

13.2 Marketplaces

13.2.1 Nasdaq CXC Limited – Notice of Proposed Fee Change and Request for Comments

NASDAQ CXC LIMITED

NOTICE OF PROPOSED FEE CHANGE AND REQUEST FOR COMMENT

Nasdaq CXC Limited (Nasdaq Canada) has announced plans to implement the Fee Change described below on November 1, 2018 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 8, 2018 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, a 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 FEE CHANGE

Nasdaq Canada has announced plans to introduce the following change on November 1st, 2018 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 a Trading Incentive Program for the CXC Trading Book (CXC TIP, or the Program). The CXC TIP is comprised of two independent components; the NBBO Setting Incentive and the Liquidity Adding Incentive. Only orders and trades (Trading Activity) on the CXC Trading Book are eligible for consideration for the CXC TIP.

CXC TIP Trading Activity

For each component of the CXC TIP, Trading Activity will be measured at the Trader ID level. Trading activity from all Nasdaq Canada Members is eligible for consideration in the Program automatically. To ensure that the benefit of the Program is provided to Members based on their Trading Activity and not the Trading Activity of their DEA clients, Trading Activity from each Nasdaq Canada Member will be credited for the purposes of the Program separately between the Trading Activity of the Member and the Trading Activity of each of the Member's DEA clients (each a Trader ID Group) where applicable. This is to ensure that the same opportunity to qualify for the economic incentives provided by the Program is made available to Members whether or not they have DEA clients. Trading Activity generated from a DEA client is not permitted to be combined with the Trading Activity of the Member or combined with any other DEA Client of the Member for the purposes of the Program.

NBBO Setting Incentive

The NBBO Setting Incentive will provide participants with the opportunity to receive an additional \$0.0001 rebate for qualifying trades. A passive visible order (including an Iceberg or X-Berg order) that is entered on CXC which improves the NBBO (NBBO Setting Order) and results in a trade (NBBO Setting Trade) will be eligible for consideration to receive an additional \$0.0001 rebate for the NBBO Setting Trade (NBBO Incentive).

In order for NBBO Setting Trades to qualify for the NBBO Incentive the total volume of a Trader ID Group's NBBO Setting Trades must meet a minimum threshold. The NBBO Incentive will be applied to all NBBO Setting Trades from a Trader ID Group that contributes at least 20% of the total volume of all NBBO Setting Trades on CXC for all listed securities available to trade on CXC on a monthly basis.

CXC applies a fee for liquidity provision orders for securities with prices below one dollar. For Trader ID Groups that qualify for the NBBO Incentive a rebate will not be provided for securities with prices below one dollar. Instead the liquidity provision fee will be removed.

Liquidity Adding Incentive

The Liquidity Adding Incentive will provide participants with the opportunity to receive an additional \$0.0001 rebate for qualifying trades. Each passive lit order posted on CXC for a TSX or TSX-V listed security that results in a trade (Eligible Trade) is eligible for consideration to receive an additional \$0.0001 rebate (Liquidity Adding Incentive).

In order for Eligible Trades to qualify for the Liquidity Adding Incentive, the total volume of a Trader ID Group's Eligible Trades must meet a minimum threshold. The Liquidity Adding Incentive will be applied on a monthly basis to all Eligible Trades from a Trader ID Group if the total volume of Eligible Trades for that Trading ID Group meets a minimum percentage of total consolidated volume (TCV) per listing exchange. For TSX listed securities, the total volume of Eligible Trades for a Trader ID Group must meet at least 2.00% of TSX listed TCV. For TSX-V listed securities, the total volume of Eligible Trades for a Trader ID Group must meet at least 0.50% of TSX-V listed TCV.

CXC applies a fee for liquidity provision for securities with prices below one dollar. For Trader ID Groups that qualify for the Liquidity Adding Incentive a rebate will not be provided for securities with prices below one dollar. Instead the liquidity fee will be removed.

Expected Date of Implementation

Subject to regulatory approval we are expecting to introduce these features on November 1, 2018.

Rationale and Relevant Supporting Analysis

The Program is designed to incentivize high quality competitive passive order flow that will result in increased volume while at the same time improving market quality across the Protected NBBO. Both the NBBO Setting Incentive and the Liquidity Adding Incentive only credit passive lit orders that result in trades. By definition, this means that qualifying trades have led to price and size discovery opportunities benefiting active trading participants (in order for a passive lit order to execute, the order must reside at the NBBO and execute against a marketable active order). In the case of NBBO Setting Orders, these orders must improve the NBBO at the time of order entry in addition to resulting in a trade. By improving the BBO on CXC and in turn improving the Protected NBBO across all markets, participants will benefit from tighter spreads and in turn lower implicit trading costs. All NBBO Setting Trades represent liquidity interacting with counterparties benefiting from orders available at better prices. Because the Program is being offered across TSX and TSX-V listed securities the benefits of size discovery, price improvement and lower trading costs will be provided to participants that trade both senior and venture securities.

We note that the CXC Trading Book is a protected lit venue. By creating an incentive for passive lit orders and requiring that these orders must trade in order to be considered for the additional rebate, the Program will encourage a more robust price discovery mechanism for the Protected NBBO while discourage order flow directed to unprotected venues.

Expected Impact on Market Structure Impact of the Changes

As noted above the expected impact of the Program is that participants will enjoy size and price discovery opportunities across more TSX and TSX-V listed securities ultimately resulting in lower trading costs.

Expected impact of Fee Change or Significant Change on Nasdaq CXC's Compliance with Ontario Securities Law and particularly with regard to Fair Access and the Maintenance of a Fair and Orderly Market

The Program will not impact Nasdaq Canada's compliance with Ontario Securities law. Specifically with respect to fair access requirements, each component of the Program is available to all Nasdaq Canada Members equally and Members are eligible automatically to participate in the Program. Furthermore, all types of Member accounts are eligible to participate in the Program.

Consultation and Review

This change is being made in response to feedback solicited by Members.

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

There is no time required by Members or Vendors to accommodate the fee change.

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

Yes. Preferential pricing models based on trading volume tiers are supported today and have been supported in the past in Canada. OMEGA ATS provides its subscribers the opportunity to incur a lower trading fee if the total volume traded in a month equals one of three tiers (0 – 100MM, 100MM – 200MM, 200MM +). In the United States it is common practice for exchanges to provide improved pricing based on volume tiers including NBBO Setter Pricing supported by NASDAQ where displayed orders that set a new level of the NBBO or that bring the NASDAQ BBO to the NBBO earn additional rebates.

Any questions regarding these changes should be addressed to Matt Thompson, Nasdaq CXC Limited:
<mailto:matthew.thompson@nasdaq.com>, T: 416-647-6242