

13.2.4 Omega ATS – Notice of Proposed Change and Request for Comment

OMEGA SECURITIES INC. (OSI)

NOTICE OF PROPOSED CHANGE AND REQUEST FOR COMMENT

Omega Securities Inc. the operator of Omega ATS (Omega) has announced its plans to implement the changes described below in Q1 2015. Omega Securities Inc, is filing a significant change for Omega ATS in compliance with the Process for review protocol for Form 21-101F2, appendix A. This notice consists of a description of the change and responses to the questions provided in section 5(a) (i) of the protocol.

Staff Request for Specific Comment

The Commission has recently received a number of proposals (Proposed Amendments) to expand upon marketplace service offerings relating to the management of “wash trades”, or trade executions which involve no change in beneficial or economic ownership. Currently approved functionality allows for a marketplace, with respect to orders from the same dealer, to either prevent the orders from executing in such circumstances, or to suppress any such executions from market data feeds.

Proposed Amendments seek to expand the functionality to apply to orders or trades from different dealers. OSC staff request comments on the both the Notice of Proposed Changes of Omega ATS as well as similar proposed changes from Triact Canada Marketplace LP, published at: http://www.osc.gov.on.ca/en/Marketplaces_triact_20140925_npc-rfc-changes.htm.

Staff are seeking comment on two specific issues which will help to inform policy discussions related to the proposals noted above, and any future proposals of a similar nature:

- 1) Whether it is appropriate to expand the role of the marketplace in the manner proposed, which would result in a marketplace managing compliance with regulatory obligations belonging to dealers' clients, with whom they have limited or no relationship other than indirectly through various dealers.
- 2) Whether it is appropriate for a marketplace to manage the regulatory responsibilities of a dealer, in situations where marketplace service offerings would result in a dealer having limited or no ability to independently do so.

Comment on the proposed changes should be in writing and submitted by Nov 24, 2014 to:

Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
Fax 416 595 8940
marketregulation@osc.gov.ca

And

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Omega Securities Inc.
133 Richmond St. West
Toronto, ON M5H 2L3
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Comments received will be made public on the OSC website. Upon completion of the Review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

Omega has announced plans to implement the change described below Q1 2015 unless otherwise noted.

If you have any questions concerning the information below please contact Richard J Millar CCO for Omega ATS, at 416 646 2764.

Omega intends to introduce the following change:

1. Change in Self trade prevention:

A. Description:

Omega ATS will (pending approval) be modifying our Self Trade Prevention feature (OSISTP). It is our intent to bring STP in conformity with the industry initiative calling for standardized fix tags. Moreover we intend to provide several new STP driven functionalities; the ability to suppress self-trades from the consolidated tape, the ability to decrement orders allowing for self-trades to match, the ability to cancel newest or oldest, and extending STP to allow participants to prevent self-trades between brokers.

- Suppress self-trades from the consolidated tape:

Wash trades would be suppressed from the consolidated tape, removing the possible misleading trade from price discovery. This has been proposed by regulators as a way to allow for self-trades without negative consequence.

- Enable decrement of orders:

When two orders for the same stock, from the same firm, governed by the same self-trade prevention key "meet". The larger of the two trades will be decreased by the amount of the smaller and posted. The resulting self-trade would be suppressed from the consolidated tape.

- Cancel newest or oldest:

When two orders for the same stock, from the same firm, governed by the same self-trade prevention key "meet". A broker will be able to instruct Omega ATS to cancel the newest or oldest of the orders.

- Prevent self-trades between brokers:

With the application of standard fixed tags as part of the STP functionality, self-trades would be prevented between orders posted with several different brokers.

The logic for the existing self trade prevention feature will be changed. With the standardization of all FIX tags and behavior will match the industry initiative, thereby changing our STP tag and adding additional tags. Matching engine logic will be changed to accommodate new STP logic. Database changes will be made to remove the STP columns that were initially added in the Customer Table.

Features

Two new FIX tags will be introduced to New Order messages. When the proper tags are sent, the instructions in the STP tags should be read and processed. This feature will not need to be enabled by operations staff.

B. Expected Implementation Date:

This is an optional change to be undertaken by those firms desirous of using Omega Securities Inc. Self-Trade functionality (OSISTP). We intend to provide subscribers with no less than 60 day notice FOLLOWING approval to program and test the changes.

C. The rationale for the proposal, and analysis:

OSISTP has been embraced by our subscribers offering an easy and inexpensive means of fulfilling their wash trade obligations. The proposed changes are in order to bring OSISTP into conformity with the street wide initiative for uniform fix tags. The additional changes are in order to provide functionality that will help in maintenance a clean trading record.

D. The expected Impact of the proposed Significant Change on Market structure for Subscribers, Investors and capital markets :

The change will have little effect on market structure. By standardizing fixed tags across all marketplaces it will encourage standard and consistent behavior, improve development and suppress the negative consequences of self-trading.

- E. The proposed Significant Change's effect on the systemic risk in the Canadian financial system:
None
- F. Expected impact of the Change on Omega ATS compliance with Ontario securities law and the requirements of fair access and the maintenance of a fair and orderly market:
None
- G. Consultation Details:
We have discussed this model with participants and received positive responses, the standardized fix tags are the result of discussions between brokers, marketplaces and the IIAC.
- H. Estimated time for Subscriber and Vendor system modifications for implementation of the proposed Significant Change:
System modification by the subscriber is voluntary. Omega will provide at least 60 day notice following approval. We are certain that this is more than enough time, and see changes and testing to require no more than 40 hours.
- I. A discussion of any alternatives considered;
N/A
- J. Whether the proposed Change would introduce a model that currently exists in other markets and other jurisdictions.
The functions described are not yet available, but are the logical product of the inter-broker and IIAC discussions seeking standardized fix tags and treatment of self-trades.