

13.2 Marketplaces

13.2.1 Nasdaq CXC Limited – Changes to CXC Trading Book – Notice of Proposed Changes and Request for Comment

NASDAQ CXC LIMITED

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

Nasdaq CXC Limited (Nasdaq Canada) has announced plans to implement the change described below in August 2018 subject to regulatory approval. 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 April 9, 2018 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
Nasdaq CXC Limited
25 York St., Suite 900
Toronto, ON M5J 2V5
Email: 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.

NASDAQ CXC LIMITED

NOTICE OF PROPOSED CHANGES

Nasdaq Canada has announced plans to implement the change described below in August, 2018 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

Nasdaq Canada is proposing to change the allocation matching priority for the CXC Trading Book from price/time priority to price/broker/time priority (broker preferencing). Associated with this change, CXC will introduce the ability for an order to be attributed on a pre-trade basis (currently attribution is only available on a post trade basis with a requirement to opt-in). All orders that are entered on CXC will be attributed by default. Members may elect to have their orders be entered without attribution by selecting the anonymous order marker.

How it Works Today

Today the sequence of priority for matching orders in the CXC Trading Book today is determined first by price and then by time.

Price Priority – priority is given to an order with the best price (highest bid or lowest offer).

Priority	Broker ID #	Size	Bid	Offer	Size	Broker ID #
P1	09	300	10.00	10.01	500	85
P2	07	100	9.99	10.02	600	63
P3	05	100	9.98	10.03	100	07

The buy order for 300 shares entered by broker #09 has execution priority because it is the highest price bid. Likewise, the sell order for 500 shares entered by broker #85 has execution priority because it is the lowest price offer.

Time Priority – priority is given to an order at a price that was entered first.

Priority	Broker ID #	Size	Arrival Time	Bid
P1	09	300	9:30:01	10.00
P2	07	100	9:31:00	10.00
P3	05	100	9:32:00	10.00

In this example, the buy order for 300 shares by broker #09 entered at 9:30:01 has execution priority because it was entered before the other two orders for 100 shares at the same price.

Proposed Change

Broker Priority – priority is given at the same price to an order with the same broker ID before orders at that price that were entered first.

Priority	Broker ID #	Size	Arrival Time	Bid
P1	09	300	9:30:01	10.00
P2	07	100	9:31:00	10.00
P3	05	100	9:32:00	10.00

This snapshot of the bid side of the protected market is identical to the example provided above for time priority. However, unlike the 300 share order that was entered first and had priority in the aforementioned example, broker priority allows for a contra-side sell order entered by a Member to execute against a buy order entered by that same Member first. In this example, if a sell order

is entered at 10.00 by either broker #07 or broker #05, it will first match with the buy order entered by the same Member before proceeding to execute with other orders in priority.

This is demonstrated when broker #07 enters a sell order for 100 shares at 10.00.

Action: #07 enters a sell order for 100 shares.

Broker ID #	Size	Arrival Time	Bid
09	300	9:30:01	10.00
07	100	9:31:00	10.00
05	100	9:32:00	10.00

Although broker #09 had time priority in the book, broker priority oversteps the time priority of this order and instead priority is given to the buy order entered by broker #07.

Action: #07's buy order (P2) executes against the incoming sell order by #07 for 100 shares.

Expected Date of Implementation

Subject to regulatory approval we are expecting to introduce this feature in August 1, 2017.

Rationale and Relevant Supporting Analysis

Nasdaq Canada (formally Chi-X Canada ATS Limited) began operations in 2008 when it introduced its flagship market CXC as a fully anonymous trading book matching orders with strict price/time priority. At that time we believed and continue to believe that intra-market price/time priority is fundamental to promoting fair and transparent markets as well as price discovery as it properly rewards those who are willing to assume risk by setting a new price level.

Broker preferencing has been an established market structure characteristic in Canada long before the introduction of multiple marketplaces. With the introduction of multiple marketplaces this feature was adopted by all new competing markets with the exception of CXC. CXC's differentiating market structure led to success where it established itself as the second largest market.

However, given recent changes in dealer workflows and the developments in technology where routers are able to seek the cross and preference attributed markets, broker preferencing has become more and more relevant. Broker preferencing has proven itself to be an efficient tool for dealers to unwind positions accumulated from deploying capital for client facilitation while at the same time providing passive liquidity to the market.

Concerns around internalization have recently been raised, leading to an Industry Roundtable to discuss the topic along with the impact of broker preferencing. While a policy review may be underway, Nasdaq Canada is proposing to introduce broker preferencing for the reasons aforementioned.

Expected Impact on Market Structure Impact of the Changes

There is little expected impact from the introduction of the proposed change as this feature is already supported by all lit markets.

Consultation and Review

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

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

Very little time is expected for Members and Vendors to prepare for the change. Participants are already familiar with broker preferencing and pre-trade attribution. No new tags will be added to either the Fix or Market Data protocols.

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

All other markets except Lynx support broker preferencing.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited:
matthew.thompson@nasdaq.com, T: 416-647-6242