

Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 Neo Exchange Inc. – Proposed Public Interest Rule Amendments to the Neo Exchange Trading Policies – Request for Comments

NEO EXCHANGE INC.

PROPOSED PUBLIC INTEREST RULE AMENDMENTS TO THE NEO EXCHANGE TRADING POLICIES

REQUEST FOR COMMENTS

Introduction

Neo Exchange Inc. (“**NEO Exchange**” or the “**Exchange**”) is publishing proposed public interest rule amendments to the NEO Exchange Trading Policies in accordance with Schedule 4 to its recognition order, as amended. The public interest rule amendments were filed with the Ontario Securities Commission (“**OSC**”) and are being published for comment. A description of the public interest rule amendments is set out below and the text of the public interest rule amendments are 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

We are proposing to introduce a new volatility parameter, Closing Price Threshold (“**CPT**”), which will determine the allowable price range for where an auction can occur during a delayed closing for a Closing Call Eligible Security. In the event the Calculated Closing Price (“**CCP**”) is outside of the CPT %, the system will calculate the closing price within the range at a price which maximizes the tradable volume. Following the execution of the Closing Call where the CPT has come into effect, if there are any remaining orders that would lock or cross the market, the security will get automatically paused in NEO-L and not transition to the Extended Trading Session. The automatic pause does not impact the trading of the security in any of the other books.

Example

Last Sale Price	Closing volatility %	Closing volatility Low Range	Closing volatility High Range	CPT* %	CPT* Low Range	CPT* High Range
10.00	3	9.70	10.30	10	9.00	11.00

*Closing Price Threshold parameter

The security has gone into a delayed auction as the CCP is outside of the closing volatility range (9.70-10.30)

B1	Buy 3000 @ MOC	Sell 1500 @ 10.50	S1
		Sell 500 @ 11.10	

At the end of the delayed auction, the CCP (11.10) is outside of of the CPT range (9.00-11.00)

System chooses \$10.50 as new CCP price and auction executes:

Trade: S1 and B1: 1500 @ \$10.50

Order S2 is not eligible to trade as its price is outside of CPT range

The remainder of B1 is cancelled after auction as it is a MOC order

	Sell 500 @11.10	S2
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Expected Date of Implementation of the Public Interest Rule Amendments

We are seeking to implement the Public Interest Rule Amendments in April 2022.

Rationale for the Public Interest Rule Amendments and Supporting Analysis

The current behavior for the Closing Call is that if the CCP is outside the closing call volatility parameter (currently 3% for securities priced over \$1 and 10% for securities priced below \$1) the security will go into a delayed closing phase. The system will attempt to run the auction again after five minutes if the CCP has moved inside the closing call volatility parameter. The second and final attempt will occur after 10 minutes from the start of auction, but this time the volatility parameter will no longer apply and the auction will execute at the CCP. The intent of the delayed closing is to give market participants time to react and adjust to new prices and information, but ultimately the market will dictate where the security should close.

Our approach to the Closing Call is novel in the Canadian context but is identical to the London Stock Exchange's auction model. With the inclusion of NEO Listed Securities in global benchmark indices, we have seen a significant uptick in the utilization of our Closing Call. At the same time, the awareness amongst our market participants on how our auction differs from TSX and how to best utilize it is not yet at a level where it needs to be. This has led to instances where our Closing Call executed at prices that were detrimental to market integrity.

In order to remedy this, we are proposing to introduce an additional safeguard which will limit the price at which the auction can run in the circumstances where the market is not reacting properly during the delayed closing.

At the same time, we are also removing the functionality that would prevent the Closing Call to run where minimum volume cannot be met. This functionality has never been utilized and will become redundant with the introduction of the new closing price volatility parameter, as both functions attempt to address unexpected execution outcomes.

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 similar functionality is already available for TSX closing auction. Members, investors and issuers with securities eligible for our Closing Call will experience a positive impact from the change, as pricing deviations and poor quality execution prices are mitigated by the proposed feature.

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 NEO's compliance with Ontario securities law and are intended to further enhance NEO's compliance with the requirements for fair access and maintenance of fair and orderly markets through mitigating poor quality execution outcomes in the Closing Call.

Impact on the Systems of Members or Service Vendors

The proposed change is internal to the Exchange and will not require any changes to systems for Members or Service Vendors. As the core functionalities of the auction remains unimpacted (matching priorities, dissemination of information etc.) and there are no changes to technical specifications or sequencing of technical messages which would require Members or Service Vendors to make changes to their systems.

Alternatives Considered

The alternative would be to maintain status quo and continue our educational efforts on the differences between our Closing Call and the TSX closing auction. This will take time and in the meantime the market may experience additional scenarios of poor quality executions at the Closing Call.

New Feature or Rule

The proposed functionality is similar to the safeguards in place for the TSX closing auction.

Comments

Comments should be provided, in writing, no later than March 14, 2022 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.	Part I. Definitions and Interpretations 1.01 "Closing Call Volume Threshold"	Definition repealed.
2.	Part VI. Trading in NEO-L <i>Section 6.11 Closing Call (Closing Call Eligible Securities only)</i> <i>Section 6.12 Delayed Closing (Closing Call Eligible Securities only)</i> (5)	Delete the second and third sentence of subsection (1). Replace the text under subsection (5) with "At the end of the delayed closing, if the CCP for the security still exceeds the price band parameters the CCP will be subject to a closing price threshold. The Closing Call will complete at the price which maximizes the tradable volume inside the closing price threshold. The closing price threshold will be specified by Notice to Members."