

## **TSX INC.**

### **NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS**

#### **ENHANCEMENTS TO DARK TRADING FUNCTIONALITY**

TSX Inc. ("TSX") is publishing this Notice of Proposed Amendments in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto".

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by May 29, 2017 to:

Carina Kwan  
Legal Counsel, Regulatory Affairs  
TMX Group  
The Exchange Tower  
130 King Street West  
Toronto, Ontario M5X 1J2  
Email: [tsxrequestforcomments@tsx.com](mailto: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](mailto:marketregulation@osc.gov.on.ca)

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by Commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of Commission staff's review and the Commission's approval.

#### **Background**

TSX is seeking to introduce enhancements to its current on-book dark offering in response to customer demand, in recognition of the continued evolution and growth of dark trading in Canada, and to remain competitive with the offerings of other marketplaces

At present, TSX's on-book dark functionality generally consists of dark limit orders, dark mid-point orders, and the option to include a 'Minimum Quantity' condition. After reviewing the offerings of other marketplaces and consulting with various stakeholders, we are proposing enhancements to our on-book dark functionality which are intended to better accommodate the range of dark strategies employed by TSX Participating Organizations and their clients, and to better facilitate integration of TSX into dealers' multi-venue dark routing strategies.



For each of the above pegged order types, the following apply:

- x The pegs will float up to their stated limit price, and will remain executable at their stated limit. This differs from current mid-point peg functionality where the peg becomes non-executable if the mid-point exceeds the order's limit price. CusuX5(e)-3.6(716.5(t9-6.6( )12.6(m)-8.96(d))
- x ~~opinstp~~estpe( t)-6.6(he)10.5Pr6.o(a)10.6(t)-6.7c(s)8.

- x MinQty will be available for use with any dark order – specifically pegs, dark limit orders and SDL orders. (MinQty is currently only available for use with dark mid-

In practice, the lower and upper bounds for any calculated range will always be constrained to a minimum of one board lot and a maximum of the total remaining order size.

### **Proposed Amendments to TSX Rule Book**

To implement the Minimum Quantity changes above, certain amendments to the TSX Rule Book are required:

- x remove the definition of 'Minimum Quantity' (which imposes a minimum size restriction);  
and
- x remove the current priority allocation benefit for dark orders with a minimum quantity.

See the blacklined amendments in Appendix A to TSX Rules 1-101, 4-801(2) and 4-802(3). Please see Appendix B for a clean version of the Proposed Amendments.

### **Expected Date of Implementation**

The proposed changes and related rule amendments are expected to become effective in Q3 2017.

### **Expected Impact**

TSX is enhancing its current on-book dark functionality in response to customer demand, in recognition of the continued evolution and growth of dark trading in Canada, and to remain competitive with the offerings of other marketplaces.

The changes are intended to better accommodate the range of dark strategies employed by TSX Participating Organizations and their clients, and to better facilitate integration of TSX into dealers'



## APPENDIX A

### BLACKLINE OF AMENDMENTS TO TSX RULE BOOK

#### PART 1 - INTERPRETATION

##### Rule 1-101 Definitions (Amended)

~~“Minimum Quantity” means the minimum size for execution of an order which must not be less than such size as determined by the Exchange.~~

**Added (January 13, 2012) 5 H S H D O H G ”**

#### PART 4 - TRADING OF SECURITIES

##### DIVISION 8 - POST OPENING

##### Rule 4-801 “Establishing Priority”

- (1) A Long Life order at a particular price shall be executed prior to an order that is not a Long Life order at that price (“long-life priority”), except in the case of an Undisclosed Order, in which case no long-life priority is provided.

**Added November 16, 2015**

- (2) Subject to Rule 4-801(1), a disclosed order shall be executed prior to an Undisclosed Order or any undisclosed portion of an order at the same price; and an undisclosed portion of an order shall be executed prior to an Undisclosed Order at the same price; ~~and an Undisclosed Order with a Minimum Quantity shall be executed prior to an Undisclosed Order without a Minimum Quantity at the same price.~~

**Amended January 13, 2012, and November 16, 2015 D Q G ”**

- (3) Subject to Rule 4-801(1), Rule 4-801(2), and Rule 4-802, an order at a particular price shall be executed prior to any orders at that price entered subsequently, and after all orders entered previously (“time priority”), except as may be provided otherwise.
- (4) An order shall lose time priority if its disclosed volume is increased and shall rank behind all other disclosed orders at that price.

**Amended March 1, 2011 and November 16, 2015**

##### Rule 4-802 Allocation of Trades (Amended)

- (1) Subject to Rule 4-801(1) and Rule 4-801(2), an order that is entered for execution on the Exchange may execute without interference from any order in the Book if the order is:
  - (a) part of an internal cross;
  - (b) an unattributed order that is part of an intentional cross;
  - (c) part of an intentional cross entered by a Participating Organization in order to fill a client's Special Trading Session order;

- (d) part of an exempt related security cross, provided that the order is exempt from interference only to the extent that there are no offsetting orders entered in the Book, at least one of which is an order entered by the same Participating Organization, which can fill both the client's order for the particular security, in whole or in part, and an equivalent volume of the client's order for the related security. Orders in the Book will only be considered to be offsetting orders if the related security spread on execution of the clients' orders against orders in the Book is equal to or more beneficial than the related security spread offered by the Participating Organization for the contingent cross arrangement;
- (e) entered as part of a Specialty Price Cross; or
- (f) part of a Designated Trade.

**Amended January 13, 2012 and November 16, 2015**

- (2) Subject to subsection (1), an intentional cross executed on the Exchange will be subject to interference from orders in the Book from the same Participating Organization according to time priority, provided that such orders in the Book are attributed orders.
- (3) Subject to Rule 4-801(1), ~~and~~ Rule 4-801(2), and any conditions imposed on either the tradeable order or the offsetting order that would otherwise prevent the two orders from executing against each other, a tradeable order that is entered in the Book and is not a Bypass Order shall be executed on allocation in the following sequence:
  - (a) to offsetting orders entered in the Book by the Participating Organization that entered the tradeable order according to the time of entry of the offsetting order in the Book, provided that neither the tradeable order nor the offsetting order is an unattributed order; then
  - (b) to offsetting orders in the Book according to the time of entry of the offsetting order in the Book; then
  - (c) to the Market Maker if the tradeable order is disclosed and is eligible for a Minimum Guaranteed Fill.
- (4) A tradeable order that is entered in the Book and is a Bypass Order shall execute against the disclosed portion of offsetting orders in the Book according to the price/time priority established in Rule 4-801.

**Amended January 13, ~~2012 and~~2012, November 16, 2015 D Q G "**



**APPENDIX B**

**CLEAN VERSION OF AMENDMENTS TO TSX RULE BOOK**

**PART 1 - INTERPRETATION**

**Definitions (Amended)**

**“Minimum Quantity”**

5 H S H D O H G ”

**PART 4 - TRADING OF SECURITIES**

**DIVISION 8 - POST OPENING**

Rule 4-Oeul(A)T-6.66ta-6.6( 6.ar)TJyr4.3(a )6( Lon tonsovr4.8 -6.6( d (. t)-1( cj ET EMC BT /P <

Book, at least one of which is an order entered by the same Participating Organization, which can fill both the client's order for the particular security, in whole or in part, and an equivalent volume of the client's order for the related security. Orders in the Book will only be considered to be offsetting orders if the related security spread on execution of the clients' orders against orders in the Book is equal to or more beneficial than the related security spread offered by the Participating Organization for the contingent cross arrangement;

entered as part of a Specialty Price Cross; or  
part of a Designated Trade.

**Amended January 13, 2012 and November 16, 2015**

- (2) Subject to subsection (1), an intentional cross executed on the Exchange will be subject to interference from orders in the Book from the same Participating Organization according to time priority, provided that such orders in the Book are attributed orders.
- (3) Subject to Rule 436 32.087 0a(ubj) a Ddiy, nng