TORONTO STOCK EXCHANGE

NOTICE OF APPROVAL

AMENDMENTS TO TORONTO STOCK EXCHANGE RULE BOOK – MARKET MAKING

In accordance with the Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 (the "Protocol"), TSX Inc. ("TSX") has adopted, and the Ontario Securities Commission (the "Commission") has approved, amendments (the "Amendments") to the TSX Rule Book (the "Rules") to reflect enhancements to TSX's market making program. The Amendments are public interest amendments to the Rules.

The Amendments, together with certain other changes to TSX marketplace functionality, were published for public comment on April 6, 2017 to the Commission's website and in the Commission's Bulletin at (2017), 40 OSCB 3323 (the "Request for Comments").

Summary of Comments and Changes to the Amendments

TSX received eight comment letters in response to the Request for Comments. A . o tec TSX thanks all commenters participants and regulators, TS

APPENDIX A

SUMMARY OF COMMENTS AND RESPONSES

List of Commenters:

1. Canadian Advocacy Council for Canadian CFA Institute Societies
2. Canadian Securities Traders Association
3. Connor Clark and Lunn Investment Management Ltd
4. Independent Trading Group
5. Jitneytrade
6. National Bank Financial
7. NEXJ Systems Inc.
8. Titan Medical Inc.

Capitalized terms used and not otherwise defined shall have the meaning given to them in the Request for Comments published on the OSC website on April 6, 2017.

greater where a Secondary Market Maker is added. This commenter suggests that having two market makers with equal obligations and equal benefits will encourage “free-riding”. Instead, this commenter suggested maintaining different

	be an option to mark individual orders as AEF-eligible or not. Given the prevalent use of computer algorithms and smart order routers to manage institutional orders, it appears to us that, in practice, the only Trader IDs that would likely ever qualify for the AEF facility would be retail trader IDs.
It was also suggested that the introduction of pre-qualified MGF-eligible Trader IDs may be inconsistent with UMIR, as it appears to allow a market maker to selectively interact with an order from an MGF-eligible Trader ID and potentially misapply the order priority currently in practice which consists of both MGF-eligible and non-MGF eligible orders. This could violate the rule that a lit order be traded before a dark order at the same price on the same marketplace.	If there is a lit order on TSX at the TBBO, the lit order will always be traded before an MGF fill. The MGF is the "last resort" for a fill. Since the MGF fill can only occur at the TBBO, which is set by a lit order, there will always be a lit order that will trade ahead of the MGF order.
Increase of MGF-eligible order size, currently proposed as TBBO + MGF	

A few commenters expressed disagreement with the proposed increase to the MGF-eligible order size, from an absolute MGF size to the current proposed size of the TBBO plus the MGF size.

One commenter noted that this change fundamentally alters the dynamics of the MGF facility and allows the MGF facility to increase the TSX effective quote size while also allowing market makers to become selective providers of liquidity at the TSX BBO. As market makers are able to change their MGF sizes intraday, this would allow market makers to introduce undisplayed orders at the TSX BBO on chosen securities. The proposed amendments would also allow market makers to interact with larger retail flow without disp7 TD [(c)-8(hoo2(l)3.1()9.2(i)-8..1(o)]TJ 0 -1.145 o6.3(r)d20.1(er)-6.3(s)-8n)3.

assigned maker actually contributed to the final outcome. For example, many liquid stocks will maintain tight spread goals without any market maker intervention.

It was also suggested that benefits should only be offered in exchange for obligations if TSX can specifically measure the contribution of each individual market maker's activity and create an enforcement process for their obligations.

A decision was made to not measure the degree to which each individual market maker is actively trading in its assigned securities in order to not promote unnecessary intermediation. For example, liquid stocks that already have sufficient liquidity do not necessarily benefit from encouraging added trading by market makers. The market maker's role in this case is to monitor and step in only if needed. Monitoring performance at the symbol level, for these reasons, is more appropriate in our view. The overall philosophy of measuring on the symbol level is consistent with how existing market makers are measured today on their key measures of spread goal and liquidity factor.

For the most part, the obligations of the market maker is to ensure the stock exhibits the agreed upon performance measures, for which the market maker is actively and appropriately monitored and held to. The market maker's responsibility is to continually monitor the stock's performance to ensure compliance with the agreed upon level of performance targets (bid/ask spread, top of the book size, % time at NBBO, opening presence and liquidity factor). There are clear and specific enforcement processes to measure their compliance with their obligations to the stock, including: revocation of monthly credits, removal of assigned securities, and restrictions on eligibility to bid on future security assignments. Enforcement action will be taken for underperformance in any 3 months during a rolling 12-month period rather than the current threshold of underperformance on the past 3 consecutive months.

	1:4 respectively. This is an imperative component of the TSX market making program and necessitates that any assessment of the balance of benefits and obligations be measured across the portfolio of assignments, and not based on the benefits and obligations applicable to any individual security. The obligations must also be evaluated during times of both normal and heightened volatility. For example, in times of volatility and large news events, bid-ask spreads for more liquid securities can widen quickly. In such scenarios, market makers would need to step in and provide liquidity at their committed bid-ask spread. Given the large volumes associated with a more liquid security, these obligations can add up quickly as the market maker would still be obligated to maintain their bid/ask spread and fill MGF and odd lot volumes at their bid/ask spread obligation, which may be tighter than what the market is trading at. For less liquid securities, the MGF and odd-lot obligations are more onerous as a result of an increased risk of being called-upon to provide liquidity through the MGF and odd-lot facilities. More market maker intervention is generally required to maintain the performance metrics for these securities due to less natural liquidity being provided by the market. There are also increased risks and costs for less liquid stocks associated with non-borrowable securities, buy-in requirements, heightened volatility and longer position holding times.
Clarification to odd lot policy	
One commenter supported the clarification to the odd lot policy that prevents multiple odd lots from being entered on a specific security from multiple managed or discretionary accounts in connection with a single investment decision.	TSX thanks the commenter for their support on this policy clarification.
Market Maker Participation Rights	
One commenter expressed concern that removing the 40% participation cap in the TSX Rule Book would allow TSX to change participation levels at its discretion and allow market makers to “top up” their theoretical participation size regardless of the size of their displayed orders. This commenter believes that this would be an additional circumstance where market makers would be given preferential fills (a benefit that is not offset with an obligation).	There is no plan to change the participation levels higher than the current cap of 40%. Even though this detail was removed from the TSX Rule Book, it will continue to be part of the TSX’s Form 21-101F1 filings, which are subject to the review and approval by the Ontario Securities Commission (OSC), as appl0 -1.157 TD tio2 .2(i)3.2(o)-limhich

Timelines	
One commenter noted that from a market maker perspective, technology resources and development work will have to be done to support the proposed changes. Accordingly, public notification of the release dates and a reasonable lead time for coding should be provided on a similar basis as is provided for other trading engine releases.	TSX will publish a notice of regulatory approval after the proposed changes are approved and will allow for at least 90 days between approval and the implementation date. It is also our intention that detailed specifications and testing facilities be available in advance of the timelines imposed by the regulators.

APPENDIX B

BLACKLINE OF CHANGES TO AMENDMENTS

PART 1 – INTERPRETATION

1-101 Definitions

"**DMR**" means the Dealer Member Rules as adopted by IIROC or a predecessor or successor organization

(c) has installed sufficient technological tools acceptable to the Exchange that will permit it to properly carry out its market making responsibilities.

(2) A Participating Organization may apply to be a Market Maker Firm and, if approved by the Exchange, must execute a Market Maker Agreement.

(3) If an application for approval as a Market Maker Firm is refused, no further application for the Participating Organization shall be considered within a period of 90 days after the date of refusal.

(4) Responsible Designated Trader

A Market Maker Firm is required to appoint a Responsible Designated Trader for each security of responsibility.

(5) Designated Market Maker Contact

A Market Maker Firm is required to designate an individual within the firm to manage the firm's market making responsibilities and to be the primary contact with the Exchange with respect to the firm's market making assignments.

Amended (●, 2017)

4-602 Assignment of Securities

(1) The Exchange shall assign securities of responsibility to a Market Maker, and shall remove securities of responsibility from a Market Maker, in accordance with the Market Maker Agreement.

(2) The Exchange retains the discretion to remove market making assignments, including, but not limited to, circumstances where

(a) a Market Maker has been found to be non-compliant with any Exchange Requirement or the Market Maker Agreement; or

(b) the Market Maker undergoes a change in control.

Amended (●, 2017)

4-603 Responsibilities of Market Makers

(1) General Principles

The primary responsibilities of a Market Maker are to maintain a fair and orderly market in its

(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 a Market Maker if the tradeable order is disclosed and is eligible for a Minimum Guaranteed Fill.

Amended (●, 2017)

Policy 4-802 Allocation of Trades

(1) MGF Facility

The MGF facility provides an automatic and immediate "one price" execution of Participating Organizations' MGF-eligible disclosed market orders and MGF-eligible disclosed tradeable limit orders, of up to the size of the MGF in the security at the ~~CBBO~~current displayed market price. For purposes of the MGF Facility, an MGF-eligible order means any clienrT Gone4(eans)eao1ohonbÂ ¨l!a € 8 •S

5. Any order on behalf of a U.S. broker-dealer ("U.S. dealer"). This restriction does not include orders on behalf of a client of a U.S. dealer. See Policy 4-802(3) below.

(iv) If an MGF Ineligible Order is sent to the Exchange using an MGF-Eligible Trader ID, the order must be marked as MGF-NO.

MGF fills which occur in violation of the guidelines detailed above may be cancelled by the Exchange upon request by the Market Maker. Notwithstanding the above, the Exchange may cancel any trades deemed to be improper use of the MGF facility, or take such other action as the Exchange considers appropriate in the circumstances.

(b) Size of MGF

The size of the MGF on an assigned security shall be the sum of all Market Makers' individual MGF contributions for that security as published by the Exchange.

cancel any trades deemed to be improper use of the Odd Lot facility, or take such other action as the Exchange considers appropriate in the circumstances.