

**13.2.2 Nasdaq CXC Limited – Notice of Proposed Changes and Request for Comment**

**NASDAQ CXC LIMITED**

**NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT**

Nasdaq CXC Limited (Nasdaq Canada) has announced plans to implement the changes described below in the first half of 2021 subject to regulatory approval. Nasdaq Canada is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto (Exchange Protocol). Pursuant to the Exchange Protocol, market participants are invited to provide the Commission with comment on the proposed changes.

Comment on the proposed changes should be in writing and submitted by February 24, 2021 to:

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, ON M5H 3S8  
Email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

And to:

Matt Thompson  
Chief Compliance Officer  
Nasdaq CXC Limited  
25 York St., Suite 900  
Toronto, ON M5J 2V5  
Email: [matthew.thompson@nasdaq.com](mailto:matthew.thompson@nasdaq.com)

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.

## NASDAQ CXC LIMITED

## NOTICE OF PROPOSED CHANGES

Nasdaq Canada has announced plans to introduce the following change in the first half of 2021 subject to regulatory approval. Nasdaq Canada is publishing this Notice of Proposed Changes in accordance with the requirements set out in the Exchange Protocol.

Summary of Proposed Changes

The CX2 Trading Book (CX2) currently employs a price-broker-time order matching priority across all priced securities available for trading. Nasdaq Canada is proposing matching priority for securities below one dollar, where large size displayed orders that meet a minimum size threshold of 30,000 shares (Large Size Order) will have priority over orders that do not meet the minimum size threshold (Small Size Orders) irrespective of the time a Large size Order is entered (price/broker/large-size/time). Where multiple Large Size Orders are posted in the order book, priority will be given to the Large Size Order with the largest displayed quantity. If the size of a Large Size Order decreases as a result of a partial execution falling below the minimum size threshold, the order will be considered a Small Size Order and be given execution priority based on the time stamp it was given when first received.

How it Works

Example 1: CX2 – Current Matching Priority

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	500 (07)			
Order 3 (9:45:03)	1000 (79)			

Action: A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

Result: The sell order executes against Order 1 because it has time priority as it was the first order entered at 0.60 at 9:45:01.

Example 2: CX2 – Proposed Large-Size Matching Priority

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	35,000 (07)			
Order 3 (9:45:03)	1000 (79)			

Action: A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

Result: The sell order executes against Order 2. Although Order 1 has time priority, Order 2 meets the minimum size threshold for a Large Size Order and therefore receives execution priority.

Example 3: Matching Priority between Multiple Large Size Orders

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	35,000 (07)			
Order 3 (9:45:03)	30,000 (79)			

Action: A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

Result: The sell order executes against Order 2. Although Order 1 has time priority, Order 2 and Order 3 are both Large Size Orders and therefore have execution priority over Order 1. The incoming sell order interacts with Order 2 because it has a larger displayed size than Order 3.

**Example 4: Matching Priority between Multiple Large Size Orders**

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	35,000 (07)			
Order 3 (9:45:03)	50,000 (79)			

**Action:** A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

**Result:** The sell order executes against Order 3. Order 2 and Order 3 have execution priority because they are both Large Size Orders. The incoming sell order interacts with Order 3 because it has a larger displayed size than Order 2 even though Order 2 was entered first.

**Example 5: Residual quantity of a Large Size Order falls below the Minimum Size Threshold**

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	30,000 (07)			
Order 3 (9:45:03)	1000 (79)			

**Action:** A sell order is entered for 5000 shares on CX2 with a limit price of 0.60.

**Result:** The sell order executes against Order 2 because it is a Large Size Order. The residual size of Order 2 decreases to 25,000 shares which is below the minimum size threshold.

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	25,000 (07)			
Order 3 (9:45:03)	1000 (79)			

**Action:** A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

**Result:** The sell order executes against Order 1 because it has time priority over all other orders. Order 2 no longer meets the minimum size threshold for a Large Size Order. Order 2's execution priority returns to the time priority it was originally assigned based on the time stamp when the order was received.

**Example 6: Increasing the residual size of a Large Size Order**

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	60,000 (07)			
Order 3 (9:45:03)	50,000 (79)			
Order 4 (9:45:04)	35,000 (02)			

**Action:** A sell order is entered for 35,000 shares on CX2 with a limit price of 0.60.

**Result:** The sell order executes against Order 2 because it has the largest displayed size of all Large Size Orders (Order 2, Order 3 and Order 4). The residual size of Order 2 is decreased to 25,000 shares which is below the minimum size threshold.

**Action:** Member 07 increases the size of Order 2 by 30,000 shares to 55,000 shares at 9:46:00.

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:46:00)	55,000 (07)			
Order 3 (9:45:03)	50,000 (79)			
Order 4 (9:45:04)	35,000 (02)			

**Action:** A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

**Result:** The sell order executes against Order 2 because it has the largest displayed size of all Large Size Orders (Order

2, Order 3 and Order 4) even though the order was modified to increase its quantity.

Example 7: Increasing the residual size of a Large Size Order

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 2 (9:45:02)	60,000 (07)			
Order 3 (9:45:03)	50,000 (79)			
Order 4 (9:45:04)	35,000 (02)			

Action: A sell order is entered for 35,000 shares on CX2 with a limit price of 0.60.

Result: The sell order executes against Order 2 because it has the largest displayed size of all Large Size Orders (Order 2, Order 3 and Order 4). The residual size of Order 2 decreases to 25,000 shares which is below the minimum size threshold.

Action: Member 07 increases the size of Order 2 by 5,000 shares to 30,000 shares at 9:46:00.

	BID Size	BID	ASK	ASK Size
NBBO (CX2 BBO)		0.60	0.62	
Order 1 (9:45:01)	1000 (09)			
Order 3 (9:45:03)	50,000 (79)			
Order 4 (9:45:04)	35,000 (02)			
Order 2 (9:46:00)	30,000 (07)			

Action: A sell order is entered for 1000 shares on CX2 with a limit price of 0.60.

Result: The sell order executes against Order 3 because it has the largest displayed quantity of all Large Size Orders (Order 2, Order 3 and Order 4). Order 2 no longer has priority because it has a smaller size than Order 3 (and Order 4).

Rationale for the Proposal

The Proposed Change is being made to create size improvement opportunities for participants by incentivizing larger displayed passive orders which in turn will increase liquidity and transparency. By providing execution priority to Large Size Orders, competition between liquidity providers will be intensified as liquidity providers will be required to compete based on order size.

Specifically, the Proposed Change will address the need for improved market breadth for securities trading below one dollar, created by the new requirement under UMIR Rule 6.6 that an order to meet a notional value of \$30,000 in addition to the current 50 standard trading unit requirement to trade against a dark order without receiving price improvement. As a result of this new requirement, orders below the threshold seeking NBBO execution on dark venues must now trade on visible marketplaces. By introducing an incentive to display Large Size Orders, the Proposed Change will increase liquidity on CX2, resulting in superior executions.

Expected Date of Implementation

Subject to regulatory approval, we are expecting to introduce the Proposed Change in the first half of 2021.

Expected Impact on Market Structure

The Proposed Change is expected to result in greater available displayed liquidity at the NBBO on the CX2 Trading Book for securities trading below one dollar. Members sending large size active orders for securities priced below one dollar should be able to satisfy the full quantity of their orders on CX2 more often without having to split parent orders into smaller child orders routed to multiple venues. As a result of the Proposed Change liquidity providers will need to consider the size of their posted displayed orders as they compete for order flow.

Expected Impact on the Exchange’s Compliance with Ontario Securities Law

The Proposed Change is in compliance with applicable securities laws and does not impact fair access to markets or Nasdaq Canada’s ability to maintain a fair and orderly market.

Consultation and Review

Prior to filing Amendment 56 Nasdaq Canada held consultations with participants that trade on CX2. Consultations included soliciting feedback from trading desks typically sending active order flow (include retail trading desks) and members that provide passive liquidity and/or provide electronic access to liquidity providers.

Estimated Time Required by Subscribers and Vendors (or why a reasonable estimate is not provided)

There are no changes required by members or vendors to make to their Systems in response of the Proposed Change.

Will Proposed Fee Change or Significant Change introduce a Fee Model or Feature that Currently Exists in other Markets or Jurisdictions

Yes. In Canada the NEO-N Book incorporates consideration for order size into its matching logic. Larger sized orders are given priority over order entered first (Size-Time) at each level of the priority matching process (broker – NEO Trader – DMM – other orders).

In the United States there are currently no equity exchanges that support price-size priority. In the past Nasdaq PSX was the first US equity exchange to operate a price-size priority model.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited: [matthew.thompson@nasdaq.com](mailto:matthew.thompson@nasdaq.com), T: 647-243-6242

Appendix A

Text of the Public Interest Rule Change to Nasdaq Canada Trading Rules and Policies

1.1 Definitions and Interpretation

Large Size Order	An order that meets a minimum size threshold (Large Size Threshold) determined by the Exchange.
Small Size Order	An order that does not meet the Large Size Threshold.

5.7.2 CX2 Book

CX2 is a lit book matching orders for higher priced securities based on price/broker/time priority.

Orders for lower priced securities are matched based on price/broker/large-size/time priority. Large Size Orders receive execution priority over Small Sized Orders. Large Size Orders with larger displayed sizes received execution priority first.

Visible orders have a higher priority over hidden orders at the same price. Orders that are not immediately matched are posted in the CX2 Book.

CX2 orders are attributed by default and are automatically eligible for broker preferencing. Members may not opt-out of broker preferencing for attributed orders.

Anonymous orders and jitney orders are not eligible for broker preferencing.

CX2 supports round lot, mixed lots and odd lot orders.