

Nasdaq CX2
NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Nasdaq CX2 has announced plans to implement the change described below for Nasdaq CX2 in September 2016 subject to regulatory approval. Nasdaq CX2 is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Process for the Review and Approval of the Information Contained in Form 21-101F2 and the Exhibits Thereto (ATS Protocol). Pursuant to the ATS 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 May 30, 2016 to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Fax 416 595 8940
Email: marketregulation@osc.gov.on.ca

And to

Matt Thompson
Chief Compliance Officer
Chi-X Canada ATS Limited
130 King St., W, Suite 2105
Toronto, ON M5X 1E3
Email: matthew.thompson@chi-x.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.

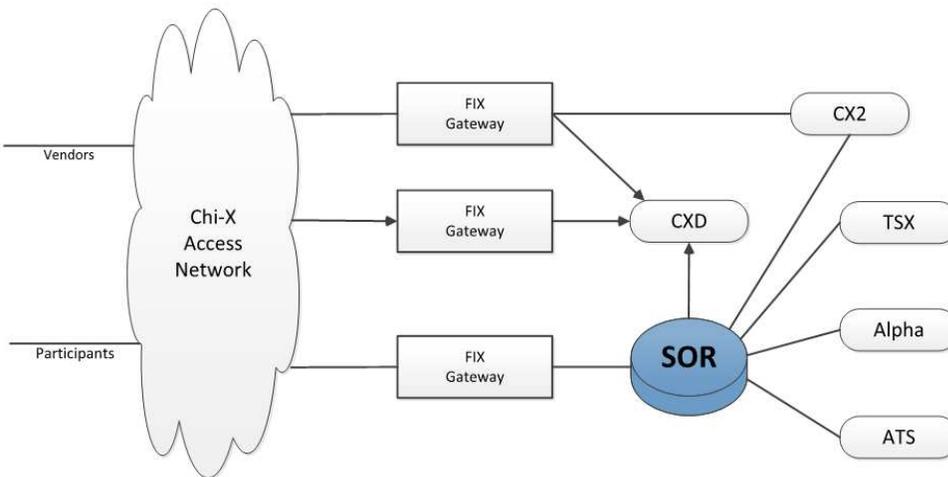
Nasdaq CX2 NOTICE OF PROPOSED CHANGES

Nasdaq CX2 has announced its plans to implement the change described below for the Nasdaq CX2 ATS in September 2016 subject to regulatory approval. Nasdaq CX2 is publishing this Notice of Proposed Changes in accordance with the requirements set out in the ATS Protocol.

Summary of Proposed Changes

Nasdaq CX2 is proposing to introduce a new dark trading book to be operated as part of the Nasdaq CX2 marketplace product offering. With its introduction, Nasdaq CX2 will operate two independent trading books; CX2 and CXD. CX2 will continue to operate as it does today with its own unique pricing model and market structure. However, Nasdaq CX2 subscribers will also be provided the option to connect to CXD, a dark trading book offering price improvement opportunities with decreased information leakage.

Access



The CX2 and CXD trading books operate completely independently of one another. Interested Nasdaq CX2 subscribers must sign the CXD Addendum to the CX2 Canada Subscription Agreement prior to being granted access to CXD. After the CXD Addendum has been executed, access to CXD is controlled by the Nasdaq CX2 Operations group. Nasdaq CX2 subscribers can access CXD through their existing Nasdaq CX2 FIX Sessions. Similar to the relationship between Nasdaq CX and Nasdaq CX2 today, there is no requirement for Nasdaq CX2 subscribers to access CXD.

Trading on CXD

Trading Hours

CXD is open for trading from 8:30 a.m. and 5:00 p.m. (Eastern Time) on all business days.

Eligible Securities

CXD offers trading in all Toronto Stock Exchange listed securities and TSX-Venture listed securities.

Minimum Price Increment

CXD will allow orders to only be entered in the minimum tick increments allowed by UMIR. These increments are as follows:

- For stocks with a price \geq \$.50 a minimum price increment of \$.01 CAD
- For stocks with a price $<$ \$.50 a minimum price increment of \$.005 CAD

Board Lot Sizes

CXD will permit orders to be entered in Board Lots that are defined as Standard Trading Units in UMIR which are determined by the previous day's Last Sale Price.

Trading Halts

In the event of a regulatory halt, IIROC will provide CXD direction to halt trading for a security. During a halt, CXD will accept new orders or modifications to existing orders. Cancellation of orders is permitted.

Marketplace Thresholds

CXD will support marketplace thresholds where an order that exceeds a predefined price band from the Last Sale Price will be prevented from executing. Price bands vary depending on the last price of the security with higher bands being applied to lower priced securities. Price bands are operational between 8:30 a.m. and 4:00 p.m. Bands are widened before 9:30 a.m. in recognition of the illiquidity of the market outside of regular trading hours.

Trade Amendments and Cancellations

CXD will cancel or amend a trade at the direction of IIROC or when two counterparties of the trade agree to have the trade be cancelled. In addition, CXD can cancel a trade that is the result of a system error or malfunction with the consent of IIROC.

CXD Order Attribution

As a dark trading book, orders entered on CXD are not displayed. Orders entered in the CXD trading book are attributed by default and are eligible for broker preferencing. Subscribers may opt-out of having their trades being attributed by selecting the anonymous order marker. Orders that are entered as anonymous are not eligible for broker preferencing.

Priority Matching

Orders entered on CXD will match following a price/broker/time sequence of execution priority. Orders are attributed by default and eligible for broker preferencing. Subscribers are able to opt-out of both attribution and broker preferencing by entering their orders with the anonymous order marker.

CXD Trading in Accordance with IROC Guidance on Dark Rule Framework

Orders entered on CXD that do not meet IROC's minimum size requirements must provide incoming orders with minimum price improvement which is one trading increment or a half price increment if the bid ask spread is at a minimum. Dark orders that meet the minimum size requirements may trade at the protected best bid and offer.

Example #1 IROC Dark Rule Framework

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	100	10.12	10.15	100

Action: A market order to sell 100 shares (does not meet IROC's minimum size requirement) is entered on CXD

Result: The sell order executes against the buy order posted at 10.12 which is permitted because the 10.12 price is more than one full tick increment better than the Protected National Best Bid (PNBB).

Example #2 IROC Dark Rule Framework

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	100	10.10	10.15	100

Action: An IOC market order to buy 100 shares (does not meet IROC's minimum size requirement) is entered on CXD

Result: The buy order is cancelled back to the subscriber as the order does not meet IROC's minimum size requirement and the 10.15 offer does not represent a full tick increment better than the Protected National Best Offer.

Example #3 IROC Dark Rule Framework

	BID Size	BID	ASK	Ask Size
PNBBO		10.12	10.13	
CXD	100	10.125 (mid-point peg order)	10.13	

Action: A market order to sell 100 shares (does not meet IROC's minimum size requirement) is entered on CXD

Result: The sell order executes against the midpoint buy order floating at 10.125 which is permitted because the spread is one tick wide and because 10.125 provides price improvement over the Protected National Best Bid and Offer PNBBO.

Example #4 IIROC Dark Rule Framework

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	100	10.10	10.15	100

Action: A market order to sell 5100 shares (meets IIROC's minimum size requirement) is entered on CXD

Result: The sell order executes at 10.10 because the size of the order meets the minimum size requirement.

Order Types

CXD will support the following order types:

Traditional Order Types: Market Order, Limit Order, Short Sell Order, Short Marking Exempt Order

Crosses: Intentional Cross, Internal Cross, Basis Cross, VWAP Cross, Contingent Cross

Pegged Order Types: Primary Peg, Mid-Peg, Market Peg, Pegged Offset.

Specialized Order Types**NCX2 Sweep Order (NCSO)**

The NCSO order marker indicates that the user has already checked the quotes of all other markets before routing the order to CXD. NCSO orders are not re-priced by the CXD system. NCSO orders will trade with the best priced contra-side order(s) without consideration of prices on other marketplaces. The NCSO is designated as a Directed Action Order (DAO) for Order Protection Rule (OPR) purposes as it permits a subscriber to opt out of CXD's OPR solution and take on direct responsibility for preventing trade-throughs.

Post Only Order

An order that will post in the CXD order book with the intention to provide liquidity. Two contra-side post-only non-displayed orders eligible to match will not execute. Instead, both orders will maintain their price until executing against an active order. In addition, no execution will take place between a resting dark limit order and an incoming contra-order marked post-only with the same price as the resting order. Instead, both orders will sit in the booked at the locked price unless a subsequent amendment or automated re-pricing of the first resting dark order causes that order to become active and executable against the contra-resting dark post only order.

Minimum Price Improvement Order (MPI)

A Minimum Price Improvement order is a primary peg order with an offset that is one tick increment more aggressive than the PNBBO or will trade at the midpoint of the PNBBO if the spread is one tick wide. This order is designed to assist subscribers in capturing the largest amount of the bid/ask spread.

Example #1 Minimum Price Improvement Order

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	

Action: A 100 share Minimum Price Improvement buy order is entered on CXD.

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	100	10.11	10.15	

Result: Because the PNBBO is 5 cents or 5 standard trading increments wide, the Minimum Price Improvement order will float at one tick increment better than the PNBB or 10.10 in this example.

Action: The PNBB moves from 10.10 to 10.12.

	BID Size	BID	ASK	Ask Size
PNBBO		10.12	10.15	
CXD	100	10.13	10.15	

Result: Because the PNBB has moved to 10.12, the Minimum Price Improvement order re-priced by one tick increment more aggressive or 10.13

Action: The PNBB moves from 10.12 to 10.14.

	BID Size	BID	ASK	Ask Size
PNBBO		10.14	10.15	
CXD	100	10.145	10.15	

Result: Because the PNBB has moved to 10.14, the Minimum Price Improvement order re-priced by one half of one tick increment because the PNBBO is at a minimum.

Minimum Acceptable Quantity Order (MAQ)

A Minimum Acceptable Quantity order is an order which specifies a minimum size quantity to trade against. For example a MAQ order to buy 10,000 shares with a 1,000 share minimum size quantity will only trade against a contra order that is 1,000 shares or more. If the remaining amount of shares of the MAQ order is less than the minimum size quantity specified, the minimum size quantity will become the remaining amount of shares. A MAQ order will maintain its execution priority in the order book at all times. It does not lose its execution priority each time it executes against a contra-side order that meets the minimum size quantity specified.

Example #1 Minimum Acceptable Quantity Order

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	10,000	10.12	10.15	

Action: A MAQ order for 10,000 shares is entered at 10.12 with a minimum quantity specified of 1,000 shares

Action: A sell order for 2,000 shares is entered at 10.10.

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	8,000	10.12	10.15	

Result: The sell order for 2,000 shares executes against the MAQ because the order size exceeds the minimum size quantity specified with the MAQ order. The remaining shares of the order decrease to 8,000 shares.

Action: A sell order for 900 shares is entered at 10.11.

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD	8,000	10.12	10.11	900

Result: The sell order for 900 shares does not meet the minimum size quantity specified with the MAQ order so the order does not execute. The sell order is posted at 10.11 resulting in a crossed book.

Action: A sell order for 10,000 shares is entered at 10.11.

	BID Size	BID	ASK	Ask Size
PNBBO		10.10	10.15	
CXD			10.11	2900

Result: The sell order for 10,000 exceeds the minimum size quantity specified with the MAQ order so the order trades against the 8,000 shares at 10.12 with the remaining 2,000 shares posted at 10.11 alongside the 900 shares previously entered.

Market Data

CXD will support its own real-time multicast market data feed showing information about trades executed on the CXD trading book. In accordance with National Instrument 21-101 *Marketplace Operation* (NI 21-101) this market data feed will be provided to the TMX Information Processor. CXD market information will also be provided to IIROC's regulation feed to ensure that real-time surveillance can be performed on CXD.

Order Protection Rule

Orders entered on CXD that would otherwise trade-through will be re-priced. Subscribers are able to opt-out of Nasdaq CX2's Order Protection Rule solution by using the NCSO. The NCSO order is designated as a DAO for OPR purposes as it permits a subscriber to opt out of CXD's OPR solution and take on direct responsibility for preventing trade-throughs. The NCSO order marker indicates that a subscriber has already checked the quotes of all other marketplaces before routing the order to CXD.

Expected Date of Implementation

Subject to regulatory approval we are expecting to add CXD to Nasdaq CX2 in September 2016.

Rationale and Relevant Supporting Analysis

In 2015 trading on dark venues represented 6.4% market share calculated based on volume. Of this percentage, MatchNow accounted for over 5%.¹ We believe that given the size of the Canadian market that participants will benefit from the competitive pressures of an additional dark trading book that is operated by a provider of marketplaces that they are familiar with, trust and trade on today. In addition, given Nasdaq CX2's ownership structure, CXD will represent the only non-broker owned operating dark book. Leveraging the success of Nasdaq CX2 and its value proposition for retail oriented trading desks, we believe that the addition of CXD will be quickly adopted by Canadian subscribers.

Expected Impact on Market Structure Impact of the Changes

Given that TriAct's MatchNow already supports a continuous auction order type and that Instinet Canada Cross Limited has been approved to introduce a continuous auction order type, there is no likely impact on current market structure nor should any new regulatory issues be raised by the addition of CXD to Nasdaq CX2. Because CXD is a dark trading book, it will be unprotected for order protection purposes and therefore will not force any requirements on the dealer community. As a result that participation in CXD is voluntary, there is no additional technology or regulatory burden placed on any subscriber, investors or the capital markets in general.

Expected impact of proposed change on Nasdaq CX2 Compliance with Ontario Securities Law and particularly with regard to Fair Access and the Maintenance of a Fair and Orderly Market

We see no impact from the proposed amendment to comply with the fair access provisions or the obligation to maintain a fair and orderly market under NI 21-101.

Consultation and Review

This change is being made in response to requests by subscribers.

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

Because CXD is a dark trading book, it will be unprotected for order protection purposes and therefore will not place any requirements on the dealer community. For those subscribers that are interested in gaining access to CXD we anticipate there being 3 to 4 weeks to make changes and test their systems.

¹ Statistics are taken from IIROC Report of Market Share by Marketplace.

Discussion of any alternatives considered

No alternatives were considered.

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

As discussed above, TriAct's MatchNow ATS already supports a continuous auction order type and Instinet Canada Cross Limited has introduced a continuous auction order type in April.

Any questions regarding these changes should be addressed to Matt Thompson, Chi-X Canada ATS Limited: matthew.thompson@chi-x.com, T: 416-304-6376