NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX INC.

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by April 22, 2024 to:

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A copy should also be provided to:

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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

Contingent Option Trades play a pivotal role in the strategic operations of many market participants. A "**Contingent Option Trade**" is the trade of securities on TSX (that are underlying an option traded on MX) that are effected as part of a pre-existing MX Trade (as defined below).

Currently, Contingent Option Trades are resource intensive and a manual process for both TMX staff and MX clients. To effect a Contingent Option Trade, an MX client ("**Client A**") is required

supervisor of MX will telephone the qualified market makers to "shop around" the trade. If there are no interested parties, then Client A can complete the full volume of the option cross trade. If the MX market supervisor finds an interested MX market maker ("**Client B**"), then Client B will be the opposite side of the option trade. When a match is found (whether with Client B or the full cross for Client A), a timestamp is created for that match (the "**MX Trade**"). The MX market supervisor then contacts TSX staff (via email and telephone) to advise and provide details of the MX Trade including the timestamp. TSX staff will then manually effect the trade of the underlying equities securities on TSX at the timestamp between Client A and Client B (or in the case of a full cross, just Client A). Client A and Client B are always approved participants of MX and TSX. Under the current procedures, a Contingent Option Trade must occur within the existing market price (the "**NBBO**") for the underlying security at the timestamp.

Given that price discovery occurs on MX and the relative price of the options instrument to the underlying securities is what drives trading on Contingent Option Trades, TSX is proposing to amend the Contingent Option Trade procedures to allow for the trade in securities on TSX to execute at a price within the daily high and low price, which may be outside the NBBO (the "**COT Amendments**"). Contingent Option Trades will continue not setting the last sale, open, close, high or low prices, and will be disseminated using the existing "MS" special terms marker on the TSX public market data feeds. The COT Amendments seek to provide TSX participants and MX members with the flexibility and confidence to effect both the equity and derivative components of a Contingent Option Trade with ease. The COT Amendments are a result of client demand and aim to align our Contingent Option Procedures with other markets who offer this functionality as described in the MX proposal found here.

The scenario below illustrates how a Contingent Option Trade would be treated under the current procedures and under the Amendments:

>   A dealer creates the following contingent option instrument on MX:
>   Expiry date: June 1, 2024
>   Strike Price: $43.00
>   Call option
>   Underlying Equities Price: $42.20
>   Delta: 45%
>   If the option quantity traded is 200 call option contracts, the underlying equities trade that would be routed to TSX is 9,000 shares at $42.20 per share calculated as follows:
>   200 options x 100 (option multiplier) x 45% (delta) = 9,000 shares at $42.20 per share.

In this scenario, if the NBBO was $42.00 at the time of the trade, the equ eurpo20 pel optou00harTJ0..6 (y)8.9

In connection with COT Amendments, TSX is also proposing to automate the process for Contingent Option Trades (the "**Automation Amendments**", and together with the COT Amendments, the "**Amendments**").

While Rule 4-1103 - *Exchange for Physicals and Contingent Option Trades* of the TSX Rules ("**Rule 4-1103**") permits the Amendments, TSX is proposing that the policies and procedures as set out in Policy 4-1103 Exchange for Physicals and Contingent Option Trades be removed from

the TSX Rule

Under the automated process, Contingent Option Trades will continue to be marked as "MS".

(iii)   Impact on Compliance with Applicable Securities Laws

The Amendments will not impact TSX's compliance with applicable securities laws requirements for fair access and maintenance of fair and orderly markets. As noted above, TSX is of the view that the Amendments will support the maintenance of fair and orderly markets.

Consultations Undertaken in Formulating the Amendments

TSX did not conduct any consultations in regards to the Amendments.

However, TSX understands that MX consulted its members regarding its proposed amendments, which included automating Contingent Option Trades.

Alternatives Considered

No alternatives were considered.

Timing

Following receipt of regulatory approval, TSX intends to implement the Amendments in Q2 2024, subject to MX members having made the necessary changes to take into account the Amendments.

BLACKLINED VERSION OF TSX RULES REFLECTING THE AMENDMENTS

Rule 4-1103 ~~Exchange for Physicals and~~ Contingent Option Trades

Orders which are conditional upon a simultaneous trade in a derivative on another exchange ~~shall be special terms trades and~~ shall **only** be traded in accordance with the prescribed procedures and conditions **as may be amended by the Exchange from time to time**.

Amended (XX, 2024)

~~Policy 4-1103 Exchange for Physicals and Contingent Option Trades~~

~~(1)   Application~~

~~This Policy applies to each person who has been granted trading access to the Exchange and who seeks to enter an order on the Exchange for a security which is contingent upon the execution of one or more trades in an option on the Montreal Exchange or who seeks to exchange an index futures contract that is traded on the Exchange for the equivalent number of securities underlying the futures contract (including an equivalent number of index participation units) on a contingent basis.~~

~~(2)   Procedure for Contingent Option Trade~~

~~If a person to whom this Policy applies seeks to enter an order on the Exchange for a security which is contingent upon the execution of one or more trades in an options market, the following rules shall apply:~~
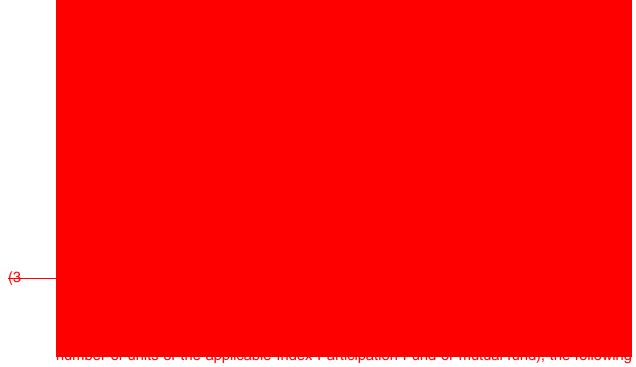
~~(a) the trade in the security and the offsetting option trades must be for the same account;~~

~~(b) the option portion of the trade must be approved by a floor governor or other exchange official of the stock exchange on which the option is listed and such approval shall be evidenced by the initials of the governor or official on the options trade ticket;~~

~~(c) the options trade ticket shall be time stamped;~~

~~(d) the person shall telephone Trading and Client Services of the Exchange at (416) 947-4440 and provide the details of the contingent trade including the name of the person with trading access to the Exchange with whom the contingent trade has been made;~~

~~(e) the trade in the security must be within the existing market for the security on the Exchange at the time of the telephone call to Trading and Client Services;~~

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number of units of the applicable Index Participation Fund or mutual fund), the following provisions shall apply:

and provided the trade has been made and reported in accordance with the above rules, the Exchange shall manually execute the trade in the securities as a special terms trade with the marker "MS" effective as of the time stamped on the futures trade ticket.

Amended (February 24, 2012 and March 1, 2021)