



Aequitas NEO Exchange Inc.

Trading Notice

Date: November 22, 2018

Notice #: 2018-034

Trading Policies Amendments re: Closing Price

In accordance with Schedule 5 to its recognition order, as amended (the "Protocol"), Aequitas NEO Exchange Inc. ("NEO Exchange") has adopted and the Ontario Securities Commission (the "OSC") has approved amendments (the "Amendments") to the NEO Exchange trading policies (the "Trading Policies"). The Amendments include "Public Interest Rules" and "Housekeeping Rules", both as defined under the Protocol, and were published for comment on August 16, 2018. NEO Exchange received one comment letter, the summary of which is attached to this notice as Appendix A.

The Amendments were approved by the OSC today and will be effective in December, 2018, following notice by the Exchange. The OSC Notice can be found [here](#) and the revised Trading Policies will be made available on the NEO Exchange website as from the effective date.

Summary of Changes

I. Public Interest Rules

We have refined the Closing Price calculation for NEO-listed securities by amending Section 1.01 of the Trading Policies to:

- change the definition of "Closing Price"
- add "Time-Weighted Average Price NBBO Midpoint" or "TWAP NBBO Midpoint",
- add "Weighted Closing Price", and
- add "Weighted Closing Price Eligible Security".

The Closing Price is now calculated as follows:

- For NEO-listed securities with a Closing Call, the Closing Price will continue to be the price set in the Closing Call. However, if there is no trade in the Closing Call for such securities, we will set the Closing Price to the consolidated last sale price across all marketplaces that trade NEO-listed securities ("LSP")¹ nearest to 4:00 PM, unless they are Exchange Traded Funds (see below).

¹ More specifically, the UMIR definition of "last sale price".

- For NEO-listed securities without a Closing Call that are not Exchange Traded Funds, the Closing Price will be the LSP nearest to 4:00 PM.
- For NEO-listed Exchange Traded Funds, we will set the Closing Price to the time-weighted NBBO midpoint calculation over the last 15 minutes of trading (the "TWAP NBBO Midpoint") if there is no LSP in that time period (i.e., weighting the LSP at 0% and the midpoint at 100%). If the ETF has traded during that time period then the Closing Price will be the LSP (i.e., weighting the LSP at 100% and the midpoint weight at 0%) nearest to 4:00 PM. This will be monitored and adjusted as required.

For further information, please see the NEO Exchange Trading Functionality Guide.

II. Housekeeping Rules

Minor punctuation and clarification edits were made to section 1.01 of the Trading Policies.

Should you have any additional questions, please contact NEO Trading Sales.

NEO Trading Sales

T: (416) 933-5950

E: NEOTradingSales@aequin.com

W: <http://neo.exchange>

NEO

155 University Ave., Suite 400
Toronto, Ontario M5H 3B7.

APPENDIX A

Summary of Comments

Closing Price-related Amendments to the NEO Trading Policies

We received one comment letter, from Scotiabank Global Banking and Markets. The summary of the comments and NEO responses are set out below.

Comment	NEO response
<p>...less-liquid securities may not trade near the close of each day, and moreover may not trade on the listing marketplace. The approach presented by NEO substitutes a potentially stale closing price with an estimate of the market quotation at the end of each day...We agree with NEO's proposed mechanism for determining the closing price and closing quotation.</p>	<p>We thank the commenter for supporting the proposed mechanism.</p> <p>Along the same lines, we would like to highlight another issue that this proposal will resolve, which was brought to our attention during the comment period:</p> <p style="padding-left: 40px;">Some ETF prospectuses give unit holders the right to redeem units at 95% of the closing price. Although this option is likely unknown to most unitholders and rarely exercised, for those ETFs that currently have "stale" closing prices there is a risk that investors could be redeeming units at more favourable prices than what they would get if they sold their units in the market. Upon implementation of our closing price mechanism that will no longer be the case for ETFs listed on NEO.</p>
<p>We specifically wish to affirm that:</p> <ul style="list-style-type: none"> • The Weighted Closing Price should be based on the midpoint of the national best bid and offer, rather than that of the listing exchange. • The published closing average bid and ask prices, as proposed, should be based on the national best bid and offer respectively, rather than that of the listing exchange. 	<p>We confirm that it is the national best bid and offer that will be used for these calculations, as well as the last sale price across all marketplaces that trade NEO-listed securities.</p>
<p>We recognize that currently not all exchanges and ATSS in Canada allow trading in NEO-listed securities. Furthermore, certain marketplaces offering trading in NEO-listed securities do not disseminate quotations. In the event that other visible marketplaces begin to make NEO-listed securities available for trading, we believe quotation and trade information from these marketplaces should be included in the NEO calculation of closing price and closing quotation regardless of their order protection status.</p>	<p>For technical reasons we will be considering only protected quotes for the purpose of the midpoint calculation. We note that, given the time-weighted calculation over 15 minutes of trading, the difference should be insignificant. However, we agree with the commenter that the protected status should not matter and will determine if this can be enhanced in the future.</p> <p>For clarity, we note that all trades (regardless of whether they occurred on a protected or unprotected marketplace) will be taken into consideration in the closing price calculation.</p>