

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 CNSX Markets Inc. – Notice of Completion of Staff Review of Proposed Changes – Changes to Order Allocation Methodology for Jitney Trades

CNSX MARKETS INC.

NOTICE OF COMPLETION OF STAFF REVIEW OF PROPOSED CHANGES

CHANGES TO ORDER ALLOCATION METHODOLOGY FOR JITNEY TRADES

CNSX Markets Inc. (CNSX) has implemented changes to the CNSX Trading System to change the method by which trades are allocated to jitney orders.

In accordance with OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*, a notice describing the change was published in the OSC Bulletin on November 25, 2011 at (2011) 34 OSCB 12001. The notice also requested that market participants provide the Commission with feedback on the change. The Commission received one comment letter in response to the request for feedback. The comment letter expressed concern with the impact of jitney preferencing on the principle of fair and equal access to trading on marketplaces.

Commission staff have completed their review of the change. As a result of its review, Staff have concerns with order allocation methodologies that allow for orders marked jitney to participate in firm priority. In particular, Staff are concerned that, by permitting two dealers to bypass committed orders in the book, jitney preferencing could lead to the formation of "liquidity consortiums", where dealers can make their order flow available to a select group of market participants through jitneying. In Staff's view, jitney preferencing negatively impacts fair access to trading on marketplaces and marketplaces should not facilitate this activity through their order allocation methodologies.

Staff note that jitney preferencing is presently supported on three marketplaces carrying on business in Ontario. Staff have directed these marketplaces to change their order allocation methodologies to no longer support jitney preferencing. Staff expect that the process of disabling this functionality on each marketplace will be completed by no later than the end of Q1 2013.