



Aequitas NEO Exchange Inc.

Trading Notice

Date: August 16, 2018

Notice #: 2018-029

Request for Comments Trading Policies Amendments re: Closing Price

Aequitas NEO Exchange Inc. ("NEO Exchange") is proposing amendments (the "Proposed Amendments") to the NEO Exchange trading policies (the "Trading Policies") in accordance with Schedule 5 to its recognition order, as amended (the "Protocol"). As required under the Protocol, the Proposed Amendments were filed with the Ontario Securities Commission ("OSC"). They include "Public Interest Rules", which are being published for comment, and "Housekeeping Rules", both as defined under the Protocol. The Proposed Amendments are set out below and, subject to any adjustments resulting from comments received, they will be effective in October, 2018.

Description of the Proposed Amendments

I. Public Interest Rules

To add refinements to how the Closing Price is calculated for NEO-listed securities we propose to amend Section 1.01 of the NEO Exchange Trading Policies to change the definition of "Closing Price" and add the following new definitions:

- "Time-Weighted Average Price NBBO Midpoint" or "TWAP NBBO Midpoint",
- "Weighted Closing Price", and
- "Weighted Closing Price Eligible Security".

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 propose to 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).

For NEO-listed securities without a Closing Call that are not Exchange Traded Funds, we propose that the Closing Price also be the LSP nearest to 4:00 PM.

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

For NEO-listed Exchange Traded Funds we propose to leverage a model that sets 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. If the ETF has traded during that time period then the Closing Price will be the LSP nearest to 4:00 PM. We plan to monitor over time and adjust as required.

Example:

The following is an example showing how the TWAP NBBO Midpoint and the closing price would be calculated:

Last NBBO update	NBB	NBO	Duration (min)	Midpoint
3:45:00	19.01	19.06	8	19.035
3:53:00	18.98	19.02	5	19.000
3:58:00	18.98	19.05	2	19.015
TWAP	18.996	19.045		19.021

$$TWAP\ NBB = 18.996 \ ((19.01 * 8 + 18.98 * 5 + 18.98 * 2) / 15 = 18.996)$$

$$TWAP\ NBO = 19.045 \ ((19.06 * 8 + 19.02 * 5 + 19.05 * 2) / 15 = 19.045)$$

The Weighted Closing Price would be calculated depending on the time the LSP occurred, using the above-calculated TWAP NBBO Midpoint (\$19.021) and assuming the LSP was \$18.98. The resulting price will always be rounded to the nearest tick size.

Time of LSP	Weighted Closing Price
3:40:00	19.02
3:50:00	18.98

Please note that, in addition to the Closing Price calculation, NEO will also send the TWAP NBB price and TWAP NBO price for all NEO-listed securities to back-office systems in order to provide additional improvements to portfolio pricing options.

II. Housekeeping Rules

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

Expected Date of Implementation of the Public Interest Rules

We are planning to implement the Public Interest Rules in October, 2018.

Rationale for the Public Interest Rules and Relevant Supporting Analysis

Adjusting the closing price methodology reflects and acknowledges an evolution in Canadian market structure, where a single venue or listing exchange may no longer be the only source

of pricing information for the industry. It will also enable more accurate pricing of illiquid Exchange Traded Funds and holdings generally for investors, advisors, dealers and asset managers when valuing NEO-listed securities. The vast majority of ETFs trade infrequently and, as they are priced based on the underlying constituents, the last sale price (which may have happened days earlier), may not always be an accurate reflection of the current NAV for the fund. Therefore, using a midpoint calculation over the last 15 minutes of trading when determining the closing price for an ETF will provide a much improved reference point for portfolio valuations than a stale last sale price. Further, we are seeking to make it clearer how NEO-listed securities' closing prices will be determined in each of the several possible circumstances.

Expected Impact on Market Structure, Members, Investors, Issuers and Capital Markets

We expect a positive impact on members, investors, advisors, asset managers and issuers and, as a result, on the capital markets due to better valuations for NEO-listed securities.

Impact on Exchange's Compliance with Ontario Securities Law and on Requirements for Fair Access and Maintenance of Fair and Orderly Markets

No impact is expected.

Impact on the Systems of Members or Service Vendors

The Proposed Amendments are not expected to impact the systems of members or service vendors.

New Feature or Rule

The Proposed Changes are novel to the Canadian market; NYSE recently implemented a feature to address closing price issues for Exchange Traded Funds.

Text of the Public Interest Rules

The text of the proposed Public Interest Rules is attached at Appendix A.

Comments

Comments should be provided, in writing, no later than September 17, 2018 to:

Cindy Petlock
Chief Legal Officer & Corporate Secretary
Aequitas NEO Exchange Inc.
155 University Avenue, Suite 400
Toronto, ON M5H 3B7
e-mail: legal@aequin.com

with a copy to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor

Toronto, ON M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Please note that, unless confidentiality is requested, all comments will be made publicly available.

APPENDIX A

Text of Proposed Public Interest Rule Amendments NEO Exchange Trading Policies

PART I. DEFINITIONS AND INTERPRETATIONS

1.01 Definitions

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“Closing Price” means:

- (1) with respect to a Closing Call Eligible Security,
 - (a) if the security traded during the Closing Call, the price at which the security traded, or
 - (b) if the security did not trade during the Closing Call,
 - (i) if is also a Weighted Closing Price Eligible Security, the Weighted Closing Price, and
 - (ii) for all other Closing Call Eligible Securities, the LSP that occurred at or prior to the end of the Continuous Trading Session in NEO-L;
- (2) with respect to a Weighted Closing Price Eligible Security, the Weighted Closing Price; or
- (3) with respect to all other Listed Securities, the LSP that occurred at or prior to the end of the Continuous Trading Session in NEO-L.

~~(1) with respect to NEO-L:~~

- ~~(a) for a security that participated in a Closing Call, the price at which the security traded during the Closing Call;~~
- ~~(b) for a security that does not trade in a Closing Call, the price of the last trade that occurred at or prior to the end of the Continuous Trading Session in NEO-L;~~
- ~~(2) with respect to NEO-N, the price of the last trade that occurred at or prior to the end of the Continuous Trading Session in NEO-N; or~~
- ~~(3) with respect to NEO-D, the price of the last trade that occurred at or prior to the end of the Continuous Trading Session in NEO-D.~~

...

“Time-Weighted Average Price NBBO Midpoint” or “TWAP NBBO Midpoint” means the midpoint of the time-weighted average NBB and the time-weighted average NBO over a period of time.

“Weighted Closing Price” means the price calculated by weighting and combining the TWAP NBBO Midpoint and the LSP over the applicable time interval leading up to the end of the Continuous Trading Session in NEO-L. The Exchange will determine from time to time and publish by Notice to Members the weighting percentages of the TWAP NBBO Midpoint and the LSP as well as the time intervals.

“Weighted Closing Price Eligible Security” means a security designated by the Exchange from time to time to be eligible for a Weighted Closing Price. The Exchange will determine from time to time and publish by Notice to Members a list of eligible securities.

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