

13.2.2 NEO Exchange Inc. – Proposed Public Interest Rule Amendment to the Trading Policies – Request for Comments

NEO EXCHANGE INC.

PROPOSED PUBLIC INTEREST RULE AMENDMENT TO THE TRADING POLICIES

REQUEST FOR COMMENTS

Introduction

Neo Exchange Inc. (“**NEO Exchange**” or the “**Exchange**”) is publishing a proposed public interest rule amendment to the NEO Exchange Trading Policies in accordance with Schedule 4 to its recognition order, as amended. The public interest rule amendment was filed with the Ontario Securities Commission (“**OSC**”) and is being published for comment. A description of the public interest rule amendment is set out below and the text of the public interest rule amendment is set out in Appendix A. Subject to any changes resulting from comments received, the public interest rule amendments will be effective upon publication of the notice of approval on the OSC’s website.

Description of the Public Interest Rule Amendment

Addition of Minimum Price Improvement (“MPI”) Orders in NEO-D

A MPI Order is an order which price is automatically adjusted to be pegged one tick increment more aggressive than the protected National Best Bid and Offer (“NBBO”), or half a tick increment if the NBBO spread is one tick. Offsets on MPI orders are not permitted. A MPI order is tradeable upon entry with other resting orders, but will not trade during crossed or locked markets.

Addition of an Odd Lot Facility in NEO-D

An odd lot order (or the odd lot portion of a mixed lot order) will be auto-executed at the protected NBBO by a Designated Market Maker or Odd Lot Trader. Odd lot orders are only accepted between 9.30 a.m. and 4:00 p.m. An odd lot order with a limit price worse than the protected NBBO will be cancelled back to the originator. An odd lot order in a security that does not have a Designated Market Maker or Odd Lot Trader assigned will be cancelled back to the originator.

After our receipt of OSC approval, and in conjunction with the production date, the proposed functionalities will be added to the Trading Functionality Guide and published on our website.

Expected Date of Implementation of the Public Interest Rule Amendments

NEO Exchange seeks to implement the public interest rule in Q4 2021.

Rationale for the Public Interest Rule Amendments and Supporting Analysis

The proposed changes to introduce MPI and an Odd Lot Facility in NEO-D are being implemented to enhance our dark offering and provide more opportunities for price improvement for clients. These features are not novel concepts and are currently available on other marketplaces as noted below.

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

The changes will not have any impact on market structure as the features are not novel concepts and are currently available on other marketplaces. Members and Investors will have an enhanced experience in NEO-D through price improvement and automated odd lot execution.

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

The Amendments will not impact the Exchange’s compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. The proposed functionalities are common features for equity marketplaces in Canada, and other Canadian marketplaces already offer MPI and an Odd Lot Facility in their dark book. The functionalities will be available for all marketplace participants of NEO-D.

Impact on the Systems of Members or Service Vendors

The changes will have no impact on the systems of members or service vendors. Only those that want to use the new MPI order type will have to make changes. Since MPI is a standard order type already available on other marketplaces the change would be trivial for willing adopters from a system perspective. Implementation of an Odd Lot Facility has no system impact on members or vendors.

Alternatives Considered

No alternatives were considered.

New Feature or Rule

MPI orders and auto-executions of odd-lots at the protected NBBO is already supported by most marketplaces including TSX, NASDAQ Canada and CSE.

Comments

Comments should be provided, in writing, no later than **August 30, 2021** to:

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with a copy to:

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

APPENDIX A

TEXT OF THE TRADING POLICIES AMENDMENTS

	Trading Policies Section Reference	Amendment
1.	<p>Part I. Definitions and Interpretations 1.01</p> <p>“Mixed Lot Orders”</p> <p>“Odd Lot Facility”</p> <p>“Odd Lot Orders”</p>	<p>Delete “has the meaning set out in Section 6.02” and replace with “means a Limit Order or Market order containing at least one Board Lot and one Odd Lot.”</p> <p>Delete “of NEO-L”.</p> <p>Delete “has the meaning set out in Section 6.02” and replace with “means A Limit Order or Market Order containing less than one Board Lot.”</p>
2.	<p>Part VII. Trading in NEO-D Section 7.02 Additional Orders and Modifiers Available in NEO-D</p>	<p>Introduce definitions of “Minimum Price Improvement Order”, “Mixed Lot” and “Odd Lot” as follows:</p> <p>“Minimum Price Improvement Order’ A pegged order with a price offset of which is automatically adjusted by the Exchange Systems to one tick increment more aggressive than the NBBO, or one-half of a tick increment if the NBBO spread is only one tick increment.</p> <p>‘Mixed Lot’ A Limit Order or Market Order containing at least one Board Lot and an Odd Lot.</p> <p>‘Odd Lot’ A Limit Order or Market Order containing less than one Board Lot.”</p>

Trading Policies Section Reference	Amendment
<p><i>Section 7.07 Odd Lot Facility</i></p>	<p>Introduce the Odd Lot Facility as follows:</p> <ul style="list-style-type: none"> “(1) Odd Lot Orders (and the Odd Lot Order portion of a Mixed Lot Order) will be eligible for entry and auto-execution in the OLF during the Odd Lot Session (2) Odd Lot Orders (and the Odd Lot Order portion of a Mixed Lot Order) may be entered for trading during the during the Odd Lot Session of NEO-D (3) Odd Lot Orders (and the Odd Lot portion of Mixed Lot Orders) for securities that do not have a Designated Market Maker or Odd Lot Trader and security types for which there is no OLF will be rejected. The Exchange will publish by Notice to Members the securities and/or security types for which there is no OLF. (4) Incoming Odd Lot Market Orders: <ul style="list-style-type: none"> (a) will be auto-executed by the Designated Market Maker or Odd Lot Trader at the time of order entry, at the NBBO. (5) Incoming Odd Lot Limit Orders: <ul style="list-style-type: none"> (a) with a limit price equal to or better than the NBBO will be auto-executed by the Designated Market Maker or Odd Lot Trader at the time of order entry, at the NBBO, and (b) all other Odd Lot Limit Orders will be cancelled back to the originator. (6) Incoming Mixed Lot Orders, <ul style="list-style-type: none"> (a) the Board Lot portion will trade in accordance with 7.04, and (b) the Odd Lot Order portion will trade in accordance with 7.07(4) and 7.07(5).”
<p><i>7.08 Unfair Trading in Odd Lots</i></p>	<p>Introduce the treatment of unfair trading in Odd Lots as follows:</p> <ul style="list-style-type: none"> “(1) See section 6.18”