

## Chapter 13

# SROs, Marketplaces, Clearing Agencies and Trade Repositories

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### 13.2 Marketplaces

#### 13.2.1 TSX Inc. – Enhancements to Dark Trading Functionality – Notice of Approval

TSX INC.

#### NOTICE OF APPROVAL

#### ENHANCEMENTS TO DARK TRADING FUNCTIONALITY

In accordance with the *Process for the Review and Approval of the Information Contained in Form 21-101F1 and the Exhibits Thereto* (Protocol), on July 17, 2017, the Commission approved amendments to the TSX Rule Book and significant changes to Form 21-101F1 for TSX Inc. (TSX) reflecting enhancements to dark trading functionality on TSX.

TSX's Request for Comment on the proposed changes was published to the Commission's website and in the Commission's Bulletin on April 27, 2017 at (2017), 40 OSCB 4073. Two comment letters were received. A summary of the comments and responses, prepared by TSX, is attached to this notice at Appendix A.

TSX has made one change to trading functionality in response to the comments received. A dark limit order with the Minimum Interaction Size (MIS) condition that is unable to interact with a dark contra-side resting order because it does not meet the MIS size will book at its limit price rather than at the price of the contra-side resting dark order, subject to constraints to prevent it from locking/crossing with a contra-side visible order. Consequently, a dark limit order with MIS will never interact with a passive displayed visible order.

No changes have been made with respect to the amendments to the TSX Rule Book outlined in the Request for Comments.

## APPENDIX A

## ENHANCEMENTS TO DARK TRADING FUNCTIONALITY

## SUMMARY OF COMMENTS AND RESPONSES

List of Commenters:

1. Canadian Securities Traders Association
2. MATCHNow TriAct Canada Marketplace LP

Summarized Comments Received	TSX Response
<p><b><u>Seek Dark Liquidity (SDL)</u></b> One commenter did not express any concerns with the SDL feature, on the assumption that the SDL order type interacts with resting liquidity in a similar fashion to IOCs.</p>	<p>We confirm that SDL, an optional attribute on an IOC or FOK, will not alter IOC / FOK functionality except in that it will prevent the IOC / FOK SDL order from interacting against visible contra-side orders. It is intended to better facilitate inclusion of TSX as a destination for dark liquidity in dark active routing strategies.</p>
<p><b><u>Minimum Quantity (MinQty)</u></b> One commenter indicated support for removing the current priority benefit and 20 boardlot condition associated with the MinQty, noting that the enhanced MinQty will create more opportunity to interact with the TSX dark facility, while mitigating information leakage. This commenter also welcomed the new ability to use the MinQty parameter on all dark order types.</p>	<p>We appreciate the support from this commenter.</p>
<p><b><u>Information Leakage</u></b> One commenter identified a scenario whereby the booked price for a dark limit order when using Minimum Interaction Size (MIS) or MinQty could lead to information leakage in the context of resting contra-side dark orders. This commenter suggested that this issue could be avoided by precluding the application of MIS / MinQty to dark limit orders that could otherwise interact with contra-side visible liquidity.</p> <p>This commenter also suggested that all dark order types should book at their limit prices in order to avoid similar information leakage issues relating to pre-existing resting dark liquidity and to ensure optimal queue priority.</p>	<p>We will be making the following change to the proposed functionality in response to the concerns identified by the commenter:</p> <ul style="list-style-type: none"> <li>• A dark limit order with MIS that is unable to interact with a dark contra-side resting order because it does not meet the MIS size will book at its limit price rather than at the price of the 'offending' contra-side resting order, subject to constraints to prevent it from locking/crossing with a contra-side visible order. Consequently, a dark limit order with MIS will never interact with a passive displayed visible order.</li> </ul> <p>Regarding MinQty functionality, we will allow a dark limit order with MinQty to interact with contra-side visible resting orders. In the event that the MinQty can be satisfied, the order should execute. Where the MinQty cannot be satisfied, the dark limit order will be booked at the less aggressive of its limit price or one-tick inside the contra-side displayed price. We do not believe this will reveal information to the dark limit order regarding the existence or non-existence of resting dark contra-side orders.</p> <p>E.g., NBBO is \$10.00 - \$10.05, with 300 offered dark on TSX at \$10.03 and 100 shares visible at \$10.05.</p> <p>If a dark limit buy is then entered for 1000 @ \$10.05 with a MinQty of 500 shares, it will book dark at \$10.04 (the less aggressive of its limit or one-tick inside) as the combined dark and visible liquidity is insufficient to satisfy the MinQty. The booking of the dark limit order will not reveal information to the user about resting dark liquidity, as the reason it did not execute could be any of the following:</p> <ul style="list-style-type: none"> <li>• there was no resting dark liquidity;</li> <li>• there was resting dark liquidity but it was insufficient together with the visible resting orders to satisfy MinQty;</li> </ul>

	<ul style="list-style-type: none"> <li>or</li> <li>• there was resting dark liquidity that together with the visible resting orders was sufficient to satisfy MinQty, but the resting dark liquidity had MinQty or MIS conditions that precluded interaction with the dark limit order.</li> </ul> <p>Regarding the suggestion that all dark order types should book at their limit prices, we note that with the change to MIS functionality described above, the booked price logic for all dark order types will result in the order being booked at its limit (or at the floating pegged price where less aggressive than the limit), subject to any applicable constraints to prevent locking / crossing with a contra-side visible order.</p>
<p><b><u>Size Requirements for At-The-Touch Trading</u></b></p> <p>One commenter suggested that the definition of "large" orders for the purposes of price improvement under UMIR 6.6 (greater than 50 board lots or \$100,000 in value) does not reflect what is generally meant by 'large' in the context of orders entered on a marketplace, and suggested that allowing orders that are not 'large' in notional value to trade at-the-touch undermines the spirit of UMIR Rule 6.6 and promotes less visible passive liquidity, especially in low-priced securities.</p> <p>This commenter encouraged industry debate on the matter, with the goal of arriving at a more appropriate definition of 'large' for dark trading regulation.</p>	<p>We agree with the commenter's view, particularly as it relates to low-priced securities where the value of an order that qualifies for at-the-quote trading is a mere fraction of the \$100,000 notional value threshold.</p>
<p><b><u>Detail of Proposal</u></b></p> <p>One commenter suggested that the Request for Comment contained insufficient detail and disclosure affecting its ability to properly comment.</p>	<p>We believe that the proposed dark trading functionality changes comprise commonly understood features and functionality that can be reasonably understood based on the level of written disclosure provided. We note that the level of detail provided is generally consistent with requests for comments published by other marketplaces in connection with similar trading functionality changes.</p>