model or feature that currently exists in other markets or jurisdictions.

Yes. Two competing Canadian lit exchanges offer similar speed bump models that protect passive liquidity provision.

---

<sup>7</sup> [https://www.osc.gov.on.ca/documents/en/Marketplaces/ats\\_20200305 lynx-nop-changes-rfc.pdf](https://www.osc.gov.on.ca/documents/en/Marketplaces/ats_20200305 lynx-nop-changes-rfc.pdf)