

B.11.2 Marketplaces

B.11.2.1 TriAct Canada Marketplace LP – Change to the MATCHNow Trading System – Notice of Proposed Change and Request for Comment

TRIACT CANADA MARKETPLACE LP
NOTICE OF PROPOSED CHANGE AND REQUEST FOR COMMENT
CHANGE TO THE MATCHNOW TRADING SYSTEM

TriAct Canada Marketplace LP (operating as **MATCHNow**) hereby announces plans to implement the change described below, following approval by the Ontario Securities Commission (the **OSC**). MATCHNow is publishing this Notice of Proposed Change and Request for Comment (the **Notice**) in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F2 and the Exhibits Thereto." Marketplace participants are invited to provide the OSC with comments on the proposed change.

Comments on the proposed change should be in writing and submitted by **September 19, 2022** to:

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

A copy should also be provided to:

Lorna Pile
Chief Compliance Officer
MATCHNow
65 Queen Street West, Suite 1900
Toronto, Ontario, M5H 2M5
Email: lpile@cboe.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 OSC staff's review and to specify the intended implementation date of the change.

Any questions concerning the information below should be addressed to Vince Poil, Head of Products for MATCHNow, at (416) 861-1010 or at vpoil@cboe.com.

Order Interaction Enhancements

MATCHNow proposes to implement a "Significant Change subject to Public Comment" to its Form 21-101F2 (the **Form F2**), through which it is proposing to implement several distinct technological changes, which will enhance the ability for existing MATCHNow order types to interact and thereby allow them to match to a greater degree (collectively, the **Order Interaction Enhancements**).

The Order Interaction Enhancements can be broken down into four individual, but related components, each of which is described in detail in Section A below, in order of relative significance.¹

A. Detailed description of the proposed change

1. Allow Large Market Flow Orders to "Sweep" Cboe BIDS Canada

MATCHNow is proposing to allow certain Market Flow orders² (also known as "Immediate-or-Cancel orders" or **IOC orders**) to interact with Conditionals (whether at the initiation stage or post-firm-up). This new feature will be an opt-in that will allow large IOC orders (i.e., those that meet the minimum size threshold set out in UMIR 6.6 for dark orders to interact with lit orders, namely: (a) greater than 50 standard trading units *and* greater than \$30,000 in notional value; *or* (b) greater than \$100,000 in notional value) to "sweep" the MATCHNow Conditionals book (known as **Cboe BIDS Canada**) in order to interact and (i) automatically

¹ In the interests of efficiency, we are treating all four components as a single "Significant Change subject to Public Comment" to the Form F2 in this Notice and, accordingly, each of Sections B through J of this letter shall address all four components of this proposed change on a consolidated basis.

² Capitalized terms not defined herein are as defined in MATCHNow's *In Detail Specification*, the current version of which is available on the Cboe website here: https://cdn.cboe.com/resources/membership/MN_In_Detail_Specification.pdf.

match with any firm-ed-up Conditional or any unfilled remainder of such firm-ed-up Conditional or (ii) generate an invitation for a Subscriber-originated Conditional³ that has yet to be invited to firm up in the Cboe BIDS Canada engine.

The opt-in would be activated by a Subscriber (trader) at the IOC order level using a new FIX value to be introduced as part of this proposed change. Alternatively, the Subscriber would be able to activate the opt-in as part of a user-controlled port level default, which will allow all IOC orders sent on that FIX port, provided they are large enough to qualify, to automatically become eligible for Conditionals matching.

The ability for large IOC orders to sweep Cboe BIDS Canada (by matching with any firm-ed-up Conditional or residual thereof, or generating an invitation for a Subscriber-generated non-firm Conditional, or any residual thereof) will be based on the following priority:

- 1) MATCHNow: Midpoint
- 2) MATCHNow: Minimum Price Improvement
- 3) MATCHNow: At The Touch
- 4) Cboe BIDS Canada: At any price at or within the protected CBBO, depending on limit price

As usual within the MATCHNow ATS, broker preferencing will continue to apply to the matching logic (just as it does today, including within Cboe BIDS Canada).

In addition, where the sweep does not result in any match with any firm-ed-up Conditionals or residuals, or where it does not result in an exhaustive execution of the large IOC order, that order will be returned to the Subscriber in the normal course (as is the case today for any IOC order that does not find contra-side liquidity on the MATCHNow ATS).⁴ Furthermore, in order to balance the costs and benefits of such a feature, the system will allow an opted-in large IOC order to “sweep” for no more than 300 milliseconds before causing it to be returned to the Subscriber.

2. Allow Firm-ed-Up “Buy-Side” Conditionals to Interact with all Firm Orders

This aspect of the proposed change will allow Sponsored Users (often referred to as “buy-side” or “institutional investor” firms) to opt in, at the moment of firm-up, to make their firm-ed-up Conditionals available for matching with Liquidity Providing orders that are resting in the regular matching engine, or IOC orders that arrive while the order is resting in the regular matching engine, to the extent that the firm-ed-up Conditionals (or any residuals thereof) cannot be matched within Cboe BIDS Canada. The feature would effectively allow the Sponsored User to elect to convert the residual of any firm-ed-up Conditional to a Liquidity Providing order (also known informally as a “Day Order”) and, at the same time, may reduce the MinQty associated with the original order, thereby allowing it to match with other Liquidity Providing orders or IOC orders in the regular matching engine. The election for such matching would be available at any time during the trading day through the Sponsored User’s Cboe BIDS Canada interface (known as “BIDS Trader”).

A similar feature is offered in the United States by MATCHNow’s affiliate BIDS Trading L.P. (“BIDS”), an SEC-registered ATS; in that jurisdiction, it is known as the “Overtime” function. See BIDS, Form ATS-N, Updating Amendment (dated June 14, 2022), available at https://www.sec.gov/Archives/edgar/data/1368727/000095012322006862/xslATS-N_X01/primary_doc.xml (the “June 14 BIDS Filing”), Part III, Item 11 (under the heading “Overtime”).

3. “Clean Up” Feature

This feature allows Sponsored Users to expose a (typically small) portion of their uncommitted amounts of liquidity.⁵ This will be accomplished by routing such opted-in uncommitted shares (which essentially become firm orders at the moment of opt-in) to the regular MATCHNow matching engine. A similar feature is provided in the United States by BIDS.⁶ Sponsored Users will be able

³ MATCHNow has deliberately limited this order interaction enhancement to Conditionals originated by Subscribers, which are all generated by automated systems (algorithms), as opposed to Conditionals originated by Sponsored Users, which are generated by human traders. Algorithms are responding to Conditional invitations to firm up very rapidly (i.e., within 100 milliseconds or less in the vast majority of cases), and we feel that this very short time frame for firm-up by an algorithm is an acceptable opportunity cost for the counterparty (i.e., the sender of the IOC order), given the benefit realized by that counterparty through the proposed interaction with the conditional liquidity within Cboe BIDS Canada. Conversely, however, the much longer time frame that Sponsored Users have to firm up (i.e., up to 30 seconds after receiving an invitation) would be too onerous an opportunity cost for the sender of the IOC order.

⁴ By definition, an IOC order may only participate in one matching session; accordingly, MATCHNow systematically sends any unmatched IOC order (or any residual unmatched portion of such an order) back to the Subscriber or its Access Vendor for routing to other marketplaces. See, e.g., *In Detail Specification*, ss. 2.1 & 5.

⁵ In this context “uncommitted” liquidity should be understood as a quantity of shares sitting in the Sponsored User’s order management system, available for trading, but not yet selected for submission as a conditional or firm order via an execution management system (such as BIDS Trader).

⁶ For a brief description of the US version of the “Clean Up” feature, please refer to the June 14 BIDS Filing at Part III, Item 11 (under the heading “Clean Up”) (stating that “BIDS Trader Users also have the option of using ‘clean up to work remaining volumes, which involves directing BIDS to route the remaining volume to a specified third party [sic] trading venue with which the BIDS ATS has connected”).

to make the election at any time during the trading day by clicking a new button that will be added to BIDS Trader. The uncommitted shares will be displayed in BIDS Trader as separate from any Conditionals submitted by the Sponsored User.

Like any DEA order, a “Clean Up” order (i.e., the residual uncommitted shares for which the Sponsored User has activated the “Clean Up” feature), must be associated with a specific Subscriber (IIROC dealer), and that Subscriber is responsible for applying appropriate risk controls (in this case, via its Cboe BIDS Canada interface) and ensuring compliance with all other standard DEA requirements applicable to an IIROC dealer, including in particular, those that arise under section 3 of National Instrument 23-103 *Electronic Trading and Direct Electronic Access to Marketplaces* and the applicable rules of the Investment Industry Regulatory Organization of Canada (notably, Universal Market Integrity Rules 6.2, 7.1, 7.13, 10.15, and 10.18).

4. “Buy-Side” Auto-Firm-Up Feature

This feature will allow a Sponsored User to elect, at any time during the trading day, to have its Conditionals be automatically and immediately “firmed up” should an invitation to firm up be sent to the Sponsored User. The feature can also then be toggled off (or on again) at any time during the trading day.

B. *Expected implementation date*

The proposed change is expected to be implemented as follows:

- for the features described in A(1) and A(4), on November 1, 2022 or as soon as possible following OSC approval, if approval has not yet been granted as of November 1, 2022; and
- for the features described in A(2) and A(3), on December 1, 2022 or as soon as possible following OSC approval, if approval has not yet been granted as of December 1, 2022.

C. *Rationale for the proposed change and supporting analysis*

The four new features described in Section A have been designed to address the problem of untapped liquidity—and, in particular, the significant volume of untraded, marketable large IOC orders—which MATCHNow has observed on most trading days in the recent past. We have also received multiple requests from buy-side traders to implement the Auto-Firm-Up feature, to bring Cboe BIDS Canada in line with services offered in other regions served by BIDS technology, so that the buy-side trader knows they can still interact with potential liquidity, even if they do not act immediately when an invitation arrives.

D. *The expected impact, including the quantitative impact, of the proposed change on market structure, subscribers, and, if applicable, investors and capital markets*

The impact on market structure, Subscribers, investors, and capital markets is expected to be positive, through the resulting expansion of liquidity and increased matching and price improvement opportunities for large-sized orders. With the enhanced order interactions being proposed, we anticipate further electronification and growth of the block market in Canada, which presently represents approximately 5% to 10% of overall volume.

E. *Expected impact of the proposed change on MATCHNow’s compliance with Ontario securities law requirements and in particular requirements for fair access and maintenance of fair and orderly markets*

The proposed change will have no impact on MATCHNow’s continuing compliance with Ontario securities law, including requirements for fair access and the maintenance of fair and orderly markets. In particular, MATCHNow submits that the Order Interaction Enhancements are based on “reasonable standards for access” and do not “unreasonably create barriers to access to the services provided by the marketplace,” consistent with the guidance provided in subsection 7.1(1) of the Companion Policy (21-101CP) with regard to section 5.1 of National Instrument 21-101 *Marketplace Operation (NI 21-101)*. In addition, the features are expected to encourage greater adoption of Conditionals by MATCHNow Subscribers (and Sponsored Users) and thereby provide more price-improved matching opportunities for large orders, without any significant erosion of price discovery. This represents a net benefit to the Canadian capital markets as a whole.

With respect to the new feature described in Section A(1) above (i.e., the new IOC order sweep of Cboe BIDS Canada), MATCHNow submits the following:

1. Compliance with “Order Protection” Requirements

Section 6.1 of National Instrument 23-101 *Trading Rules* imposes an “order protection” requirement on all marketplaces, i.e., an obligation to adopt policies and procedures that are reasonably designed to prevent trade-throughs (unless the trade-through is expressly permitted by section 6.2). MATCHNow submits that the ability for a Subscriber to opt in to have its IOC orders sweep Cboe BIDS Canada for less than 300 milliseconds constitutes a policy or procedure that is reasonably designed to prevent trade-throughs.

2. No Information Leakage

MATCHNow submits that there is no concern with regard to any potential “information leakage” from the 300 milliseconds timeframe that applies to the interaction for an opted-in IOC order. The execution is still virtually immediate; and like any Subscriber whose order has interacted with a contra-side Conditional, the Subscriber that places the opted-in IOC order will know the contra side was a Conditional that got firmed up and executed from the marker that gets attached to that Conditional.

Moreover, the compliance mechanism that applies to Conditionals provides an additional measure of protection in favour of the policy objective underlying subsection 7.1(1) of NI 21-101—namely, fair access to pre-trade information—by allowing MATCHNow to monitor and combat potentially abusive order-cancellation behaviour, which could indicate a Subscriber’s attempt to gain an unfair informational advantage.

3. Exemptive Relief from “Pre-Trade Transparency” Requirement

MATCHNow notes that, from a bird’s eye view, where an invitation is automatically sent to a Subscriber that has entered a (non-firmed-up) Conditional because the system has detected a potential match with a large IOC order, that invitation could be considered to be a “display” of the firm order that generated it; as such, it could be argued that subsection 7.1(1) of NI 21-101 would require MATCHNow to immediately transmit that order information to an information processor—something that MATCHNow, as a “dark” marketplace, does not do. Therefore, MATCHNow is applying for exemptive from the pre-trade transparency requirements of subsection 7.1(1) for this new feature.

Specifically, under separate cover, MATCHNow is submitting an application to the OSC (with deemed notice to all other Canadian securities regulatory authorities), pursuant to section 15.1 of NI 21-101, for exemptive relief for the new IOC order opt-in feature and a variation and restatement of the decision issued by the OSC on June 7, 2021 for a similar opt-in for Liquidity Providing orders (published here: <https://www.osc.ca/en/securities-law/orders-rulings-decisions/triact-canada-marketplace-lp-operating-matchnow-s-151-ni-21-101-marketplace-operation>) (the “2021 Decision”). If granted, the exemptive relief would result in the variation and restatement of the 2021 Decision such that both Liquidity Providing orders *and* IOC orders would be permitted to opt in to interact with Conditionals, notwithstanding the pre-trade transparency requirements of subsection 7.1(1) of NI 21-101.⁷ That being said, the new interaction in question will not be implemented until such time as the exemptive relief has been granted, or it has been determined in consultation with OSC staff that such relief is not required.

F. *Summary of consultations undertaken in formulating the proposed change and the internal governance process followed to approve it*

MATCHNow has conducted informal consultations with several Subscribers and Sponsored Users.

The proposed change was also fully reviewed, discussed, and approved by MATCHNow’s senior management in the late spring/early summer of 2022.

G. *If the proposed change will require subscribers or service vendors to modify their systems after implementation, the expected impact on the systems of subscribers and service vendors together with an estimate of the amount of time needed to perform the necessary work and how the estimated amount of time was deemed reasonable in light of the expected impact of the proposed change on MATCHNow, its market structure, subscribers, investors or the Canadian capital markets*

Making use of the features that the proposed change will create is voluntary. For Subscribers and Sponsored Users that elect to make use of the features described in Section A (and the vendors who service those Subscribers and Sponsored Users), any impact on their systems will be minimal, as the proposed change will simply require creating the ability to enter a value for the new FIX Tags that MATCHNow will establish for the new features. MATCHNow believes that a reasonable estimate of the time needed for Subscribers, Sponsored Users, and service vendors to modify their own systems in this way is 30 days or less, based on previous experiences with the creation of new FIX Tags.

H. *Where the proposed change is not a Significant Change subject to Public Comment, the rationale for why the proposed Significant Change is not considered a Significant Change subject to Public Comment*

Not applicable.

I. *Alternatives considered*

None.

⁷ As is reflected in the application for exemptive relief being filed simultaneously with this “Significant Change subject to Public Comment” to the Form F2, the considerations that support exemptive relief for the new feature are identical to those set out in the 2021 Decision, including, in particular, the conditions listed in the five bullets set out in paragraph 10 of the 2021 Decision, all of which are expected to be maintained in the varied and restated decision and to apply equally to the new feature.

J. If applicable, whether the proposed Significant Change would introduce a feature that currently exists in other markets or jurisdictions

Two of the four features described in Section A (the “Overtime” and “Clean Up” features) are virtually identical to features that BIDS and Cboe currently offer marketplace participants in the United States⁸ and Europe, respectively. In general, however, all four components of the proposed change described above have parallels in the BIDS ATS (in the United States) and the existing Cboe LIS offering (in Europe).

In addition, it is MATCHNow’s understanding that, for several years now, Liquidnet Canada Inc. has offered its clients certain features that, in practice, are similar to aspects of the IOC opt-in, the Overtime feature, and the Clean Up feature proposed herein. See *Liquidnet Canada Trading Rules* (available at <https://www.liquidnet.com/transparency-regulatory>), s. 3.10 (noting that an “algo order” can be made to “interact with contra-side IOC orders”); see also, *ibid.*, ss. 3.08 (describing “‘implementation shortfall’ algo order”) and 4.02 (describing optional “Clean-up quantity” feature).

⁸ See, e.g., the June 14 BIDS Filing, Part III, Item 11.