

**NASDAQ CXC LIMITED**  
**NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT**

Nasdaq CXC Limited (Nasdaq Canada) is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto (Exchange Protocol). Pursuant to the Exchange Protocol, market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by July 8, 2019 to:

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto, ON M5H 3S8  
Fax 416 595 8940  
Email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

And to

Matt Thompson  
Chief Compliance Officer  
Nasdaq CXC Limited  
25 York St., Suite 900  
Toronto, ON M5J 2V5  
Email: [matthew.thompson@nasdaq.com](mailto:matthew.thompson@nasdaq.com)

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

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**NOTICE OF PROPOSED CHANGES**

Nasdaq Canada provides Canadian-based institutional clients access to the Nasdaq Fixed Income trading system (NFI) operated by Nasdaq Canada's affiliate, Execution Access, LLC for the purposes of trading non-Canadian fixed income securities. NFI has announced plans to introduce the following change in the second half of 2019 subject to regulatory approval. Nasdaq Canada is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Exchange Protocol.

Summary of Proposed Changes

**POINT-IN-TIME CROSS**

NFI is proposing to introduce a call market facility called a Point-In-Time Closing Cross (Closing Cross) where buy orders and sell orders intended to trade in the Closing Cross (Closing Bids, Closing Offers and each a Closing Order) will be aggregated and matched at a specific time(s) in the trading day. Closing Orders can be entered at any time before the time the Closing Cross executes (Closing Time). Closing Orders can be modified or cancelled up to a predetermined time (Firm-Up Time) prior to the Closing Time after which they will be treated as firm. The Firm-Up Time will be up to 15 minutes before the Closing Time and may differ by U.S Treasury Security (UST).

At the Firm-Up Time, Closing Bids and Closing Offers are aggregated and compared to identify if an order imbalance exists. Where there is an order imbalance, information about the size and direction of the imbalance will be disseminated to NFI Subscribers via the NFI market data feed. Subscribers may enter Imbalance Only Orders that are eligible to only trade against an order imbalance, where applicable. Imbalance Only Orders must be entered with a limit price. In the case where the limit price of an Imbalance Only Order exceeds the Reference Price it will be repriced to the Reference Price. The Reference price is the best bid in the NFI continuous limit order book (CLOB) at the Closing Time or the best offer in the CLOB at the Closing Time.

At the Closing Time, NFI will integrate orders from the CLOB for a UST to determine the price level where the largest volume of Closing Orders will trade (Closing Price). Orders in the Closing Cross are handled based on price-time priority. Currently there is one Closing Cross contemplated at 3PM Eastern Time each trading day. However, additional Closing Crosses may be offered.

To prevent undue volatility in the market at the Closing Time, the Closing Cross includes a risk management feature where there is a limited price range, or collar, for each UST outside which a Closing Cross is not permitted to trade. The collar will be within 5 basis points of the Reference Price for the UST. In the event where the calculated Closing Price falls outside the collar, Closing Orders will be executed up to the collar level (depending on their limit price) with all remaining unexecuted Closing Orders cancelled back. After the Closing Cross is executed, CLOB trading on NFI ATS in the UST will continue.

Example: (For illustrative Purposes, the Closing Time is 3:00PM)

1. Closing Orders Firm-Up Time (2:55PM)

The following Closing Orders were entered before the Firm-Up Time at 2:55PM resulting in a 3MM sell imbalance.

Closing Buy Order: 1MM at 100  
 Closing Buy Order: 1MM at 99-99  
 Closing Sell Order: 5MM at 99-98

Closing Cross Order Imbalance: Sell Imbalance 3MM

At 2:55PM information about the 3MM sell imbalance is communicated in the NFI market data feed.

AT 2:57PM an Imbalance Only Order is entered to buy 1MM UST at 99-98 resulting in a new sell imbalance of 2MM.

## 2. Closing Time (3:00PM)

At 3:00PM NFI integrates orders from the CLOB to determine the price level where the largest volume of Closing Orders will trade. The following table represents the CLOB at 3:00PM.

<u>Bid Size (MM)</u>	<u>Bid Price</u>	<u>Ask Price</u>	<u>Ask Size (MM)</u>
<u>1</u>	<u>99-99</u>	<u>100-00</u>	<u>1</u>
<u>1</u>	<u>99-98</u>	<u>100-01</u>	<u>1</u>
<u>1</u>	<u>99-95</u>	<u>100-02</u>	<u>1</u>

Result: Closing Cross executes 5MM at a Closing Price of 99-98. The 2MM sell imbalance trades with 2MM in the CLOB (the 1MM order entered with a limit price of 99-99 and the 1MM order entered with a limit price of 99-98).

### Expected Date of Implementation

Subject to regulatory approval, NFI is expecting to introduce the Closing Cross in the second half of 2019.

### Rationale and Relevant Supporting Analysis

The Closing Cross is designed to provide participants with size improvement opportunities while mitigating the risk of undue volatility threatening a fair and orderly market. By providing a specific time(s) in the day when Closing Orders will match, participants are incentivized to enter larger sized orders because they are more likely to be filled. This in turn will contribute to more robust price discovery for USTs at the Closing Time. A fair and orderly market is protected from undue volatility potentially created by Closing Cross order imbalances by applying a collar limiting the range of prices where the Closing Cross can trade.

### Expected Impact on Market Structure Impact of the Changes

The Closing Cross will provide Subscribers with an additional trading tool to meet their trading objectives.

Expected Impact on the Exchange's Compliance with Ontario Securities Law

The proposed changes will not impact Nasdaq Canada's compliance with Ontario securities law.

Consultation and Review

This change is being made in response to feedback solicited by Subscribers.

Estimated Time Required by Subscribers and Vendors (or why a reasonable estimate is not provided)

Some optional development work will be required by Subscribers that choose to incorporate the Closing Orders into their trading systems. Based on the intended implementation date we anticipate that there will be at least 90 days between regulatory approval of the proposed changes and its implementation that should provide participants sufficient time for any necessary development.

Will Proposed Fee Change or Significant Change introduce a Fee Model or Feature that Currently Exists in other Markets or Jurisdictions

Yes, equity exchanges today use call markets to calculate the open and closing prices of securities in the regular trading session. For example, the TSX supports a Market On Close facility for eligible securities where the calculated closing price by the facility is used to determine the closing price of the security.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited: [matthew.thompson@nasdaq.com](mailto:matthew.thompson@nasdaq.com), T: 647-243-6242