

Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 TriAct Canada Marketplace LP – Changes to the MATCHNow Trading System – Notice of Proposed Changes and Request for Comment

TRIACT CANADA MARKETPLACE LP

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

CHANGES TO THE MATCHNOW TRADING SYSTEM

TriAct Canada Marketplace LP (**TriAct** also known as **MATCHNow**) has announced plans to implement the two changes described below following approval by the Ontario Securities Commission (the **OSC**). MATCHNow is publishing this Notice of Proposed Changes in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto". Market participants are invited to provide the OSC with comments on the proposed changes.

Feedback on the proposed changes should be in writing and submitted by August 22, 2016 to:

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

And to:

Kuno Tucker
Chief Compliance Officer
MATCHNow
The Exchange Tower
130 King Street West, Suite 1050
Toronto, Ontario M5X 1B1
Fax: (416) 874-0690
e-mail: kuno.tucker@matchnow.ca

Feedback 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 OSC staff's review and to specify the intended implementation date of the changes.

If you have any questions concerning the information below, please contact Kuno Tucker, Chief Compliance Officer for MATCHNow, at (416) 874-0830.

1. "Significant Change subject to Public Comment" to Establish an All-Or-None Mixed Lot FIX Tag

A. Detailed description of the proposed change to the MATCHNow trading system

Currently, when a MATCHNow subscriber places a mixed lot order, that is, an order that contains both a board lot (a 100-share increment) and an odd lot (a 1 to 99-share increment), it is often the case that the board lot portion of the order is executed on MATCHNow, while the odd lot portion reverts back to the subscriber's Smart Order Router and then executes on another marketplace, or vice-versa (i.e. the odd lot executes on MATCHNow, while the board lot executes on another marketplace). When this occurs, the subscriber ends up with two different fills, on two different marketplaces, and this increases post-trade processing fees, for what may be a relatively small order.

For example, under the current system, if a subscriber sends an order for 143 shares, 100 shares might be executed on MATCHNow, with the remaining odd lot of 43 shares traded on the TSX; in that case, the subscriber ends up paying a trading fee to both MATCHNow and to the TSX for what is essentially one small order. This is inefficient and inconvenient for MATCHNow subscribers.

With the proposed change, MATCHNow will now offer subscribers the option of an all-or-none Mixed Lot FIX Tag, which will enable a subscriber to ensure that it pays a single post-trade processing fee. With this new FIX Tag, where an order contains a mix of board lot and odd lot amounts, it will only be executed if it can be filled in its totality on MATCHNow; in the event that it cannot be filled in its totality on the MATCHNow trading system, the order will be rejected, and the subscriber will then be able to send the entire order on to a different marketplace. This will enable MATCHNow subscribers to minimize their post-trade processing fees for mixed lot orders. The addition of this new feature will not affect MATCHNow's standard matching priority in any way.

B. *Expected implementation date*

The proposed change is expected to be implemented 90 days after approval by the OSC.

C. *Rationale for the proposed change and any supporting analysis*

The rationale for the proposed change is to reduce the costs paid by MATCHNow subscribers for the execution of mixed lot orders. The proposed change is arguably just a combination of existing orders, and it will only require minor changes to MATCHNow's systems. Moreover, it is a feature that many MATCHNow subscribers have requested.

D. *The expected impact of the proposed change on market structure, subscribers, and, if applicable, investors and capital markets*

The proposed change is not expected to cause any significant changes to market structure or to Canada's capital markets more generally, other than to enhance market efficiency for the subscribers and investors whose orders are being routed through MATCHNow.

E. *Expected impact of the proposed change on MATCHNow's compliance with Ontario securities law, including the requirements of fair access and the maintenance of fair and orderly markets*

As noted above, the proposed change will decrease the costs incurred by subscribers that have mixed lot orders and thereby enhance market efficiency. Moreover, the proposed change is likely to result in fewer splits of small mixed lot orders, which translates generally into more fair and more orderly markets. As such, the impact of the proposed change will be to maintain MATCHNow's compliance with Ontario securities law.

F. *Consultation done with the industry regarding the proposed change*

The proposed change was brought to MATCHNow's attention by its subscribers through MATCHNow's User Advisory Committee, which is open to MATCHNow subscribers. Meetings of the User Advisory Committee at which the proposed change was discussed were well attended, and the subscribers participating in the discussions at these meetings uniformly supported the proposed change.

G. *Whether the proposed change requires subscribers and service vendors to modify their systems after its implementation*

MATCHNow believes that the proposed change will require subscribers that wish to take advantage of this new optional order feature--and where applicable, their service vendors--to make minor modifications to their operational systems, namely, to add a new all-or-none FIX Tag applicable to mixed lot orders. Subscribers that do not wish to use this new order feature will have no obligation to make any changes to their systems.

H. *If applicable, whether the proposed change would introduce a feature that currently exists on other Canadian marketplaces*

Not applicable. MATCHNow is not aware of any other Canadian marketplace that offers an all-or-none Mixed Lot FIX Tag.

2. **A “Significant Change subject to Public Comment” to Allow Certain Marketflow Orders to Be Eligible for Both Mid-Point and MPI Matching Levels**

A. Detailed description of the proposed change to the MATCHNow trading system

Currently, MATCHNow subscribers may send Marketflow (active) Immediate or Cancel (**IOC**) orders for execution either at the mid-point of the Canadian Best Bid or Offer (**CBBO**), or to trade against the Minimal Price Improvement (**MPI**) matching level, but not for execution against both matching levels in immediate succession. The proposed change would establish a new feature that would allow subscribers to request that their IOC Marketflow orders be eligible for execution at either matching level, insofar as the system will first check for matching against the mid-point of the CBBO, and then, if no match is found, immediately check for matching against the MPI matching level.

The following are examples that illustrate how this new “Price Improve Only” feature would work:

Example #1: Ten-Cent Spread

Marketflow Buy order for 10,000 XYZ at price limit of \$10.10 is sent to MATCHNow.

The current Canadian Best Bid (CBB) is 5,000 shares at \$10.00 and the Canadian Best Offer (CBO) is \$10.10 for 900 shares (CBBO \$10.00 / \$10.10).

There are three resting liquidity orders in MATCHNow:

- Sell 1,000 XYZ at market to trade at mid-point;
- Sell 4,000 XYZ with a price limit of \$10.00 marked with MPI; and
- Sell 10,000 shares at the touch.

The Marketflow order will receive two fills:

- 1,000 @ \$10.05 (mid-point); and
- 4,000 @ \$10.09 (CBO less 1 increment).

The Marketflow order has been filled for an average price of \$10.082, which is better than the posted offer and has not impacted the market.

The Price Improve Only order trades at the same price and priority as the mid-point order in the mid-point match, and the same price and priority as the MPI order in the MPI match.

The remaining balance of the order is not eligible to trade at the touch and is cancelled back.

Example #2: Two-Cent Spread

Marketflow Buy order for 10,000 XYZ at price limit of \$10.02 is sent to MATCHNow.

The current CBB is 5,000 shares at \$10.00 and the CBO is \$10.02 for 900 shares (CBBO \$10.00 / \$10.02).

There are three resting liquidity orders in MATCHNow

- Sell 1,000 XYZ at market to trade at mid-point;
- Sell 4,000 XYZ with a price limit of \$10.00 marked with MPI; and
- Sell for 10,000 shares at the touch.

The Marketflow order will receive two fills

- 1,000 @ \$10.01 (mid-point); and
- 4,000 @ \$10.01 (CBO less 1 increment or, in this case, mid-point).

The Marketflow order has been filled for an average price of \$10.01 which is better than the posted offer and has not impacted the market.

The Price Improve Only order trades at the same price and priority as the mid-point order in the mid-point match, and the same price and priority as the MPI order in the MPI match.

The remaining balance of the order is not eligible to trade at the touch and is cancelled back.

As shown in these examples, by using this new feature, subscribers may ensure that Marketflow orders will only be filled up to the MPI matching level, and that any remaining balance will then be cancelled back. Such orders would always get price improvement at the mid-point or at the MPI matching level, but they would not cross the spread and interact with At-The-Touch order flow.

This new order type would be controlled through a new FIX Tag; alternatively, it could be set up by the subscriber as a default at the User ID level. The addition of this new feature will not affect MATCHNow's standard matching priority in any way.

B. *Expected implementation date*

The proposed change is expected to be implemented 90 days after approval by the OSC.

C. *Rationale for the proposed change and any supporting analysis*

The rationale for the proposed change is to benefit subscribers by enhancing the sensitivity and sophistication of the order execution options available to them, which also has the benefit of increasing the liquidity available to subscribers, which in turn may result in a higher execution rate for them.

D. *The expected impact of the proposed change on market structure, subscribers, and, if applicable, investors and capital markets*

The proposed change is not expected to cause any significant changes to market structure or to Canada's capital markets more generally, other than to enhance market efficiency for the subscribers and investors whose orders are being routed through MATCHNow.

E. *Expected impact of the proposed change on MATCHNow's compliance with Ontario securities law, including the requirements of fair access and the maintenance of fair and orderly markets*

As noted above, the proposed change will enhance the sensitivity and sophistication of the order execution options available to MATCHNow subscribers, and thereby enhance market efficiency. As such, the impact of the proposed change will be to maintain MATCHNow's compliance with Ontario securities law.

F. *Consultation done with the industry regarding the proposed change*

The proposed change came to MATCHNow's attention through subscriber feedback.

G. *Whether the proposed change requires subscribers and service vendors to modify their systems after its implementation*

MATCHNow believes that the proposed change will require subscribers that wish to take advantage of this new order feature--and where applicable, their service vendors--to make minor modifications to their operational systems, namely, to add a new FIX Tag applicable to active IOC orders that are intended to be eligible for sequential matching at the mid-point and the MPI matching level. Subscribers that do not wish to use this new order feature will have no obligation to make any changes to their systems.

H. *If applicable, whether the proposed change would introduce a feature that currently exists on other Canadian marketplaces*

Not applicable. MATCHNow is not aware of any other Canadian marketplace that enables active IOC orders to be eligible for matching at the mid-point and MPI matching levels simultaneously.