Chapter 13

SROs, Marketplaces, Clearing Agencies and Trade Repositories

13.2 Marketplaces

13.2.1 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 Q1, 2022 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 October 25, 2021 to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Fax 416 595 8940
Email: 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

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 Q1, 2022 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

Nasdaq Canada is proposing to introduce an Odd Lot order book for the CXD Trading Book ("CXD Odd Lot Book" and "Proposed Change") that will operate in tandem with the Odd Lot Trading Program that is already supported today on CXD (also supported on CXC and CX2). All Nasdaq Canada members electing to access CXD will also be provided access to the CXD Odd Lot Book seamlessly. The CXD Odd Lot Book will support two types of orders that will interact with one another; Odd Lot Liquidity Providing orders ("OLP") and active Odd Lot Orders.

ODD LOT LIQUIDITY PROVIDING ORDERS

OLP orders provide liquidity at the passive side of the protected National Best Bid and Offer ("NBBO"). Like Primary Peg orders supported today, the price of OLP orders is pegged to the passive side of the NBBO and adjusted accordingly when the price of the NBBO changes. Members have the option of specifying a limit price when entering an OLP order at which price the order will stay if the NBBO moves above/below the limit price. Each OLP order must meet a minimum size of one Board Lot less one share. If the size of an OLP order falls below the minimum size it will be cancelled back to the member.

OLP orders can be entered on an unlimited number of securities. However, members are limited to booking only one OLP order per Trader ID per side per security at any one time during the trading day. If a second order is entered by the same Trader ID on the same side for the same security, the order will be rejected.

MATCHING PRIORITY

Matching priority for OLP orders will follow broker/time priority and use a nested round robin methodology. Priority is given to orders entered by the same member first followed by orders entered in the time sequence they were received. However, due to the round robin methodology, when an OLP order receives an execution it is moved to the end of the order queue. Multiple orders from the same member (with different Trader IDs) are grouped together for the purpose of the round robin (a "Member Group"). All orders in a Member Group are moved to the end of the order queue when the first order in a Member Group receives an execution. The order within a Member Group that receives an execution is also moved to the end of the order queue of orders in that Member Group. This nested round robin methodology ensures that there is an even distribution of executions between members regardless of the number of Trader IDs that are used to enter OLP orders.

Similar to CXD order handling practices today, OLP orders are attributed by default. Members may elect to enter OLP orders without attribution by selecting the anonymous order marker. Both attributed and unattributed OLP orders are eligible for broker preferencing automatically.

OLP orders are assigned time priority based on the time an order is received during regular trading hours between 9:30 a.m. and 4:00 p.m. OLP orders received before 9:30 a.m. will also be prioritized based on the time they are received; however, they will not be eligible to trade until 9:30 a.m. An OLP order with a limit price above/below the NBBO that is unmarketable will be placed at the end of the order queue when it becomes eligible to trade again when the NBBO moves back within its limit price.

The CXD Odd Lot Book will accept Odd Lot orders entered as either market orders or limit orders. Marketable Odd Lot orders (market orders or limit orders with a limit price that is marketable) will interact with posted OLP orders at the NBBO. Odd Lot orders with limit prices that are not marketable will be booked in the CXD Odd Lot Book at their limit price. Booked orders will interact with OLP orders when they become marketable – they will not interact with one another.

In the event that a marketable active Odd Lot order is entered when there are no OLP orders resting in the Odd Lot book providing liquidity, the Odd Lot order will receive a guaranteed auto-execution (similar to what occurs today) from the designated Odd Lot Member for that security.[1]

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[1] Nasdaq Canada Odd Lot Members are responsible for guaranteeing auto executions for Designated Securities across all Nasdaq Canada Trading Books.

How it Works

Example 1   Odd Lot Market Order – Time Priority

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2)			35,000 OLP (065) (P2)
	25,000 OLP (007) (P3)			50,000 OLP (100) (P3)
Odd Lot Order		**Volume**	**Price**	
Sell (Market) (065)		72	10.10	

Action: An Odd Lot market order is entered to sell 72 shares at 10.10 by Member 065.

Result: The Odd Lot order executes against the 50,000 share OLP buy order entered by Member 009 because it was entered first and has time priority. Following the execution this order will move to the end of the order queue.

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	30,000 OLP (005) (P1)			25,000 OLP (079) (P1)
	25,000 OLP (007) (P2)			35,000 OLP (065) (P2)
	49,928 OLP (009) (P3)			50,000 OLP (100) (P3)

Example 2   Odd Lot Market Order – Broker Priority

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2)			35,000 OLP (065) (P2)
	25,000 OLP (007) (P3)			50,000 OLP (100) (P3)

Odd Lot Order		Volume	Price	
Buy (Market) (065)		58	10.13	

Action: An Odd Lot market order is entered to buy 58 shares at 10.13 by Member 065.

Result: The Odd Lot order executes against the 35,000 share OLP sell order entered by Member 065. Although this order does not have time priority (it was entered after the first OLP order) it receives execution priority because the order was entered by the same Member (065). Following the execution this order will move to the end of the order queue.

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2)			50,000 OLP (100) (P2)
	25,000 OLP (007) (P3)			34,942 OLP (065) (P3)

Example 3   Odd Lot Limit Order – Single Order Booked in Odd Lot Book

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2)			35,000 OLP (065) (P2)
	25,000 OLP (007) (P3)			50,000 OLP (100) (P3)
Odd Lot Order		Volume	Price	
Sell (Limit) (065)		65	10.11	

Action: An Odd Lot limit order is entered to sell 65 shares at 10.11 by Member 065.

Result: The Odd Lot limit order is not marketable and therefore is posted in the Odd Lot Book at its limit price (10.11).

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.11	
	50,000 OLP (009) (P1)			65 (065) Limit Order

30,000 OLP (005) (P2)			
25,000 OLP (007) (P3)			

Action: The NBB moves higher from 10.10 to 10.11.

Result: Each of the three OLP buy orders are repriced to 10.11 when the NBB changes resulting in the Odd Lot sell limit order at 10.11 becoming marketable. The Odd Lot limit sell executes against the 50,000 share OLP buy order entered by 009 because it has time priority. Following the execution this order will move to the end of the order queue.

		BID	ASK	
NBBO		**10.11**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.11	10.13	
	30,000 OLP (005) (P1)			25,000 OLP (079) (P1)
	25,000 OLP (007) (P2)			35,000 OLP (065) (P2)
	49,935 OLP (009) (P3)			50,000 OLP (100) (P3)

Example 4   Odd Lot Limit Order – Multiple Orders Booked in Odd Lot Book

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2)			35,000 OLP (065) (P2)
	25,000 OLP (007) (P3)			50,000 OLP (100) (P3)
Odd Lot Order		Volume	Price	
Buy (Limit) (009)		75	10.12	

Action: An Odd Lot limit order is entered to buy 75 shares at 10.12 by Member 009.

Result: The Odd Lot limit order is not marketable and therefore is posted in the Odd Lot Book at its limit price (10.12).

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.12	10.13	
	75 (009) Limit Order			25,000 OLP (079) (P1)

				35,000 OLP (065) (P2)
				50,000 OLP (100) (P3)
Odd Lot Order		Volume	Price	
Sell (Limit) (007)		65	10.12	

Action: An Odd Lot limit order is entered to sell 65 shares at 10.12 by Member 007.

Result: The Odd Lot limit order is not marketable and therefore is posted in the Odd Lot Book at its limit price (10.12) resulting in a locked book.

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.12	10.12	
	75 (009) Limit Order			65 (007) Limit Order

Action: The NBO moves lower from 10.13 to 10.12.

Result: All three OLP sell orders are repriced to 10.12 when the NBO changes resulting in the Odd Lot buy limit order at 10.12 becoming marketable. The Odd Lot limit buy order executes against the 25,000 share OLP sell order entered by 079 because it has time priority. Following the execution this order will move to the end of the order queue.

		BID	ASK	
NBBO		**10.10**	**10.12**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.12	
	50,000 OLP (009) (P1)			65 (007) Limit Order
	30,000 OLP (005) (P2)			35,000 OLP (065) (P1)
	25,000 OLP (007) (P3)			50,000 OLP (100) (P2)
				24,925 OLP (079) (P3)

Action: The NBBO moves higher from 10.10 – 10.12 to 10.12 – 10.14.

Result: All three OLP buy orders are repriced to 10.12 when the NBBO changes from 10.10 – 10.12 to 10.12 – 10.14 resulting it the Odd Lot limit sell order at 10.12 becoming marketable. The Odd Lot limit sell order executes against the 50,000 share OLP buy order entered by 007 because the order was entered by the same Member. Following the execution this order will move to the end of the order queue.

		BID	ASK	
NBBO		**10.12**	**10.14**	
	BID Size	BID	ASK	ASK Size

Odd Lot Book		10.12	10.14	
	50,000 OLP (009) (P1)			24,925 OLP (079) (P1)
	30,000 OLP (005) (P2)			35,000 OLP (065) (P2)
	24,935 OLP (007) (P3)			50,000 OLP (100) (P3)

Example 5   Nested Round Robin Methodology

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	30,000 OLP (005) (P2,B1)			35,000 OLP (065) (P2)
	25,000 OLP (005) (P2,B2)			50,000 OLP (100) (P3)
	10,000 OLP (005) (P2,B3)			
	25,000 OLP (007) (P3)			
Odd Lot Order		**Volume**	**Price**	
Sell (Market) (005)		72	10.10	

Action: An Odd Lot market order is entered to sell 72 shares at 10.10 by Member 005.

Result: The Odd Lot order executes against the 30,000 share OLP buy order entered by Member 005 because it was entered by the same Member (005) and was the first order entered in the Member Group. Following the execution, all orders in the Member Group will move to the end of the order queue. The 30,000 share OLP buy order that received the execution will also move to the end of the order queue in this Member Group.

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	50,000 OLP (009) (P1)			25,000 OLP (079) (P1)
	25,000 OLP (007) (P2)			35,000 OLP (100) (P2)
	25,000 OLP (005) (P3,B1)			50,000 OLP (065) (P3)
	10,000 OLP (005) (P3,B2)			
	29,928 OLP (005) (P3,B3)			

Example 6   Odd Lot Market Order – No OLPs in the Odd Lot Book

		BID	ASK	
NBBO		**10.10**	**10.13**	
	BID Size	BID	ASK	ASK Size
Odd Lot Book		10.10	10.13	
	49,935 OLP (009) (P1)			
	30,000 OLP (005) (P2)			
Odd Lot Order		**Volume**	**Price**	
Buy (Market)		85	10.13	

Action: An Odd Lot order is entered to buy 85 shares at 10.13 by Member 009.

Result: There are no OLP sell orders in the Odd Lot Book. The order therefore receives an auto-execution from the Odd Lot Member assigned responsibility for the security.

Rationale for the Proposal

The Proposed Change is being made to ensure CXD can effectively compete with ATSs that support similar odd lot trading models today while continuing to ensure members are provided a guarantee Odd Lot auto-execution across the entire universe of securities made available for trading by Nasdaq Canada on the CXD Trading Book.[2]

Liquidity provision for odd lot trading results in different economic outcomes for different individual securities. While trading Odd Lot orders in certain securities may prove to be profitable, trading Odd Lot orders in other securities will result in financial loss. Because of these asymmetrical outcomes, the commitment of guaranteeing executions for marketable Odd Lot orders across a basket of assigned securities is generally included as an obligation imposed on market makers. A balance is created between the benefit of trading profitably in certain names and the benefit to all other members that are given the assurance of a guaranteed execution for odd lot orders across all securities including those securities resulting in trading losses for market makers.

MATCHNow currently supports an Odd Lot order book where liquidity providers are able to enter orders on any symbol a voluntary basis, without having to meet any obligations. There are no designated market makers that are assigned symbols or have requirements to guarantee a two-sided market.[3] Liquidity providers retain the freedom to cancel their orders at any time which results in no guarantee of liquidity provision on a security at any time during a trading day. Odd Lot order book matching applies across all brokers in the order that orders are received (time priority), with the exception of broker preferencing which is considered first.

Because of the application of broker preferencing and the absence of any firm trading commitments MATCHNow's model offers dealers the ability to internalize Odd Lot orders with minimal risk of interference or exposure to trading with another counterparty. Orders can be posted with the intention to trade against an incoming Odd Lot order from the same dealer and will do so because of broker preferencing. Any residual shares can then be cancelled.

The Proposed Change is therefore being made to ensure CXD can effectively compete with MATCHNow by providing members with similar opportunities to internalize Odd Lot orders while also guaranteeing auto-executions for members sending active Odd Lot orders. By continuing to support Nasdaq Canada's existing Odd Lot Trading functionality on CXD, auto-executions for marketable active Odd Lot orders will be guaranteed when there are no OLP orders in the book to provide liquidity. As part of Nasdaq Canada's current Odd Lot Trading model, Odd Lot Members have a contractual obligation to guarantee auto-executions on securities of assignment.

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[2]   Not including debentures and other debt-like securities.
[3]   http://matchnow.ca/assets/MATCHNow-In-Detail.pdf

Expected Date of Implementation

Subject to regulatory approval, the introduction of the Proposed Change is planned for Q1, 2022.

Expected Impact on Market Structure

Members are already familiar with the model MATCHNow uses today which the Proposed Change seeks to replicate. When implemented, the Proposed Change will provide an alternative to MATCHNow for Odd Lot liquidity providers. There is no expected impact on members that send marketable Odd Lot orders in that they will continue to be guaranteed auto-executions across all securities made available for trading on CXD. There is also no expected impact on the current level of Odd Lot trading activity from the Proposed Change.

Expected Impact on Nasdaq Canada's Compliance with Ontario Securities Law

There is no impact from the Proposed Changes on Nasdaq Canada's compliance with fair access or its ability to maintain a fair and orderly market. All exchange members will be provided an equal opportunity to enter orders in the Odd Lot Book with the same operational outcomes applying to all members.

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. As discussed earlier, MATCHNow currently employs an Odd Lot book.

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

Appendix A

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

5.6   Order Types and Attributes

5.6.3   Instructional Attributes

Pricing	Odd Lot Liquidity Providing (OLP)	OLP orders act like a primary peg order providing liquidity to Odd Lot orders. Traders have the option of entering a limit price with an OLP order. OLP orders must meet a minimum size requirement as determined by the Exchange.

5.11   Odd Lot Trading

Odd Lot trading has the following features:

1.   Odd Lot execution is available between 9:30 am and 4:00 pm ET or as otherwise determined by the Exchange.

2.   Odd Lot execution is not allowed when a security is in a locked or crossed market condition.

3.   Members are not permitted to send two or more orders that would trigger auto-execution by Odd Lot Members as this would violate the just and equitable principles imposed by UMIR Policy 2.1. This would include, for example, shredding a Board Lot order.

4.   ~~Members may not enter the Odd Lot portion of a Mixed Lot order immediately prior to entering the Board Lot portion.~~

4.   Odd Lot trading is subject to the policies imposed by UMIR prohibiting unfair trading practices, including but not limited to the following activities:

   a.   Effecting pre-arranged wash sales in Odd Lots, which are trades in which an offer to buy is coupled with an offer to sell back at the same or advanced price (or vice versa).

   b.   Entering orders for the purpose of affecting the execution price of the Odd Lot trades.

5.   If a Member is engaged in Odd Lot trading activity that is unfair, the Exchange may restrict the Member or suspend the Approved Trader from Odd Lot Activity or take other action that is appropriate under the circumstances.

5.11.1   Odd Lot Auto-Execution

1.   Each Nasdaq Canada Trading Book provides Members with guaranteed fills at the NBBO for Odd Lot IOC marketable orders.

2.   Odd Lot orders that are not IOC and immediately marketable are ineligible to receive guaranteed fills at the NBBO.

3.   The Exchange System will accept either Mixed Lots or Odd Lots that are marked IOC.

5.11.2   CXD Odd Lot Trading Book

1.   Members can trade Odd Lots on CXD in the CXD Odd Lot Trading Book where Odd Lot Liquidity Providing orders interact with Odd Lot orders.

2.   Odd Lot orders that are immediately marketable will trade against Odd Lot Liquidity Providing Orders. If there are no Odd Lot Liquidity Providing Orders available to trade with then the Exchange's Odd Lot Auto-Execution functionality in 5.11.1 will apply.

3.   Odd Lot orders that are not immediately marketable are booked until they either become marketable or are cancelled.

4.   Matching is based on broker/time and follows a round robin methodology.