

### 13.2.3 TSX Inc. – Notice of Proposed Amendments and Request for Comments – Long Life Orders

#### TSX INC.

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

TSX Inc. (“TSX”) is publishing this Notice of Proposed Amendments 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 June 22, 2015 to:

Michal Pomotov  
Director, Regulatory Affairs  
TMX Group  
The Exchange Tower  
130 King Street West  
Toronto, Ontario M5X 1J2  
Email: [tsxrequestforcomments@tsx.com](mailto: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](mailto: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, notice will be published to confirm Commission approval.

#### Background to Proposed Amendments

On October 23, 2014, TMX published the Position Paper *Reshaping Canada’s Equities Landscape*.<sup>1</sup> In the position paper we outlined a number of changes planned to each of the TMX equities marketplaces.

Specific changes outlined in the TMX Position Paper included the planned introduction on TSX of a Long Life order type intended to empower natural investors and other non-latency sensitive participants by rewarding committed liquidity, and other changes intended to simplify and streamline market functionality, such as revisions to odd lot execution parameters to allow the auto-execution of odd lots at the National Best Bid/Offer (“NBBO” or “CBBO”).

We are therefore proposing changes to the TSX Rules (“Proposed Amendments”) and to certain TSX marketplace functionality to implement these and other changes as outlined in this notice.

#### Details and Rationale

##### 1. Long Life order

The objective of the new Long Life order type is to enhance the quality of execution for natural investors and their dealers – both retail and institutional – by rewarding those willing to commit liquidity to the book for a minimum period of time.

Long Life orders will be executable once booked to the TSX Central Limit Order Book (CLOB), but will be committed to a minimum fixed resting time in the book during which time the order cannot be amended or cancelled. This minimum fixed resting time is currently expected to be one second, a duration that should be immaterial and non-disruptive to trading by those not employing latency-sensitive trading strategies and willing to commit accessible liquidity to the book, and therefore would encourage Long Life use by such participants. Alternatively, for strategies that are latency-sensitive, a one second duration is material and should discourage, and reduce, orders resting in the book for a *de minimis* period of time.

In return for providing committed liquidity, Long Life orders will receive priority over orders at the same price that are not Long Life orders. Trade allocation therefore becomes Price/Broker/Long Life/Time rather than the current Price/Broker/Time matching sequence.<sup>2</sup>

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<sup>1</sup> Available for download at <http://www.tsx.com/resource/en/683>.

By choosing to use the Long Life order type, natural investors, their dealers and other non-latency sensitive participants will be able to more effectively and confidently participate in the markets, and better achieve priority in the book without having to compete on speed.

Expected benefits of the order type include higher fill rates for natural passive orders, higher fill rates for active orders due to better reliability of the displayed quote, and a reduction in short-horizon fleeting liquidity, unnecessary intermediation and message traffic.

See the Proposed Amendments in **Appendix A** to TSX Rule 4-801, Rule 4-802, Rule 4-901, as well as the additional definitions in Part 1 (“Long Life Eligible”, “Long Life order”, and “Long Life Restriction”) which are required to implement the Long Life order type.

Other details relating to the implementation of the Long Life order are set out below:

- Designation of an order as Long Life is optional
- Restrictions and benefits for Long Life orders will apply only during the trading sessions specified by TSX, and to securities identified by TSX as being ‘Long Life eligible’. TSX currently intends to limit the application of Long Life restrictions and benefits to the Post-Open Continuous Trading Session, and may restrict eligibility for securities or security groups where implementation of the Long Life order does not deliver the intended benefits.
- Long Life benefits and restrictions will only be applicable to board lots and the board lot portion of a mixed lot order, consistent with the make-up of orders booked to the TSX CLOB.
- Undisclosed Orders (dark orders) will not be eligible for Long Life priority benefits as they do not contribute to the reliability and stability of the displayed quotes. Consequently they are also not subject to Long Life restrictions.<sup>3</sup>
- Commencement of the minimum fixed resting time will be determined based on the time the order is booked to the TSX CLOB,<sup>4</sup> whether entered in the Pre-Open or Post-Open session.
- All amendments or cancellations of Long Life orders that have not met the minimum fixed resting time will be queued by the TSX system until the minimum fixed resting time has elapsed. This is intended to reduce complexity for participants managing client flow that would otherwise need to handle reject messages if these amendments and cancellations were instead rejected back.
- Amendments or cancellations of Long Life orders that have met the minimum resting time requirement will be subject to an additional variable delay before being processed, the duration of which is still to be finalized but will be randomized and is expected to be less than 20 milliseconds. The objective is to further discourage use of Long-Life orders by those employing latency-sensitive trading strategies.
- Long Life orders will not be eligible for use with the “Cancel Oldest” and “Decrement and Cancel” Self-Trade prevention features currently available on TSX, where their use with these features would otherwise facilitate the cancellation or amendment of a Long Life order before having met the fixed and variable resting time requirements. Orders entered as Long Life for use with these Self-Trade Prevention features will be rejected.
- Long Life restrictions applicable to cancellations will not be applied where a cancellation results from Cancel on Disconnect (COD) functionality consistent with the purpose of that functionality to help manage risks associated with open orders exposed in the book that cannot be managed when there is an involuntary loss of connectivity.
- The Long Life order marker will not be disclosed on public data feeds in order to minimize the potential for information leakage.<sup>5</sup>

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<sup>2</sup> Within the ‘Broker’ allocation tier, priority will be given to booked same-broker orders marked Long Life over same-broker orders that are not.

<sup>3</sup> For clarity, Long Life benefits and restrictions will apply to the undisclosed portion of an iceberg order that is a Long Life order.

<sup>4</sup> The minimum fixed resting time is not applied to Long Life orders entered to a special terms book (e.g., on-stop orders) until booked in the TSX CLOB.

<sup>5</sup> Each dealer will be able to identify their own Long Life orders via the private content.

2. *Execution of odd lot orders at the NBBO*

Currently, odd lot orders that auto-execute against the TSX Market Maker on TSX execute at the TSX Best Bid and Offer (“TSX BBO”). To provide the opportunity for better quality execution of auto-executed odd lots on TSX, the Proposed Amendments provide for all auto executed odd lots to be executed at the NBBO.

This change is a result of significant demand from participants routing retail order flow to TSX. The rationale for implementing these changes is further supported by competing marketplaces providing the same ability to offer odd lot executions at the NBBO.

See the amendments in **Appendix A** to TSX Rule 4-604 which are required to implement this change.

Similar amendments to the Alpha Exchange Trading Policies were recently approved by the OSC and will be implemented on Alpha Exchange in September 2015.

3. *Pre-Open odd lot and mixed lot functionality and execution pricing*

Currently, odd lots and mixed lots can only be entered in the Pre-Open session as limit orders. As part of the proposed changes to marketplace functionality, odd lots and mixed lots will be permitted to be entered as market (MKT) orders to provide participants with greater flexibility as to odd lot and mixed lot handling in the Pre-Open Session. These orders will execute at the NBBO immediately after the opening.

The execution price applicable to odd lots (and the odd lot portion of a mixed lot) entered as limit orders during the Pre-Open will change to allow these to execute immediately after the opening at the NBBO rather than at the TSX BBO.

**Expected Date of Implementation**

The Amendments are expected to become effective in November 2015.

**Expected Impact**

The Proposed Amendments relating to the Long Life order type are expected to enhance the quality of execution for natural investors and their dealers – both retail and institutional – by rewarding those willing to commit liquidity to the book for a minimum period of time. Expected benefits of the order type include higher fill rates for natural passive orders, higher fill rates for active orders due to better reliability of the displayed quote, a reduction in short-horizon fleeting liquidity, unnecessary intermediation and message traffic, and increased interaction among natural investors’ orders.

The Proposed Amendments relating to the execution of odd lots at the NBBO is a result of significant demand from participants routing retail order flow to TSX and should improve quality of execution for odd lots.

**Expected Impact of Proposed Amendments on the Exchange’s Compliance with Ontario Securities Law**

The Proposed Amendments and changes to marketplace functionality 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. The introduction of a Long Life order type will allow natural investors, their dealers and other non-latency sensitive participants to more effectively and confidently participate in the markets without having to compete on speed.

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

TSX is taking steps to minimize implementation issues for participants. Specifically as it relates to the Long Life order, its introduction as an attribute entered on existing order types, and the steps taken to prevent rejects of amendments and cancellations received during the minimum fixed resting time constraint, will help to minimize implementation issues. The Long Life order is optional and its use is not required under regulatory requirements such as OPR, providing additional flexibility for participants and vendors with respect to timing for implementation.

Based on current planned implementation timelines, we anticipate that at least 90 days will be provided between approval and implementation, consistent with the expectations set out in OSC Staff Notice 21-706 *Marketplaces’ Initial Operations* applicable to ‘material’ systems changes and the launch of new marketplaces (e.g., as was applied to the launch of CX2 and Lynx ATS).

**Do the Amendments Currently Exist in Other Markets or Jurisdictions**

NASDAQ PSX had previously implemented a 'Minimum Life' that would commit a passive order to a minimum resting time of 100ms, during which time it could not be cancelled or amended. As a reward, NASDAQ PSX would pay an increased rebate (additional \$0.0002 rebate per share). NASDAQ eventually eliminated this feature. In our view, the priority benefits and longer minimum resting time contemplated for the Long Life order will provide for a more attractive and meaningful offering.

Certain FX markets have also implemented a minimum resting time for limited products. For example, in 2009, ICAP introduced a minimum quote lifespan on its EBS platform, which generally set a minimum life for certain currency and precious metals contracts.

APPENDIX A  
AMENDMENTS

Part 1 Interpretation

**“Canadian Best Bid Offer—~~“or “CBBO”~~”** means the Canadian Best Bid and Canadian Best Offer.

**Added (June 13, 2007) Amended (XX, 2015)**

**“Long Life Eligible”** means a security which has been designated by the Exchange as eligible for long life priority and allocation benefits under these Rules.

**Added (XX, 2015)**

**“Long Life order”** means a board lot or board lot portion of a mixed lot market or limit order that is: (a) entered for a security that has been identified by the Exchange as being Long Life Eligible; (b) identified by the participant as a Long Life order upon entry in the manner specified by the Exchange; and (c) is subject to Long Life Restrictions.

**Added (XX, 2015)**

**“Long Life Restrictions”** means Exchange prescribed restrictions, applicable to a Session as specified by the Exchange, which prevent the amendment or cancellation of an order for a period of time specified by the Exchange.

**Added (XX, 2015)**

Rule 4-604 Responsibilities of Market Makers (Amended)

- (f) guarantee fills at the CBBO:
- (i) \_\_\_\_\_ for incoming tradeable odd lot and mixed lot orders at the current board lot quotation, and fill booked odd lots and the odd lot portion of mixed lots; and
- (ii) \_\_\_\_\_ for booked odd lots which become tradeable due to a board lot quote change at in the odd lot's original limit price; CBBO.

**Amended (October 15, 2012) and XX, 2015**

Policy 4-604 Responsibilities of Market Makers

3. **Odd-lot Responsibilities**—General—Market Makers shall maintain an odd lot market at the ~~board lot quotation~~ CBBO for immediately tradeable incoming oddlots. Booked oddlots which become tradeable due to a ~~board lot quote change in~~ the CBBO will execute at their ~~original limit price~~ the CBBO.

*Special Circumstances*—The above exemption is also available in any securities that are affected by special circumstances relative to that security. If a Market Maker wishes to call an odd-lot market at a different price than the ~~board lot market~~ CBBO, the prior consent of a Market Surveillance Official must be obtained.

**Amended (October 15, 2012) and XX 2015**

Rule 4-801 “Establishing Priority”

- (1) A Long Life order at a particular price shall be executed prior to an order that is not a Long Life order at that price (“long-life priority”), except in the case of an Undisclosed Order, in which case no long-life priority is provided.

**Added XX 2015**

- (2) Subject to Rule 4-801(1), a disclosed order shall be executed prior to an Undisclosed Order or any undisclosed portion of an order at the same price; an undisclosed portion of an order shall be executed prior to an Undisclosed Order at the same price; and an Undisclosed Order with a Minimum Quantity shall be executed prior to an Undisclosed Order without a Minimum Quantity at the same price.

**Amended (January 13, 2012) and XX 2015**

- (23) Subject to Rule 4-801(1), Rule 4-801(2), and Rule 4-802, an order at a particular price shall be executed prior to any orders at that price entered subsequently, and after all orders entered previously ("time priority"), except as may be provided otherwise.
- (34) An order shall lose time priority if its disclosed volume is increased and shall rank behind all other disclosed orders at that price.

**Amended ~~{March 1, 2011}~~ and XX 2015**

**Rule 4-802 Allocation of Trades (Amended)**

- (1) Subject to 4-801(1) and 4-801(2), an order that is entered for execution on the Exchange may execute without interference from any order in the Book if the order is:

**Amended ~~{January 13, 2012}~~ and XX, 2015**

- (3) Subject to 4-801(1) and 4-801(2), a tradeable order that is entered in the Book and is not a Bypass Order shall be executed on allocation in the following sequence:

**Amended ~~{January 13, 2012}~~ and XX, 2015**

**Policy 4-802 Allocation of Trades**

- (4) Oddlot Facility

Market Makers also guarantee incoming tradeable odd lots at the ~~best posted market on the Exchange~~ CBBO. The Market Maker's responsibilities in regard to odd lots are the same as its responsibilities for MGF's. Participating Organizations are not permitted to: split larger orders from a single account into odd lots; enter multiple odd lots from a single account on a specific security on a given day; or enter the odd lot portion of a mixed lot order immediately prior to entering the board lot portion.

**Amended ~~{February 24, 2012}~~ and XX 2015**

**Rule 4-901 General Provisions (Amended)**

- (3) Except as otherwise provided, the normal rules of priority and allocation, as applicable, and all other Exchange Requirements shall apply to the Special Trading Session.