

Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 Nasdaq CXC Limited – Proposed GEF Facility for an Exchange – OSC Staff Notice and Request for Comment

**OSC STAFF NOTICE AND REQUEST FOR COMMENT
REGARDING PROPOSED GEF FACILITY FOR AN EXCHANGE
TO BE ESTABLISHED BY NASDAQ CXC LIMITED**

This notice is being published by OSC Staff in connection with the application by Nasdaq CXC Limited (Nasdaq Canada) to be recognized as an exchange (Exchange Application) in accordance with section 21(2) of the *Securities Act* (Ontario) (Notice). Nasdaq Canada is proposing to introduce the GEF Facility, described below, in its operations when, subject to regulatory approval, it ceases to function as an ATS and commences operations as an exchange. Details of the Exchange Application were published for comment on October 12, 2017. In connection with the Exchange Application we are publishing this Notice for a 30 day comment period. Market participants are invited to provide the Commission with comment on the GEF Facility.

Comment on the proposed changes should be in writing and submitted by November 27th, 2017 to:

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

And to

Matt Thompson
Chief Compliance Officer
Nasdaq CXC Limited
25 York Street, 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 CANADA
REQUEST FOR COMMENT**

NASDAQ CX2 GUARANTEED EXECUTION FACILITY

Definitions: The following definitions can be found in subsection 1.1 – Definitions of Nasdaq Canada’s Trading Rules and Policies which are available on the OSC website.

TERM	DEFINITION
Assigned Security	a security for which a GEF Member has been appointed responsibility for meeting GEF Facility trading obligations
Board Lot	a standard trading unit as defined in UMIR
Designated Security	a security included in the GEF Facility
Exchange	Nasdaq CXC Limited (Nasdaq Canada)
Exchange Systems	the electronic systems operated by the Exchange for providing access to trading on the Exchange
GEF Member	a Member that has been approved by the Exchange to be responsible for meeting the Member’s obligations as a GEF Member for the GEF Facility
GEF Member Committed Volume or GEF Member CV	the size of the auto execution commitment on one side, or both sides, of the market by a GEF Member for an Assigned Security throughout the Trading Day
GEF Eligible Order	see GEF Eligible Order section of this Notice
GEF Order	a GEF Eligible Order that is marked Immediate or Cancel (IOC)
GMV	the minimum GEF Member Committed Volume for an Assigned Security
Member	a person that has signed a Member Agreement and been approved by the Exchange to access the Exchange Systems
Odd Lot Members	a Member that has been approved by the Exchange to be responsible for meeting the Member’s obligations as an Odd Lot Member for trading Odd Lot Orders
Total Consolidated Trading Volume (TCV)	The volume of trades across all marketplaces for each exchange listed security
Trading Book	the CXC Book, the CX2 Book or the CXD Book, or one of them.

Overview

The Nasdaq Canada CX2 Guaranteed Execution Facility (GEF, or GEF Facility) enables Members of Nasdaq Canada to receive guaranteed auto-executions of at least the size of the GMV for the residual portion of GEF Eligible Orders (defined below). GEF Members will provide auto-executions against residual portions of GEF Orders at the NBB or NBO after all visible quotes and visible portions of iceberg orders have been displaced on the Nasdaq CX2 Book (CX2) for a Designated Security. GEF auto-executions will only be available when there is a visible quote on CX2 at the NBB or NBO. GEF Eligible Orders that are not immediately marketable, or not marked IOC, will be canceled back. GEF auto-executions will not be available when there is a locked or crossed market on a Designated Security.

When a match occurs, Nasdaq Canada will send an unsolicited trade report to the GEF Member(s) responsible for meeting GEF obligations for that Designated Security and an execution message to the Member who entered the GEF Order. GEF Order execution messages are included in the CX2 market data feed and provided to the TMX Information Processor in accordance with National Instrument 21-101 Marketplace Operation. The GEF is available for GEF Designated Securities during between regular trading hours between of 9:30 a.m. and 4:00 p.m.

How it Works

Example 1 GEF Order is entered at the NBO

		BID	ASK	
GMV = 200				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member CV	200			200

Action: GEF Order to buy 400 shares is entered at the NBO (10.13)

Result: 200 shares is executed against the CX2 consolidated displayed offer at 10.13

The residual 200 shares is auto-executed at 10.13 in the GEF Facility

Example 2 GEF Order is entered at NBO when there is not a quote on CX2

		BID	ASK	
GMV = 200				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.14	200
GEF Member CV	200			200

Action: GEF Order to buy 400 shares is entered at the NBO (10.13)

Result: Auto-execution does not take place because CX2 does not have a visible quote at the NBO.

Example 3 GEF Order is entered with a limit price of 10.11 (inside the NBB)

		BID	ASK	
GMV = 200				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member CV	200			200

Action: GEF Order to sell 400 shares is entered at 10.11

Result: Auto-execution does not take place as the GEF Order was entered at a price inside the NBB (10.10) and is not marketable

GEF Members Committed Volume

Each GEF Member must commit to trade at least the size of the GMV for each Assigned Security against marketable GEF Orders entered at the NBB or NBO when there is a visible quote on CX2. GEF Members will have the option to increase or decrease the size of their auto-execution commitments on one side or both sides of the market for each Assigned Security throughout the trading day. GEF Member Committed Volume can be increased by Board Lot increments up to a maximum of 50 standard trading units. GEF Member Committed Volume can be decreased throughout the trading day but can never be set below the GMV. The total number of shares that can be traded against a GEF Order by all GEF Members assigned to a Designated Security will not exceed 50 standard trading units. Information about each GEF Member’s Committed Volume is not made public and is only known by the Exchange Systems. Although the size of the GEF Member Committed Volume may be changed throughout the trading day, the GEF Member must always maintain a commitment to trade at least the size of the GMV.

GEF Members do not have responsibility to trade odd lot orders on their Assigned Securities. The obligation to auto-execute odd lot orders across all securities on each Trading Book is the responsibility of Odd Lot Members.

Competition between GEF Members

For each Designated Security there can be up to five GEF Members responsible for guaranteeing automatic immediate fills for incoming GEF Orders. Where there are multiple GEF Members for a Designated Security, GEF Members are able to compete with one another for a larger portion of incoming GEF Orders by increasing their GEF Committed Volume. Order allocation between GEF Members is determined on a pro-rata basis. Pro-rata share allotments are rounded up or down to the nearest Board Lot. This order allocation methodology is used to compensate GEF Members for the additional risk accepted by GEF Members when they are willing to trade larger size. The GMV for each Designated Security will be publicly available. GEF Member Committed Volume will not be disseminated and will only be known by the Exchange System.

How it Works

Example 1 GEF Order is entered at NBO when each GEF Member Committed Volume is the same

		BID	ASK	
GMV = 100				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member 1 CV	100			100
GEF Member 2 CV	100			100

- Action: GEF Order to buy 400 shares is entered at the NBO (10.13)
- Result: 200 shares is executed against the CX2 consolidated displayed offer at 10.13
- GEF Member 1 auto-executes a sale of 100 shares at the NBO (10.13)
- GEF Member 2 auto-executes a sale of 100 shares at the NBO (10.13)

Example 2 GEF Order is entered at NBB when each GEF Member Committed Volume is the same

		BID	ASK	
GMV = 100				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member 1 CV	100			100
GEF Member 2 CV	100			100

Action: GEF Order to sell 600 shares is entered at the NBB (10.10)

Result: 200 shares is executed against the CX2 consolidated displayed bid at 10.10

 GEF Member 1 Auto-Executes a purchase of 100 shares at the NBB (10.10)

 GEF Member 2 Auto-Executes a purchase of 100 shares at the NBB (10.10)

 The remaining 200 shares is cancelled back to the Member

Example 3 GEF Order is entered at NBO when GEF Member 2 has a larger GEF Member Committed Volume

		BID	ASK	
GMV = 100				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member 1 CV	100			100
GEF Member 2 CV	400			400

Action: GEF Order to buy 300 shares is entered at the NBO (10.13)

Result: 200 shares is executed against the CX2 consolidated displayed offer at 10.13

 GEF Member 2 auto-executes a sell of 100 shares at the NBO (10.13). (the GEF Facility provides auto-executions in increments of Board Lots only; GEF Member 2 is awarded the execution of the 100 residual shares because of a higher GMV)

Example 4 GEF Order is entered at NBO when GEF Member 2 has a larger GEF Member Committed Volume

		BID	ASK	
GMV = 100				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member 1 CV	200			200
GEF Member 2 CV	400			400

Action: GEF Order to buy 500 shares is entered at the NBO (10.13)

Result: 200 shares is executed against the CX2 consolidated displayed offer at 10.13

GEF Member 1 auto-executes a sale of 100 shares at the NBO (10.13) (the pro-rata distribution for GEF Member 1 is $200/600 * 300$ which equals 100 shares)

GEF Member 2 auto-executes a sale of 200 shares at the NBO (10.13) (the pro-rata distribution for GEF Member 1 is $400/600 * 300$ which equals 200 shares)

Example 5 GEF Order is entered at NBB when GEF Member 1 has a larger GEF Member Committed Volume

		BID	ASK	
GMV = 100				
NBBO		10.10	10.13	
CX2 BBO	200	10.10	10.13	200
GEF Member 1 CV	300			300
GEF Member 2 CV	100			100

Action: GEF Order to sell 500 shares is entered at the NBB (10.10)

Result: 200 shares is executed against the CX2 consolidated displayed bid at 10.10

GEF Member 1 auto-executes a purchase of 200 shares at the NBB (10.10) (the pro-rata distribution for GEF Member 1 is $300/400 * 300$ which equals 225 shares rounded down to the nearest Board Lot or 200).

GEF Member 2 auto-executes a purchase of 100 shares at the NBB (10.10) (the pro-rata distribution for GEF Member 2 is $100/400 * 300$ which equals 75 shares rounded up to the nearest Board Lot or 100).

GEF Member Criteria for Approval

The following criteria must be met by a Member to be eligible to serve as a GEF Member:

1. Execute the GEF Addendum to the Member Agreement;
2. Have policies and procedures in place to ensure compliance with UMIR and other regulatory requirements;
3. Have policies and procedures in place to monitor its conduct for compliance with its GEF Member obligations;

4. Carry out all obligations of an GEF Member in compliance with UMIR and other regulatory requirements; and
5. Have necessary resources (both training and technology) to carry out the obligations of a GEF Member.

GEF Member Obligations

Each GEF Member must meet the following three obligations:

1. Commit to at least trading the size of the GMV on both sides of the market for all Assigned Securities.
2. Maintain a one or two sided quote of at least one Board Lot at the NBBO for at least 25% of primary market trading hours per month through one or more UMIR IDs.
3. Trade at least a minimum percentage of Total Consolidated Trading Volume per listing exchange across all Trading Books per calendar month.¹

GEF Member obligations will be monitored by the Exchange. If a GEF Member fails to meet its obligations in any given month it will be notified by the Exchange and placed on a watch list. If a GEF Member fails to meet its obligations in a second consecutive month, it will be removed from the program.

GEF Eligible Orders

A GEF Eligible Order is a client order entered by a certified GEF UMIR ID for a Designated Security where the entire size of the original parent order is less than or equal to a pre-determined multiple of the GMV determined by Nasdaq Canada, provided that the order is not:

- One of multiple orders for the same client on the same day;
- An order entered by a DEA client, unless the DEA client is a broker acting as an agent for retail client order flow;
- An order entered on behalf of a US dealer unless
 - o The order is for a client of a US dealer, unless;
 - o The dealer first confirms the order is for a client of the US dealer or;
- For a client that is generally involved in active and continuous trading on a daily basis.

In order for a GEF Eligible Order to be a GEF Order the order must be marked GEF and IOC.

GEF UMIR IDs

Members are required to certify all GEF UMIR IDs that are used to send GEF Orders. The Exchange will monitor each certified GEF UMIR ID using objective criteria including order to trade ratios, and message to trade ratios, to confirm that the certifications are in compliance with GEF Order eligibility.

Copies of the Nasdaq Canada Trading Rules and Policies, Trading Functionality Guide and Member Agreement reflecting the inclusion of the GEF Facility are available on the OSC website.

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

¹ The TCV requirement is 1.0% for TSX Listed Securities and 0.25% for TSX-V listed securities.