

13.2 Marketplaces

13.2.1 TriAct Canada Marketplace LP – Proposed Change to the MATCHNow Trading System – Notice of Approval

TRIACT CANADA MARKETPLACE LP

NOTICE OF APPROVAL OF PROPOSED CHANGE TO THE MATCHNOW TRADING SYSTEM

On June 7, 2021, the Ontario Securities Commission (the **OSC**) approved an amendment proposed by TriAct Canada Marketplace LP (operating as **MATCHNow**) to its Form 21-101F2.

MATCHNow had proposed a change to the MATCHNow trading system to allow conditional orders (**Conditionals**) to interact and match with firm (resting) “dark” orders, known within the MATCHNow system as “Liquidity Providing Orders” (and referred to herein as **Firm Orders**), where the MATCHNow Subscriber that placed the Firm Orders has activated a feature that allows it to opt in to such matching (the **Opt-In Feature**).

In accordance with the OSC’s *Process for the Review and Approval of the Information Contained in Form 21-101F2 and Exhibits Thereto*, a notice outlining and requesting feedback on the proposed change was published on the OSC website and in the OSC Bulletin on April 8, 2021 at [\(2021\), 44 OSCB 3171](#) (the **Notice of Proposed Change**).

In conjunction with the approval of the change described in the Notice of Proposed Change, the OSC approved MATCHNow’s application for exemptive relief from the pre-trade transparency requirements in NI 21-101 with respect to the Opt-In Feature, subject to the following specific terms and conditions:

1. The Opt-In Feature will only apply to Firm Orders for which a Subscriber has affirmatively consented to using the functionality.
2. A Firm Order will only be eligible for the Opt-In Feature where it meets the applicable minimum size threshold (51 standard trading units and \$30,000 or \$100,000).
3. An invitation to firm up through the Opt-In Feature conveys only symbol and side as known order elements; information about price or quantity is not conveyed and may only be inferable without precision.
4. An invitation to firm up through the Opt-In Feature does not enable the recipient to determine whether the contra-side liquidity is immediately actionable.
5. MATCHNow will test the Opt-In Feature prior to implementation to ensure the functionality works as designed.
6. MATCHNow will analyze the impact of the Opt-In Feature and will share the results with the OSC.

The order providing MATCHNow with exemptive relief from the pre-trade transparency requirements in NI 21-101 with respect to the Opt-In Feature is being published along with this Notice of Approval.

Comments Received

Two comment letters were received regarding the Notice of Proposed Change, and the summary of the comments set out in those two letters and MATCHNow’s responses to those comments is published in Appendix A to this notice.

Implementation Date

MATCHNow will publish one or more client notices regarding the date of implementation (including the dates of User Acceptance Testing) of the Opt-In Feature, to ensure that clients and other stakeholders have advance notice. It is expected that the Opt-In Feature will be fully implemented in Q3 2021.

TRIACT CANADA MARKETPLACE LP

APPENDIX A

SUMMARY OF COMMENTS AND RESPONSES

The following is a summary of comments received in response to the Notice of Proposed Change filed by MATCHNow and published on April 8, 2021 by the OSC, along with MATCHNow's responses to those comments.

Commenters

In response to the Notice of Proposed Change, MATCHNow received a total of two comment letters, one from each of the following:

- Virtu ITG Canada Corp. (**VITG**); and
- the Trading Issues Committee of Canadian Securities Traders Association, Inc. (the **CSTA**).

In the comments and responses below, capitalized terms used and not defined in this Schedule A or in the Notice of Approval to which it is attached shall have the meaning given in the Notice of Proposed Change.

Summary of Comment Received	MATCHNow's Response
<p>The proposal will benefit Canadian equities markets. The enhanced access to liquidity opportunities warrants the potential opportunity costs. The Opt-In Feature promotes liquidity and choice, respectively, by offering Subscribers more opportunity to reduce time and place fragmentation, and by allowing Subscribers to use the Opt-In Feature, or not, based on their needs. The Opt-In Feature may improve interactions between Firm Orders and contra-side algorithm-generated orders. (VITG)</p> <p>The commenter is supportive of MATCHNow's effort to encourage more frequent, block-size interactions across its order books. By allowing large dark orders to more easily find each other in a multi-order book environment, the Opt-In Feature reduces search and delay costs for traders and may help reduce excessive intermediation. The commenter sees little evidence of fair access concerns, systematic risk, or other unintended consequences impacting trading on other marketplaces. Thus, the commenter is generally supportive of the proposed functionality. (CSTA)</p>	<p>We agree with and appreciate the commenters' supportive comments regarding the benefits that will flow from the Opt-In Feature for Canadian equities markets and their participants.</p>
<p>All execution decisions involve some opportunity costs; however, the Opt-In Feature affords participants that enter Firm Orders the opportunity to make a choice regarding whether to participate in, or abstain from interactions with Conditionals. (VITG)</p> <p>The commenter agrees with an opt-in approach rather than an opt-out approach. Conditionals have optionality that Firm Orders do not. The Conditional may, but need not end up trading. In fast moving markets or during periods of high volatility, the Conditional can back away from the trade entirely, if circumstances become unfavourable. Thus, when viewed from the perspective of a Subscriber that places a Firm Order, trading against a Conditional has added risk, which may not always be desired or compensated simply by trading larger size. (CSTA)</p>	<p>We agree that the optionality of the Opt-In Feature is a significant advantage, providing flexibility and the mitigation of risks for Subscribers that enter Firm Orders and wish to access more block liquidity. We foresee greater adoption of Conditionals as time goes on, and we believe that this development will be due, in part, to the availability of the Opt-In Feature.</p>

Summary of Comment Received	MATCHNow's Response
<p>One potential opportunity cost that results from the Opt-In Feature is the potential information imbalance relating to Firm Orders displaying interest into the Conditionals book; however, this would be well understood by participants, is adequately disclosed by MATCHNow, and the incremental liquidity opportunities created by allowing these orders to interact is an appropriate trade-off. (VITG)</p> <p>The commenter supports MATCHNow's application for exemptive relief from the pre-trade transparency requirements (the "order display" rule) of subsection 7.1(1) of NI 21-101. It is necessary to facilitate the interaction of Firm Orders with Conditionals. (CSTA)</p>	<p>We agree that any risk from information leakage is minimized thanks to the design of the Opt-In Feature and the Conditionals functionality more generally. In addition to the factors identified by one commenter, MATCHNow also notes that a Subscriber that receives a firm-up request which happens to have been generated by an "opted-in" Firm Order will not know whether that contra-side liquidity is, in fact, a Firm Order or another Conditional. MATCHNow's Conditionals Compliance Mechanism further mitigates the risks from any potential information leakage. We also appreciate one commenter's support for our exemptive relief application, which resolves any conflict with the pre-trade transparency requirements of subsection 7.1(1) of NI 21-101.</p>
<p>The commenter agrees with the proposed minimum size requirements, i.e., only Conditionals and Firm Orders larger than 50 standard trading units and \$30,000 in notional value or orders larger than \$100,000 in notional value are eligible. These size requirements are consistent with UMIR 6.6 (the rules governing dark price improvement). In fact, any discrepancy between the minimum size requirements for "opted-in" Firm Orders and Conditionals in general ought to be avoided, as it creates opportunities for gaming and information leakage. (CSTA)</p>	<p>We appreciate the supportive comment, and we agree with the commenter's analysis. We also believe that the new large (block) size threshold ensures that the Opt-In Feature is consistent with the policy objectives that underlie the "dark trading" rules in general.</p>
<p>An additional potential opportunity cost involves missed Firm Order liquidity for an opted-in Firm Order during the Conditional's firm-up window. However, this scenario has a low-risk probability because the Firm Order would have exhausted any pre-existing liquidity in the Firm Order book prior to the arrival of the Conditional opportunity. Furthermore, this opportunity cost would be well understood by marketplace participants. (VITG)</p> <p>It appears that Firm Orders would be "locked in" once a Conditional interaction is initiated, effectively preventing the Firm Order from interacting with any other coincident liquidity available on MATCHNow while it is engaged with the Conditional order. We recognize the intention of the locking mechanism is to ensure a single order is not in two places at once and to prevent an overfill situation. Nonetheless, we suggest allowing Firm Orders to be cancelable even if they are not tradeable during the lock. (CSTA)</p>	<p>The wording used in the Notice of Proposed Change to describe the matching process for an opted-in Firm Order (i.e., that it will be "shielded or 'locked in' for the milliseconds (up to 1 second maximum) necessary to communicate with tradeable Conditionals") was merely a figure of speech. The opted-in Firm Order is not <i>literally</i> locked, but rather, will retain the ability to be cancelled or modified (e.g., decremented) by the Subscriber up until the instant when the Conditional on the contra side has actually firm'd up. We merely chose the wording to succinctly convey the notion that the Firm Order could not match with another Firm Order <i>and</i> a Conditional simultaneously. The Opt-In Feature does not prevent a Subscriber from cancelling or changing its Firm Order in the normal course, and we regret any confusion we may have caused. In the revisions to our <i>In Detail</i> that will accompany the implementation of the Opt-In Feature, we will make this nuance clear.</p> <p>Furthermore, we agree with the point articulated by one commenter: the fact that a Firm Order, which may rest in the system for some time, is likely to match with other Firm Orders long before it even gets to interact with a Conditional mitigates any potential disadvantage stemming from the momentary (i.e., milliseconds-long) "pause" in potential matching for an opted-in Firm Order with other Firm Orders while the Conditional interaction runs its course.</p>
<p>Post-trade analytics tools provide market participants with the ability to easily evaluate the impact (and desirability) of using the Opt-In Feature. (VITG)</p>	<p>MATCHNow provides detailed Conditionals data reporting multiple times daily to every Subscriber that elects to receive such reporting. We also provide additional reporting to Subscribers that use Conditionals during our regular client meetings. Such data can indeed be used by Subscribers to</p>

Summary of Comment Received	MATCHNow's Response
<p>The commenter would encourage MATCHNow to establish a robust process to monitor Conditional firm-up rates, particularly when trading against Firm Orders. The process should include meaningful consequences for unexplainably low firm-up rates beyond a simple "time out" for the rest of the trading day. The results should be published periodically and available upon request. (CSTA)</p>	<p>evaluate the impact of their use of Conditionals, and this will certainly continue once the Opt-In Feature is implemented. (Note that MATCHNow is also required to provide aggregated Conditionals reporting to the OSC on a quarterly basis, which will also continue as usual.)</p> <p>As regards making any changes to the Conditionals process, we would respectfully decline to do so at this time. In the 2+ years that Conditionals have been available, we have observed a general decline in the number of fall-downs and daily suspensions (for falling below the designated firm-up threshold), and we believe these declines are directly connected to enhancements that we have made to the Conditionals Compliance Mechanism during that time. While we appreciate the feedback, we believe that the system, as designed, is working well. Nevertheless, we will continue to closely monitor firm-up rates and, where warranted, to consider additional changes and enhancements to the Conditionals Compliance Mechanism—and to the Conditionals functionality in general—in the future, just as we have done over the past 2+ years.</p>