

13.2 Marketplaces

13.2.1 Instinet Canada Cross Limited (ICX) – Notice of Initial Operations Report and Request for Feedback

INSTINET CANADA CROSS (ICX) NOTICE OF INITIAL OPERATIONS REPORT AND REQUEST FOR FEEDBACK

Instinet Canada Cross Limited (ICX) has announced its plans to begin operations as an Alternative Trading System (ATS). It is publishing this Notice of Initial Operations Report in accordance with the requirements set out in OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*. Pursuant to OSC Staff Notice 21-703, market participants are invited to provide the Commission with feedback on the information provided in the Notice.

Feedback on the Initial Operations Notice should be in writing and submitted by March 14, 2011 to:

Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
Fax (416) 595-8940
Email: marketregulation@osc.gov.on.ca

And to:

Kenneth J. Klepacki
Chief Operating Officer
Instinet Canada Cross Limited
Canadian Pacific Tower, 100 Wellington Street West,
Toronto Dominion Centre, Suite 2202, PO Box 134
Toronto, ON M5K 1H1
Email: ken.klepacki@instinet.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 start date for operation of the ATS.

Instinet Canada Cross Limited (ICX)

NOTICE OF INITIAL OPERATIONS REPORT AND REQUEST FOR FEEDBACK

Instinet Canada Cross Limited ("ICX") will offer an alternative Canadian marketplace to registered Investment Dealers which are members of IIROC in good standing and their clients to trade equities denominated in Canadian dollars listed on the TSX and TSX Venture. ICX will provide broker-neutral VWAP and Instinet BLX Cross dark pools to the Canadian market. As it will operate its products as dark pools, ICX will not provide quotes or indications of interest (IOIs) and will only act in an agency basis.

VWAP Cross

The VWAP Cross will provide a benchmark cross at the day's VWAP (Volume Weighted Average Price). VWAP is a standard trading benchmark for the day's average price level of a stock, which is the ratio of the value traded to total volume traded over the day in the case of ICX's VWAP. ICX will calculate the daily Canadian VWAP for listed stocks based on consolidating data feeds from Canadian marketplaces. The VWAP Cross will operate a point-in-time cross prior to the TSX market open. Executions are locked in at match time, and priced at VWAP after the close.

BLX Cross

The BLX Cross has been designed for block-trading and price improvement. Crosses will only occur when there are enough aggregated buy/sell orders in a stock with respect to a predetermined metric (i.e. volume thresholds – see specific thresholds below). BLX is designed to increase average trade size while minimizing risk – it aggregates buy and sell orders in a stock and triggers a passive cross when the matchable volume reaches a meaningful size. Matched orders are priced using the NBBO mid-point price calculated at a random time during a 10 second pricing window.

Trading Hours

VWAP Cross orders may be entered starting at **7:00 am ET** and the match will occur at **9:15 am ET**.

ICX continuous cross services on BLX will allow Subscribers to trade between the hours of **9:30 am and 4:00 pm ET** on trading days.

Order Entry Interface

FIX, or Financial Information eXchange, is an industry standardized protocol that allows ICX Subscribers to enter, revise and cancel orders, and receive executions. It allows Subscribers and their software developers to integrate ICX into their proprietary trading systems or build custom front ends. All orders are entered via FIX protocol into ICX's Core Matching Engine with Canada specific and UMIR required fields.

Instinet Canada Cross destinations (VWAP and BLX Cross) will be made available on Instinet's EMS platforms. Instinet will also work with other EMS/OMS vendors to allow for access and connectivity from their platforms.

Market Data

ICX will operate its products as dark pools. Therefore it will not provide IOIs, orders posted or quotes in public data feeds. ICX trade prints will be provided to market data providers as well as to TMX IP (Information Processor). ICX orders, cancellations and trade prints will be sent to IIROC as part of the regulatory feed.

Order Handling, Types and Instructions

All ICX orders are fully anonymous.

Orders accepted by the VWAP Cross are either matched at 9:15 am or, if not matched, are rejected and the client is notified.

Orders entered into BLX that are not matched are posted in ICX's order book, a dynamically updating real-time database of limit orders, so they can be subsequently matched. No IOIs and quotations for orders posted in the ICX book will be disseminated to system Subscribers. The Order book will aggregate matches; no Subscriber's identity is disclosed pre-trade or during the execution process. Full post-trade attribution will be available.

Minimum Price Increment - ICX's BLX dark pool will allow the entry of orders in the minimum tick increment allowed by UMIR:

- For stocks with a previous close price \geq \$.50 a minimum price increment of \$.01 CAD
- For stocks with a previous close price $<$ \$.50 a minimum price increment of \$.005 CAD

Minimum Volume Increment – VWAP Cross will have a minimum volume of 100 shares and allow 100 share increments.

BLX minimum thresholds to trigger a match:

- 1,000 shares: Below 100,000 ADV (average daily volume)
- 2,500 shares: Between 101,000 – 1 million ADV
- 5,000 shares: 1,000,001 and above ADV

ICX Pricing

ICX pricing mechanisms are as follows:

- VWAP Cross – matched orders are priced using the consolidated VWAP price at 4:10 pm. VWAP price is calculated from Canadian marketplaces' direct data feeds (TMX, Alpha, Pure, Chi-X Canada, Omega and MatchNow), consolidated by Instinet and the VWAP calculated. ICX will include all trades in the VWAP as the standard practice.
- BLX – matched orders meeting volume thresholds are priced using the NBBO mid-point price calculated at a random time during a 10 second pricing window.

VWAP and BLX Cross Allocation of Trades

The VWAP and BLX Cross will allocate trades on a pro-rata basis, based on order volume sent to the match.

Halts, Delayed Opens and Adherence to Primary Market (TMX)

ICX will halt and open securities inline with the primary market. Similarly, delayed opens and other market events imposed by the primary market will be followed. A Halted security may still have a match and trade in the VWAP Cross. The price will be calculated based on the VWAP while open during the trading day. A security that does not open on a particular day will not receive matches that day.

ICX Order Types

VWAP Cross

- Supports Market Order, Volume, Minimum Fill and All-Or-None (AON). Limit orders not available.

BLX

- Supports Market Order, Limit Order, Volume, Minimum Fill, Expiration (Day, GTD).

Time in Force Conditions

DAY – A Day Order will remain live on the ICX book for the duration of the trading day or until cancelled in the course of the trading day by the subscriber. At the end of the ICX trading day (4:00 pm ET) all outstanding, unfilled Day orders will be cancelled.

GTD – A “Good ‘Til Date” (GTD) order expires at the end of the ICX trading day of the date specified.

VWAP Orders & Pricing Process

1. Buy and Sell orders are sent to the VWAP Cross destination via proprietary or other EMS/OMS platforms utilizing FIX protocol before 9:15 am.
2. Matched orders will be ‘locked in’ to end-of-day VWAP price.
3. When cross is done, an indicative fill is sent out – price of indicative fill will be the previous close price. Re-price is done to the VWAP at 4:10 pm.
4. Un-matched orders will be cancelled and the subscribers will be notified.
5. Matched orders will be priced at 4:10 pm at the consolidated Canadian VWAP price calculated from Canadian markets’ feeds.
6. VWAP pricing up to 4 decimal points.
7. Matches will be printed on ICX and fills details will be sent to subscribers, the IP (Information Processor), CDS and IIROC.

BLX Orders & Pricing Process

1. Buy and Sell orders are sent in the same manner as in the VWAP Cross.
2. Orders are accumulated. When the minimum threshold is reached, the pricing window opens.
3. The BLX price is set by calculating the NBBO midpoint at a random time during a 10 second pricing window. Once the price is set, the match executes, with orders filled pro-rata.
4. Matches will be printed on ICX and fills details will be sent to subscribers, the IP (Information Processor), CDS and IIROC.

Clearing and Settlement

Clearing

ICX will operate under the ATS clearing model.

Locked-in subscriber trades will be reported at the end of the day by ICX to CDS. Identity of counter-party will be disclosed in files sent to CDS for settlement purposes.

Subscribers will report the trades to their custodians who will in turn report allocations to CDS

On T+1 ICX Subscribers review the CDS trade comparison reporting based on trades submitted to CDS from ICX and the custodian.

On settlement date CDS, via the CNS process, will debit/credit Subscriber custodians' CDS ledger and bank account for the trades.

Settlement

All trades done on ICX will settle regular way on T+3.

In the case of a special direction for clearing and settlement from the primary exchange, ICX will make the appropriate adjustments to indicate the special clearing (as agreed upon with CDS) to ICX's end of day file before the file is sent to CDS.