

B.11

CIRO, Marketplaces, Clearing Agencies and Trade Repositories

B.11.2 Marketplaces

B.11.2.1 TSX Inc. and Alpha Exchange Inc. – Proposed Amendments and Request for Comments – Notice

NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX INC. AND ALPHA EXCHANGE INC.

Each of TSX Inc. (“**TSX**”) and Alpha Exchange Inc. (“**Alpha**”, and together with TSX, the “**Exchanges**”) is publishing this Notice of Proposed Amendments and Request for Comments in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto” regarding amendments to the functionality of the Minimum Price Improvement Peg order type on TSX (TSX DRK only) and Alpha (Alpha DRK only), as described below (the “**Amendments**”).

Market participants are invited to provide comments. Comments should be in writing and delivered by June 17, 2024 to:

Joanne Sanci
Senior Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
Email: marketregulation@osc.gov.on.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by staff at the Ontario Securities Commission (“**OSC**”), and in the absence of any regulatory concerns, a notice will be published to confirm approval by the OSC.

Background, Outline and Rationale for the Amendments

In 2017, the MPIP order type (a dark pegged order type) was introduced on TSX, and on Alpha DRK in November 2023. At the time, TSX’s on-book dark functionality generally consisted of dark limit orders and dark mid-point orders only, but not dark pegged order types. Pegged order types allow participants to better manage their orders and maintain optimal order book positioning by allowing their booked order price to float in reference to current market prices. After reviewing the offerings of other marketplaces and consulting with various stakeholders, TSX introduced the MPIP order type (along with other dark pegged order types) as part of enhancements to its on-book dark functionality in recognition of the then continued evolution and growth of dark trading in Canada. These enhancements were introduced to better accommodate the range of dark strategies employed by TSX participants and their clients and in order to remain competitive with the offerings of other marketplaces in Canada at the time.

The MPIP order type, as implemented, provides the minimum required price improvement in certain circumstances, and behaves in the same manner as the Primary Peg order type but with a one-tick aggressive offset. A one-tick aggressive offset means that a participant has specified they are willing to pay one-tick above the protected national best bid (or NBB) if it is a buy order, or one-tick below the protected national best offer (or the NBO) if it is a sell order. Where the spread is two ticks or less, the MPIP order rests as a dark order at the same-side NBBO instead of resting at the mid-point. As a result, MPIP order types will never rest at the mid-point of the Protected NBBO. For example, if the protected NBBO is 10.00 (bid) and 10.02 (offer), and you submit a buy MPIP order, the order would be placed at 10.00 (being the same-side protected NBB) and would not “rest” or remain on the trading book at 10.01 (being the mid-point). A participant that wishes to always peg with minimum price improvement, including at the mid-point when the spread is two ticks or less, can do so by using a Primary Peg with a one-tick aggressive offset.

Analysis of December 2023 trading data revealed that over 78% of all shares traded on TSX and TSX Venture Exchange occurred with underlying spreads at or below two ticks. As there was minimal trading activity on Alpha DRK in December 2023, trading data for Alpha DRK was not included in the analysis. Consequently, in such instances, orders seeking minimum price improvement (“MPI”) become non-executable, as MPIP orders would align with the same side of the NBBO.

As a result of extensive feedback from clients who collectively represent over 98% of MPIP usage, each of the Exchanges is proposing to modify the functionality of its MPIP order type by removing the exceptions relating to behaving the same manner as a Primary Peg with a one-tick offset.

The desire for a redesign of the MPIP order type emerges from its widespread utilization and the challenges it presents in scenarios with tight spreads. The current design inadvertently renders MPI orders non-executable in a significant portion of trades, thereby limiting the efficacy of this mechanism in facilitating price improvement under certain market conditions. The proposed amendments aim to enhance the flexibility and applicability of the MPIP order type, ensuring it effectively serves its purpose across a broader range of trading scenarios without compromising the intent of providing MPI.

Amendments to the Toronto Stock Exchange Rule Book or Alpha Trading Policy Manual are not required in order to take into account the Amendments.

Analysis of Impact

(i) Impact on Market

We anticipate that the Amendments will have a positive impact on the market structure, members, investors, issuers or the capital markets. Each of the Exchanges believes that the Amendments are fair and reasonable, and will not create barriers to access.

(ii) Impact on Clients and Service Vendors

Clients will be required to update their routing methodology and trading strategies to take the Amendments into account. Technical developments are not required for clients to take the Amendments into account.

(iii) Impact on Compliance with Applicable Securities Laws

The Amendments will not impact either of the Exchange’s compliance with applicable securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. As noted above, each of the Exchanges is of the view that the Amendments will support the maintenance of fair and orderly markets.

Consultations Undertaken in Formulating the Amendments

In formulating the Amendments, the internal governance process for each of the Exchanges was followed, which included receipt of the appropriate management-level approval, and all applicable internal groups at each of the Exchanges were consulted. As stated above, clients, who collectively represent over 98% of MPIP usage, were consulted and were supportive of the Amendments.

Any alternatives considered

No alternatives were considered.

Timing

Each of the Exchanges intends to implement the Amendments in the Q3 of 2024, subject to regulatory approval and members having made the necessary changes.