#### TSX VENTURE EXCHANGE INC.

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

#### ENHANCEMENTS TO DARK TRADING FUNCTIONALITY

TSX Venture Exchange Inc. ("TSXV") is publishing this Notice of Proposed Amendments. The Proposed Amendments will be effective upon approval by the British Columbia Securities Commission and Alberta Securities Commissions (the "Commissions") following public notice and comment. 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

A copy should also be provided to:

Bruce Sinclair Securities Market Specialist British Columbia Securities Commission 701 West Georgia Street P.O. Box 10142, Pacific Centre Vancouver, British Columbia V7Y 1L2 Email: <u>bsinclair@bcsc.bc.ca</u>

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 I4e 160.002 Tc 0.007 Tw 0e0 Tw 10.783 0 Td ()

#### Details and Rationale

The proposed enhancements to TSXV on-book dark functionality, as well as the proposed amendments to the TSX Venture Exchange Rule Book to accommodate such enhancements (the "Proposed Amendments"), are discussed below.

#### 1) Dark pegged order types

TSXV will add the following *dark* pegged order types in order to accommodate a wider range of dark strategies than is currently afforded by TSXV's existing dark offering.

#### Primary Peg

- x Pegs to the same-side Protected NBBO.
- x Offsets will be allowed and can be aggressive or passive but must be entered in valid tick increments.
- x Booked Primary Pegs with aggressive offsets that would otherwise lock or cross with the opposite side Protected NBBO will be pegged at one-tick inside the opposite side Protected NBBO.
- x Where the Protected NBBO spread is one tick or less, a Primary Peg with an aggressive offset will be pegged at the mid-point.
- x Where there is no opposite-side NBBO, a Primary Peg will be executable at the less aggressive of its pegged value maximum or its limit price, subject to current TSXV bid/ask tick limits.

#### Market Peg

- x Pegs to the opposite-side Protected NBBO.
- x Only passive offsets will be allowed, and will default to one-tick inside the oppositeside Protected NBBO. A Market Peg will never lock or cross with the opposite-side Protected NBBO.
- x Offsets must be entered in valid tick increments.
- x Market Pegs will float up to their stated limit price, and will remain executable at their stated limit.
- x Market Pegs become non-executable where there is no opposite-side Protected NBBO.

#### Minimum Price Improvement Peg

- x Will behave in the same manner as a Primary Peg with a one-tick aggressive offset, *except* as follows:
  - Where the pegged value would otherwise be the midpoint of the Protected NBBO spread (e.g., where the Protected NBBO spread compresses to two cents or less for a stock priced over \$0.50), the peg will rest as a dark order at the same-side NBBO.

Minimum Price Improvement Pegs will therefore never rest at the mid-point of the Protected NBBO. A participant that wishes to always peg with minimum price

improvement, including at the midpoint when the spread is two ticks or less, can do so by using a Primary Peg with a one-tick aggressive offset.

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. Current mid-point peg functionality will remain unchanged.

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range of 500 shares will refresh the displayed quantity within the range of 200 to 1,200 shares. When a +/- range is selected, the initial displayed size will also be randomized.

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 TSXV Rule Book

To implement the Minimum Quantity changes above, certain amendments to the TSXV 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 TSXV Rules A.1.01, C.2.01(2) and C.2.06(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

TSXV 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 TSXV Participating Organizations and their clients, and to better facilitate integration of TSXV into dealers' multi-venue dark routing strategies.

# Expected Impact of Proposed Changes on the Exchange's Compliance with Applicable Securities Law

The proposed changes will not impact TSXV's compliance with applicable securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. TSXV will continue to apply appropriate execution logic to ensure conformance with dark price improvement requirements under section 6.6 of UMIR.

# Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments

Most of the changes represent an extension of current functionality and behaviour, or are features already available on other markets. Adoption of the functionality is also optional on the basis that

neither the use of dark orders nor the accessing of resting dark liquidity is explicitly mandated, and other options currently exist via dark offerings on other marketplaces.

Regardless, based on current planned implementation timelines, we anticipate that at least 90 days will be provided between regulatory approval of the proposed change and implementation which should be sufficient to allow adoption by those that wish to take advantage of the enhancements.

#### Do the Changes Currently Exist in Other Markets or Jurisdictions?

These features are generally available on other Canadian marketplaces, or represent minor modifications to existing and available dark functionality.

# APPENDIX A

# BLACKLINE OF AMENDMENTS TO TSXV RULE BOOK

# RULE A. 1.00 - INTERPRETATION

A1.01 – Definitions

"Minimum Quantity" means the

Book, at least one of which is an order entered by the same Member, 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 Member for the contingent cross arrangement;

- (e) entered as part of a Specialty Price Cross; or
- (f) part of an intentional cross entered by a Member in order to fill a client's Special Trading Session order.

#### Amended December 12, 2011 and January 13, 2012 and November 16, 2015

- (2) Subject to subsection (1), an intentional cross is executed without interference from orders in the Book, other than attributed orders entered in the Book by the same Member according to time priority.
- (3) Subject to Rule C.2.01(1), and Rule C.2.01(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 (an "incoming order") shall be executed on allocation in the following sequence:
  - (a) to offsetting orders entered in the Book by the same Member that entered the incoming order according to the time priority of such offsetting orders in the Book, provided that neither the incoming order nor the offsetting order is an unattributed order; then
  - (b) to offsetting orders in the Book according to time priority.
- (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 C.2.01.

Amended January 19, 2009, and January 13, 2012, and November 16, 2015 <u>DQG</u> " <u>2017</u>

# APPENDIX B

# CLEAN VERSION OF AMENDMENTS TO TSXV RULE BOOK

# **RULE C.2.00 – TRADING PROCEDURES AND PRACTICES**

### Priority

### C.2.01 – 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.
- (2) Subject to Rule C.2.01(1), a disclosed order shall be executed prior to an Undisclosed
  y Order or any undisclosed portion of an order at the herupml(h)511.2(i)2.64e o6(or)-6(r)-6(t)-6.61.2(i)2.6ce)

# (2) Subject to sub