

## Chapter 13

# SROs, Marketplaces and Clearing Agencies

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### 13.2 Marketplaces

#### 13.2.1 TSX Inc. – Notice of Proposed Changes and Request for Feedback – Post Only Attribute for Dark Order Types

##### TSX INC.

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

##### POST ONLY ATTRIBUTE FOR DARK ORDER TYPES

TSX Inc. is publishing this Notice of Proposed Changes in accordance with the requirements set out in OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*. Pursuant to OSC Staff Notice 21-703, market participants are invited to provide the Commission with feedback on the proposed changes.

Feedback on the proposed changes should be in writing and submitted by **August 7, 2012** to:

Market Regulation Branch  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, Ontario, M5H 3S8  
Fax: (416) 595-8940  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

And to:

Deanna Dobrowsky  
Director, Regulatory Affairs  
TMX Group Inc.  
The Exchange Tower  
130 King Street West, 3<sup>rd</sup> Floor  
Toronto, Ontario, M5X 1J2  
Fax: (416) 947-4461  
e-mail: [tsxrequestforcomments@tsx.com](mailto:tsxrequestforcomments@tsx.com)

Feedback received will be made public on the OSC website. On completion of the review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of staff's review and to outline the intended implementation date of the changes.

## TSX INC. NOTICE OF PROPOSED CHANGE

TSX Inc. ("TSX") has announced its proposal to provide optional post only order functionality for dark order types on Toronto Stock Exchange. The order features are described below. This Notice of Proposed Change is being published in accordance with the requirements set out in OSC Staff Notice 21-703 (October 9, 2009), as revised and published on July 23, 2010 (33 OSCB 6644). TMX Group intends that the same enhancements will be made on TSX Venture Exchange.

### Post Only attribute for Dark Order Types

#### Description of Proposed Change and Reasons for Change

The Post Only order feature is currently offered for visible orders only. Nothing is changing with respect to the Post Only feature for visible orders. TSX is now proposing to enhance its functionality to allow a dark order to be posted on Toronto Stock Exchange without trading as an active order.

The Post Only order feature on a dark limit order type will kill the order immediately on entry if any part of the order is immediately executable with a visible order during continuous trading. If on entry the dark limit order is immediately executable with a dark order, the dark limit order will book at its limit price.

The Post Only order feature on a dark midpoint order type will book the order at the NBBO midpoint subject to its limit price if immediately executable upon entry. Dark orders that are re-priced due to quote changes will never take the active side of a trade if they are tagged as post only.

### Impact of the Change

This feature will encourage all potential liquidity providers to post price improved liquidity to the benefit of retail, institutional or dealer order flow. A trader seeking fee certainty and who does not have a need for immediacy will be able to use this optional feature to post dark orders to execute with incoming liquidity while mitigating his/her transaction costs. The feature will be available to dark executions during the regular continuous trading session on Toronto Stock Exchange.

#### Consultation

TSX is expanding this functionality to dark orders in response to customer demand.

#### Consideration of Alternatives

TSX considered killing the dark order with a post only instruction in all cases if immediately executable against resting dark or visible orders. TSX determined that killing a dark order that is immediately executable with a contra dark order could have the unintended consequence of introducing a pinging tool to reveal resting dark liquidity. TSX also considered executing the order if the economics of the execution warranted it; however, we determined that assumptions could not be made regarding how a trader would view the economics of the transaction and that a complicated methodology would not be adopted by the dark order users.

#### Existence of Proposed Change in the Market

Post Only features that guarantee passive executions have become a standard offering across major North American dark products, whether in an integrated dark model as employed on Toronto Stock Exchange or a segregated dark pool. Please see Appendix A for further details.

## Appendix A

## Dark Post Only features on other marketplaces

The table below is based on TSX research of other marketplaces offering Dark Post Only features

Market	Description of functionality
Alpha Intraspread	A dark order can specify that it is only eligible to execute with incoming SDL orders ensuring it will only be on the passive side of the execution.
Nasdaq	Mid-Point Peg Post-Only: This is an order type that combines elements of the existing Mid-Point Peg and Post-Only order types. Like a regular Mid-Point Peg Order, a Mid-Point Peg Post-Only Order is a non-displayed order that is priced at the mid-point between the NBBO. However, like a Post-Only Order, the Mid-Point Peg Post-Only Order does not remove liquidity from the System upon entry if it would lock an order on the book. Rather, the Mid-Point Peg Post-Only Order will post and lock the pre-existing order, remaining non-displayed. If the Mid-Point Peg Post-Only order crosses a hidden or displayed order on the book such that the economics are in the interest of the investor to remove liquidity, the order will execute.
NYSE Arca	The MPL ALO is a non displayed midpoint pegged limit order that will not take liquidity on NYSE Arca and does not route to away markets. A MPL ALO order is a limit order but is executable only at the midpoint of the NBBO, down to 3 decimal places. MPL ALO orders are valid for all sessions but do not participate in any auctions. Marketable MPL ALO orders do not cancel back, but will wait to execute only if the order is able to add liquidity.
National Stock Exchange	<p>A Post Only Order that is a Zero Display Reserve Order and which would interact immediately with a contra-side round lot order will:</p> <p>(i) execute against a contra-side round lot order if the contra-side order is a Zero Display Reserve Order that is not designated as a Post Only Order. Upon execution the contra-side Zero Display Reserve Order (which was not designated as a Post Only Order) will be deemed as taking liquidity from the Post Only Order that is a Zero Display Reserve Order and be liable for the applicable fee for taking liquidity that is set forth in the NSX Fee and Rebate Schedule even if the contra-side Zero Display Reserve Order was placed in the NSX Book prior to the Post Only Order that is a Zero Display Reserve Order;</p> <p>(ii) not execute against a contra-side round lot order if (x) the contra-side order is a displayed order that is already contained in the NSX Book or (y) the contra-side order is another Post Only Order that is a Zero Display Reserve Order that is already contained in the NSX Book. The Post Only Order that is a Zero Display Reserve Order will instead be placed in the NSX Book.</p>