

13.2.2 CSE Notice 2016-14 – Significant Change Subject to Public Comment – Amendments to Trading System Functionality & Features – Notice and Request for Comment

Notice 2016-014

September 22, 2016

CANADIAN SECURITIES EXCHANGE
SIGNIFICANT CHANGE SUBJECT TO PUBLIC COMMENT
AMENDMENTS TO TRADING SYSTEM FUNCTIONALITY & FEATURES
NOTICE AND REQUEST FOR COMMENT

A. DESCRIPTION OF THE PROPOSED AMENDMENTS

CNSX Markets Inc., (the “CSE” or “Canadian Securities Exchange”) has announced plans to implement new functionality and features with the launch of its new trading system in October 2016. The following is a description of the proposed changes.

Peg orders – Market Peg and Mid-Point Peg

Market pegs are buy/sell orders “pegged” to one trading increment away from the contra-side of the consolidated market National Best Bid and Offer (“NBBO”).

Mid-point pegs are buy/sell orders pegged to the midpoint of the consolidated market NBBO.

Peg orders can trade at the half-cent increment, and the execution price will be recalculated as the NBBO changes, subject to any limit price on the order.

Peg orders are not displayed in the book or disseminated publicly but are sent to the IROC Market Regulation feed upon entry or trade. Changes in the price of the order resulting from changes in the NBBO will not be provided to the IROC Market Regulation Feed.

- If there is a one sided market, or a locked/or crossed market (no valid NBBO), peg orders will not trade
- Peg orders entered when there is no valid NBBO will be accepted, but no execution price will be assigned until there is a valid NBBO
- Peg orders are always passive and follow regular priority rules (price, firm, time)
- Peg orders can be entered in any session where order entry is permitted but are only tradeable in continuous trading and if pegged order matching session has been enabled. (Peg Session is 9:30am-4:00pm)

Market Maker Participation

Market Maker Participation is an optional feature that enables the Market Maker on their stock of responsibility to auto trade up to 40% of the boardlot volume of incoming guaranteed minimum fill (“GMF”) eligible orders at the NBBO that are under the maximum participation volume amount set on the stock.

- For incoming orders of 2 Board lots, allocation will be split 1 Board lot to the book and 1 Board lot to the Market Maker if its participation is turned on. The participation volume allocation will be rounded down to the nearest full board lot but participation will be rounded up to fill incoming orders incoming of less than 200 shares
- Market Maker Participation can be turned on or off by the market maker assigned as the GMF dealer on the stock through its FIX session. The participation values Maximum Participation Volume, % of incoming orders, and Max total volume tradeable, can be set on either the bid side or sell side or both by the Market Maker or by Market Ops and can be changed intraday
- The Market Maker Participation status on a security is not sent publicly but is sent on GPC FIX (IROC Market Regulation feed)

- When participation is on, GMF eligible orders will be filled at the NBBO
- Oddlots will be auto traded with the Market Maker on the stock at the NBBO

B. EXPECTED IMPLEMENTATION DATE

The new trading engine will be launched October 31, 2016. Peg orders and Market Maker participation will be implemented immediately following OSC approval but no earlier than October 31, 2016.

C. RATIONALE AND SUPPORTING ANALYSIS

Peg orders – Mid Point and Market Peg

The CSE is offering these new order types in response to customer demand, and to remain competitive with other marketplaces in Canada that have offered these order types for many years. These new order types will improve liquidity and offer price improvement opportunities to the benefit all market participants.

The use of these order types is optional for participants.

Market Maker Participation

The CSE is proposing to further enhance the Market Making programme we launched in the fall of 2015. The new functionality is based on consultation with existing CSE Market Makers and industry participants. The benefits of the proposed improvements remain consistent with the exchange's original objectives:

- Decrease costs
- Increase trade execution size
- Reduce the risk of adverse selection
- Encourage greater liquidity

This enhancement to the programme is optional for Market Makers.

D. EXPECTED IMPACT

The proposed additional functionality is being implemented in response to customer demand, and to remain competitive with the offerings of other market places. The new features will encourage greater liquidity to the benefit of all market participants and will provide them with the opportunity to manage their costs.

E. COMPLIANCE WITH ONTARIO SECURITIES LAW

There will be no impact on the CSE's compliance with Ontario securities law. The changes do not alter any of the requirements for fair access or the maintenance of fair and orderly markets.

F. CONSULTATION

The CSE has consulted with a number of dealers and industry stakeholders and considered the feedback received during informal dialogue.

G. TECHNOLOGY CHANGES

Peg orders – Market Peg and Mid-Point Peg

Clients already support these features on other Canadian marketplaces and therefore we do not anticipate there to be a material effort.

Market Maker Participation

The use of the enhanced programme is optional to Market Makers. Participation has been a feature on the Toronto Stock Exchange for many years and therefore we do not anticipate there to be a material effort.

H. OTHER MARKETS OR JURISDICTIONS

The proposed new functionality already exists in Canada and is currently provided by one or more marketplaces. The participation feature is more restrictive, as Market Makers on the TSX may participate with any order with a volume less than or equal to the Minimum Guaranteed Fill (“MGF”) size, regardless of whether the order is MGF eligible.

K. COMMENTS

Submit comments on the proposed amendments no later than October 24, 2016 to:

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