

B.11.2.2 Nasdaq CXC Limited – Broker Preferencing for Anonymous Hidden Orders on CXC and CX2 – Notice of Proposed Changes and Request for Comment

NASDAQ CXC LIMITED

NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT

BROKER PREFERENCING FOR ANONYMOUS HIDDEN ORDERS ON CXC AND CX2

Nasdaq CXC Limited (Nasdaq Canada) has announced plans to implement the changes described below 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 January 22, 2024 to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
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

Summary of Proposed Changes

Currently hidden orders are only eligible for broker preferencing if they are attributed on the CXC and CX2 Trading Books. Nasdaq Canada is proposing to also make anonymous hidden orders eligible for broker preferencing on CXC and CX2 (Proposed Change).

Expected Date of Implementation

It is expected that the Proposed Change will be introduced in the first quarter of 2024.

Rationale and Relevant Supporting Analysis

The Proposed Change is being made to provide participants with more opportunities to benefit from internalization. The Canadian equity market is unique because of the common use of broker preferencing in its market structure where orders are matched by marketplaces with orders resting in the order book entered by the same market participant which can in turn break pure price/time priority. Broker preferencing facilitates on-exchange internalization opportunities where off-exchange trading is not permitted. The opportunity to internalize orders in turn can provide the benefits of lower trading costs and facilitating best execution. By introducing the Proposed Change participants using hidden orders will be given more opportunities to benefit from internalization.

The Proposed Change is also being made for competitive reasons. Today it is common for both dark venues and hidden orders on lit venues to consider anonymous orders eligible for broker preferencing in their matching logic. Nasdaq Canada currently supports this feature for orders on its CXD Trading Book but limits broker preferencing for hidden orders on its lit venues to attributed orders only. By making the Proposed Change CXC and CX2 will compete more effectively with lit books that support broker preferencing for anonymous hidden orders today.

Expected Impact on Market Structure

Nasdaq Canada Members will be offered new opportunities to internalize hidden orders on CXC and CX2 which in turn will lower trading costs and increase execution quality for those participants which utilize this feature.

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

The Proposed Change will not impact Nasdaq Canada's compliance with Ontario Securities Law including fair access as this feature is a permitted feature by regulation today and widely supported by many marketplaces.

Consultation and Review

Consultations with a selection of Nasdaq Canada's largest clients were made who were supportive of the Proposed Change.

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

None.

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

Yes. TSX Inc. and Lynx ATS are lit venues that currently consider anonymous hidden orders eligible for broker preferencing. Dark Venues including MatchNow, Neo-D, and the CXD Trading Book also support this feature.

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

5.7 Order Processing

5.7.1 CXC Book

CXC is a lit book with matching based on price/broker/time priority. Visible orders are given a higher priority over hidden orders at the same price. Orders that are not immediately matched are posted in the CXC Book.

CXC orders are attributed by default **and are automatically eligible for broker preferencing**. Members may elect pre trade or post-trade anonymity as an option.

Anonymous **displayed** orders and jitney orders are not eligible for broker preferencing. **Anonymous hidden orders are eligible for broker preferencing**.

CXC supports Bound Lot, Mixed Lot and Odd Lot orders.

5.7.2

CX2 is a lit book with matching based on price/broker/time priority. 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 **displayed** orders and jitney orders are not eligible for broker preferencing. **Anonymous hidden orders are eligible for broker preferencing**.

CX2 supports Board Lot, Mixed Lot and Odd Lot orders.