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and

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Via Email

Re: TRADELOGIQ MARKETS INC. NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS – LYNX ATS / PERIODIC MATCHING

Scotiabank appreciates the opportunity to comment on the proposal by Tradelogiq Markets Inc. to introduce a new trading model for Lynx ATS (the "Proposal").

General Remarks

We acknowledge that the Proposal is, at its core, intended to introduce a next generation Lynx trading model that encompasses new order types, features and a unique auction based matching process. As the proposal is novel, and therefore should be subject to enhanced diligence with respect to possible unintended consequences.

The Lynx proposal presents a new and unique set of order types, a novel matching mechanism, and importantly, leverages existing connectivity for dealers. Introducing this new market model on an existing venue allows for easier and more cost-effective access for the investment community. We thank Tradelogiq Markets for considering a path that reduces overall disruption for dealers.

However, crucially, the proposal does not include any details on the pricing structure for Lynx ATS. We provide our comments below without this key element, and this limits the degree to which we can anticipate impact. Given the unknown pricing structure and potential degree of benefits to the investment community on a whole, we analyze the Proposal and base our feedback and analysis on

basic regulatory principles in Canada, including assessing whether the precedent set by the Proposal would be appropriate.

Periodic Auctions

The most critical element of the new operating model for Lynx as proposed is the introduction of a periodic auction that is expected to look and feel like traditional continuous markets, as matching “events” will occur at very frequent intervals of every few milliseconds. Lynx is introducing a two-stage matching process whereby DAY orders match off against “Event or Cancel” (EOC) orders, and then the final turn allows for “Event or Cancel” orders that have opted into this mechanism to match off against other EOCs at the midpoint. Note that DAY orders will never interact with one another – which adds potential for a consistently locked/crossed book with volume never executing until the contra side comes in via an EOC. We question why DAY orders can’t participate in the final turn event and match off at the mid-point along with the EOC orders. We suggest this behaviour be revisited.

Another element of the two-stage matching process is that the 2nd turn EOC matching phase will essentially be price improved versus the initial matching phase. This behavior, combined with the fact that DAY orders in the proposal are allowed to be cancelled at any time, will result in fading liquidity and potentially gaming as participants cancel out DAY orders to come back in as an EOC in the next matching cycle for price improvement opportunities. We believe it is worth re-visiting the ability for DAY orders to be canceled at any time in favor for some sort of auction lock in mechanism, potentially offering a “freeze” for a short period around the auction. This issue can also be addressed by matching EOC orders with each other prior to allowing EOC-to-DAY interaction, thus turning the “Final Turn” into a “First Turn”.

In general, we believe this new periodic auction and matching mechanism is an interesting and novel approach to trade matching. We support the proposed matching process, notwithstanding our view that there are opportunities to refine the proposal and address potential gaming concerns.

Market Data and True Price Discovery

One aspect of the Lynx proposal we disagree with is the discrepancy between the displayed price of DAY orders in the book via market data feeds versus the actual or ultimate limit of the orders price in the book.

The proposal lays out plans for a dynamic display mechanism to “*avoid the potential for displayed prices to be locked or crossed with the Protected NBBO, or to be internally locked or crossed in the event there are resting DAY orders with overlapping prices.*” DAY orders will be displayed at prices that differ from the actual limit or tradeable price.

We understand the motivation for this mechanism is to avoid creating widespread confusion with a consistently locked or crossed book. However, we believe this mechanism does not contribute positively to an efficient and robust price discovery process. The integrity of the displayed quote, despite Lynx not currently being a protected market, should be at the forefront of items that the regulators review to ensure fair and equitable dissemination of meaningful market data.

Displayed quotations on *all* marketplaces are expected by the investing community to represent a source of price discovery and are an input into others' activity on all markets. There is no carve-out for unprotected markets to display quotes with a lower threshold of integrity. This common standard is exemplified in the prohibition on unprotected markets from displaying quotations that lock or cross any protected market – which we take as clear evidence that unprotected markets are held to the same standard as any other displayed venue.

Lynx' proposal would display a locked market as a match to the NBBO, while allowing EOC orders to execute against better limits. This is misleading to participants who may be looking at Lynx quotes as a source of price discovery; the quotes disseminated by Lynx are not the inside market on Lynx. Rather, they are others' quotations on away markets, and are free-riding on others' price discovery.

We fundamentally view this approach to resolving an internal lock on the Lynx ATS as an affront to the integrity of a quotation, and suggest it be addressed in a manner similar to what other marketplaces adopt for OPR protection. For example, locking DAY orders may be rejected on entry, repriced to a worse trading increment, or be allowed to trade with the contra DAY order at the next match event. In all cases, the resulting quotation on Lynx will represent tradable prices and therefore a source of price discovery for the market as a whole.

Conclusion

We are broadly supportive of Tradelogiq's proposed approach to trade matching on the Lynx ATS.. The Proposal includes several interesting new enhancements to an existing venue with little cost of entry to dealers with existing connectivity to Lynx.

Nonetheless, we believe the proposal should be amended to address two areas of concern:

1. Displayed quote discrepancies as compared to true and tradable limit prices
2. Potential for a high degree of locked/cross markets and quote fade.

We appreciate the opportunity to comment on this matter.

Respectfully,

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