

## Chapter 13

# SROs, Marketplaces, Clearing Agencies and Trade Repositories

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### 13.2 Marketplaces

#### 13.2.1 Canadian Securities Exchange – Public Interest Rule Amendment – Rule 4-113 Commitments and Performance – Notice and Request for Comments

CSE Notice 2017-005  
March 2, 2017

**CANADIAN SECURITIES EXCHANGE**  
**PUBLIC INTEREST RULE AMENDMENT**  
**RULE 4-113 COMMITMENTS AND PERFORMANCE**  
**NOTICE AND REQUEST FOR COMMENTS**

#### A. DESCRIPTION OF THE PROPOSED AMENDMENTS

##### Background

In October 2014, the CSE implemented the Guaranteed Minimum Fill (“GMF”) facility to provide automatic fills for order types that met eligibility requirements as described in Rule 4-107 Guaranteed Fill Facility. The functionality is intended to provide, for eligible orders less than or equal to the Guaranteed Fill volume, an automatic execution at a single price. When the volume of the resting orders is insufficient to fill an eligible order, the balance will automatically trade with the designated market maker (“MM”).

##### Description of the Proposed Amendments

###### Significant Change to Rule 4-113

Currently, a MM is obliged to fill a GMF eligible order only at the existing CSE bid or offer. However, an eligible market order or better-priced limit order (that qualifies as a GMF eligible order) that is entered when the CSE best bid or offer is not equal to the NBBO must be repriced, cancelled, or routed away in accordance with the Order Protection Rule. This is not consistent with the spirit or intent of the GMF facility, which is to provide a guaranteed immediate fill at a single price for eligible orders. The CSE is proposing to introduce functionality by which market makers may automatically fill eligible orders at the NBBO regardless of whether the CSE quote is equal to the NBBO. There will be no difference to the determination of GMF eligibility of an order, including size, and the functionality may be turned on or off at the discretion of the Market Maker. The CSE proposes to move the existing Minimum Size of a Guaranteed Fill [Rule 4-113(2)] requirement and the proposed price guarantee into a new specific Guaranteed Minimum Fill section of Rule 4.

###### Housekeeping Change to Rule 4-107

It is implied in Rule 4, inherent in the functionality of the CSE trading system, and generally understood by the trading community that GMF eligible orders must be marketable orders, tradeable at the time of entry. Specifically, an order must be a market order or a better-priced limit order to qualify for a guaranteed fill. Presently, Rule 4-107 does not include a reference to price. The amended rule will provide clarity to the trading community. The amendment imposes no new requirements and does not change the application of the existing rule or functionality of the existing order type.

#### B. EXPECTED IMPLEMENTATION DATE

The proposed amendments are expected to be implemented Q2, 2017 in accordance with applicable approval processes and protocol.

**C. RATIONALE FOR THE PROPOSED AMENDMENTS AND RELEVANT SUPPORTING ANALYSIS**

The principal benefit for GMF eligible orders (i.e. automatic execution of the full order at a single price on one trade execution report) is lost if an eligible order is rerouted, repriced or cancelled. CSE Market Makers have committed to filling eligible orders, yet the obligation under the current rule does not apply to those periods when the CSE quote may have temporarily moved away from the NBBO. Providing additional functionality to guarantee fills at the best price will ensure that the GMF functionality provides the greatest possible benefit to clients entering eligible orders.

**D. EXPECTED IMPACT OF THE AMENDMENTS ON MARKET STRUCTURE, MEMBERS, INVESTORS, ISSUERS, AND THE CAPITAL MARKET**

The amendments will benefit participants and their clients. When enabled, the fill guarantee will provide the best possible outcome for a GMF eligible order. A GMF eligible, tradeable order will get a one price execution at the best price, even if the CSE quote has moved from the NBBO before the order was received.

**E. EXPECTED IMPACT ON CSE'S COMPLIANCE WITH ONTARIO SECURITIES LAW (INCLUDING FAIR ACCESS AND MAINTENANCE OF FAIR AND ORDERLY MARKETS)**

The proposed amendments are not expected to impact the Exchange's compliance with Ontario securities law, including the requirements for fair access or the maintenance of fair and orderly markets.

**F. CONSULTATION**

The proposed functionality has been discussed with MM's and participants with significant GMF eligible flow.

**G. TECHNOLOGY CHANGES**

No technology changes will be required as a result of the proposed amendments.

**H. EXISTING RULES IN OTHER MARKETS OR JURISDICTIONS**

The CSE GMF is similar to the longstanding MGF functionality on the Toronto Stock Exchange. For securities interlisted with the Montreal Exchange, a Toronto Stock Exchange ruling provided that the Responsible Registered Trader ("RT") on the TSE may guarantee on a voluntary basis that MGF orders shall be bought or sold (as the case may be) at the best price that is currently available on the Toronto Stock Exchange or the Montreal Exchange. The "best price guarantee" was automatically enforced by the TSE trading systems. MGF orders are currently filled at the TSX bid/ask.

The recently approved Auto Execution Facility ("AEF") proposed by Aequitas NEO provides that a designated market maker ("DMM") may guarantee orders up to 50 standard trading units after visible and hidden volume has been exhausted at that price. The DMM may adjust the volume of the guarantee between zero (guarantee for oddlots only) up to 50 boardlots.

CSE Market Makers currently guarantee oddlots at the NBBO.

**I. COMMENTS**

Comments on the proposed amendments should be in writing and submitted no later than April 9th, 2017 to:

Mark Faulkner  
Vice President, Listings and Regulation  
CNSX Markets Inc.  
220 Bay Street, 9th Floor  
Toronto, ON, M5J 2W4  
Fax: 416.572.4160  
Email: [Mark.Faulkner@thecse.com](mailto:Mark.Faulkner@thecse.com)

A copy of the comments should be provided to:

Market Regulation Branch  
Ontario Securities Commission  
20 Queen Street West, 20th Floor  
Toronto, ON, M5H 3S8  
Fax: 416.595.8940  
Email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

The text of the amendments is attached in Appendix A.

APPENDIX A

Blacklined Text of the Amendments

Housekeeping Amendments to Rule 4-107

4-107 Guaranteed Fill Facility

(1) Eligibility

A ~~better priced limit or market~~ order that is a client order for a security that is, in its entirety, for a volume less than or equal to the Guaranteed Fill volume on that security is eligible for a guaranteed fill, provided that the order is not:

- a) One of multiple orders for the same client on the same day;
  - b) An order entered by a DEA client, unless the DEA client is a broker acting as an agent for retail client order flow;
  - c) An order entered on behalf of a U.S. dealer, unless
    - i. the order is for a client of the U.S. dealer; and
    - ii. the Dealer first confirms the order is for a client of the U.S. dealer; or
  - d) For a client that is generally involved in active and continuous trading on a daily basis
- (2) Fills that occur in violation of the eligibility requirements above may be cancelled at the request of the Market Maker. The Exchange may cancel or amend any trades deemed to be improper use of the Guaranteed Fill facility.

Significant Changes to Rule 4-113

4-113 Commitments and Performance

(1) *Two-Sided Quotations*. A Designated Market Maker shall

- (a) buy and sell such security for its own account on a continuous basis, and
- (b) ensure two sided quotations in the Trading System Within the accepted bid/ask spread goal.

(2) Guaranteed Fill

(a) Minimum Size of Guaranteed Fill.

A Designated Market Maker's Guaranteed Fill volume shall be for at least two Board Lots less one share on each side of the market and may be for larger Board Lot multiples thereof.

(b) Price

The Market Maker may enable a best bid or best offer function such that orders eligible for a Guaranteed Fill shall be filled automatically by the Market Maker at the national best bid or offer (NBBO) as calculated by the Trading System

- (3) *Odd Lots*. A better priced limit order or market order that is for a volume less than a Board Lot, or the portion of a tradeable order that is less than a Board Lot, shall be filled automatically by the Market Maker provided that the Board Lot portion of such an order is filled first.
- (4) *Quotations Reasonably Related to the Market*. A Market Maker shall enter and maintain quotations that are reasonably related to the prevailing market.
- (5) The Exchange will periodically review the performance of each Market Maker with respect to bid/ask spread maintenance and other relevant measures, as determined by the Exchange from time-to-time.