

# Notice to Participating Organizations, Members and Subscribers

October 4, 2012

2012-043

## Toronto Stock Exchange, TSX Venture Exchange, TMX Select Trading Enhancements Update

This notice is to confirm the trading enhancements which will be available **October 15, 2012** (previously outlined in PO Notice 2012-031 published on June 29, 2012). The enhancements in this notice reflect recent regulatory amendments respecting short sale regulation, the introduction of a short marking exempt designation<sup>1</sup>, amendments respecting dark liquidity on Canadian equity marketplaces<sup>2</sup>, and functionality introduced as a result of client demand and market quality initiatives.

### Trading Enhancements pertaining to Short Selling and Short Marking Exempt orders

#### ***Discontinuing price restrictions of Short Sell orders (tick test)***

TSX, TSX Venture Exchange (TSXV) and TMX Select will no longer constrain short sell orders to the last sale price. Short sell orders entered will be permitted to trade down to their limit price establishing a last sale price on a down tick. Short Crosses will no longer be constrained by the last sale price.

#### ***Short Sell Orders***

Short sell orders, available on TSX and TSX Venture Exchange, will be permitted to have the following attributes:

- Market priced short sell orders will be accepted in the pre-open session and also when a symbol is halted
- Short sell orders will be accepted with Mixed lot or Odd lot volumes
- Market on Close (MOC) and Limit on Close (LOC) orders may be short sell orders

#### ***Short Exempt***

Discontinuing short sell price restrictions has rendered the short exempt tag redundant. The short exempt tag has been removed from the order entry and broadcast protocol specifications. The short exempt tag will continue to be accepted on orders however the tag will not be returned on corresponding responses.

#### ***Short Marking Exempt***

The UMIR rule amendments respecting short sales and failed trades have required the introduction of a new Short Marking Exempt tag. This tag will be available for submission on orders and crosses and returned on corresponding responses to ensure participants can comply with the short marking exempt requirements. The Short Marking Exempt tag will reside in the private layer of feed messages securing the anonymity of the designation. (Please see Appendix A for tag details)

<sup>1</sup> IIROC Notice 12-0078 – Rules Notice – Notice of Approval – UMIR – Provisions Respecting Regulation of Short Sales and Failed Trades (March 2, 2012)

<sup>2</sup> IIROC Notice 12-0130 – Rules Notice – Notice of Approval – UMIR – Provisions Respecting Dark Liquidity (April 13, 2012)

The Short Marking Exempt designation will automatically be added to unsolicited messages resulting from market making/odd lot responsibilities. Impacted unsolicited messages include trades due to odd lot responsibilities, minimum guarantee fills and RT participation.

## **Trading Enhancements pertaining to TSX/TSXV Dark Order Types**

The UMIR rule amendments respecting dark liquidity on Canadian marketplaces require, subject to certain exceptions, an order entered on a marketplace that trades with an order that is not displayed to receive minimum price improvement on the execution or be a large order. Minimum price improvement is defined as a half-trading increment on a single tick NBBO spread, or one trading increment on a greater than one tick NBBO spread.

### ***Dark Limit Orders***

To ensure compliance with UMIR amendments, a resting dark limit order will only execute with a small order ( $\leq 50$  board lots and  $\leq \$100,000$  in value) if it can offer price improvement. Dark limit orders will continue to execute with large orders at the NBBO, after all visible liquidity at that price on the execution marketplace has been exhausted.

Dark limit orders offering price improvement of at least one trading increment will be eligible to trade with all incoming order flow irrespective of volume and value. If the TSX or TSX Venture quote is alone at the NBB or NBO a Dark Limit order resting at this price will be eligible to execute with all incoming order flow irrespective of the contra order's volume once all displayed liquidity on the resting marketplace is exhausted.

### ***Dark Midpoint Orders***

Dark Midpoint orders will be eligible to trade with all incoming order flow as they will always execute at a better price by executing at the mid point of the NBBO.

### ***Executing Against Dark Liquidity***

All orders executing with passive dark liquidity receive a 70% reduction in their active trading fee. To aid clients with calculating their execution costs any order executing with a passive dark order will have this identified privately in the exchange admin tag, which is returned in fill and trade reports. (Please see Appendix A for tag details)

### ***Better Priced Intentional Crosses at Invalid Trading Increments***

Intentional crosses on TSX and TSX Venture will be accepted at a fraction of a trading increment if the execution price is a better price for both the order to purchase and the order to sell. On a one tick NBBO spread an intentional cross may be submitted in the current manner, on the bid or offer, however, may also be submitted at the NBBO midpoint price. On a three tick NBBO spread intentional crosses will continue to be accepted on the bid or offer, a valid trading increment in-between the quote and also at a fraction of a trading increment if the price is at least one tick inside the NBB and one tick inside the NBO.

### ***Last Sale Price***

Dark midpoint executions and better priced intentional crosses at invalid trading increments will set the last sale price for the symbol. The last sale price will not be rounded when published on the broadcast feed but display the true execution price

(Please note: to comply with UMIR rule 6.1 Entry of Orders to a Marketplace, orders and intentional crosses entered during the Special Trading session must continue to be submitted at a price which is a valid trading increment)

For further information on the TSX/TSX Venture Dark order types you may access TSX/TSX Venture Dark Liquidity guide through the following link:  
[http://www.tmx.com/en/trading/products\\_services/dark\\_orders.html](http://www.tmx.com/en/trading/products_services/dark_orders.html)

## **Trading Enhancements pertaining to Market Quality Initiatives**

The following enhancements are the technical implementation of the rule amendments previously outlined in *PO Notice 2012-010 TSX Trading Rule Amendments Related to Market Making and to Permit Trading of Securities Listed on other Canadian Exchanges*.

### ***Discontinuing the Anti-Scooping Rule***

With the changes to Canadian market structure in recent years and greater access to trading technology and real-time market data, the justification for the anti-scooping rule is no longer relevant. As a result, enforcement of the anti-scooping rule will be discontinued on TSX and TSX Venture.

### ***Booked Odd Lot orders***

During the continuous trading session market makers/odd lot dealers will fill booked odd lots which become tradable due to a board lot quote change at the odd lot's original limit price.

## **Minimizing Regulatory Messages**

To ensure that trading on the TMX marketplaces minimizes regulatory messages the following enhancements will be introduced:

- 1) Order modification requests will result in one regulatory message being submitted to the regulatory monitoring system
- 2) Post only orders that are killed as a result of being immediately executable when first accepted by the trading engine will not result in a message being submitted to the regulatory monitoring system

## **Trading Features under Regulatory Review**

The Dark Post Only feature continues to be under regulatory review and is not anticipated to be available October 15, 2012.

For additional information or questions related to the features and functionality to be available, please contact your TMX Account Manager or by email at [trading\\_sales@tsx.com](mailto:trading_sales@tsx.com).

Jeff Foster	(416) 947-4229
Monika Marcziowa	(416) 947-4534
Olga Trofimova	(416) 947-4355
Stephanie Orloff	(416) 814-8848

## **About TMX Group (TSX-X)**

TMX Group's key subsidiaries operate cash and derivative markets for multiple asset classes including equities, fixed income and energy. Toronto Stock Exchange, TSX Venture Exchange, TMX Select, Alpha

Group, The Canadian Depository for Securities, Montreal Exchange, Canadian Derivatives Clearing Corporation, Natural Gas Exchange, Boston Options Exchange, Shorcan, Shorcan Energy Brokers, Equicom and other TMX Group companies provide listing markets, trading markets, clearing facilities, data products and other services to the global financial community. TMX Group is headquartered in Toronto and operates offices across Canada (Montreal, Calgary and Vancouver), in key U.S. markets (New York, Houston, Boston and Chicago) as well as in London, Beijing and Sydney. For more information about TMX Group, visit our website at [www.tmx.com](http://www.tmx.com). Follow TMX Group on Twitter at <http://twitter.com/tmxgroup>.

A French version of this notice is available on our web site at [www.tmx.com](http://www.tmx.com). Une version française de cet avis est disponible sur notre site Web à l'adresse [www.tmx.com](http://www.tmx.com).

Appendix 1

**Summary of Order Entry and Broadcast Feed Specification Updates**

<b>Feature</b>	<b>Description</b>	<b>FIX OE</b>	<b>STAMP OE</b>	<b>Broadcast Feed</b>
SME Marker	A private marker for the “Short-Marking Exempt” order designation.	FieldIdentifier = 7729 ; no default ShortMarkingExempt = 0   ; SME = 1   ; Buy Cross SME = 2   ; Sell Cross SME = 3   ; Both Buy and Sell Cross SME	FieldIdentifier = 609 ; no default ShortMarkingExempt = 0   ; SME = 1   ; Buy Cross SME = 2   ; Sell Cross SME = 3   ; Both Buy and Sell Cross SME	FieldIdentifier = 609 ; no default ShortMarkingExempt = 0   ; SME = 1   ; Buy Cross SME = 2   ; Sell Cross SME = 3   ; Both Buy and Sell Cross SME
Executing against dark liquidity tag value	A private tag value that will identify if the order executed with a passive dark order	FieldIdentifier = 6780 TSXExchangeAdmin Position 4: “D” Order executed against dark liquidity	FieldIdentifier = 380 Exchange-Admin Position 4: “D” Order executed against dark liquidity	FieldIdentifier = 380 Exchange-Admin Position 4: “D” Order executed against dark liquidity
Removal of Short Exempt identifier	With the repealing of the tick test the short exempt designation will be discontinued	FieldIdentifier = 54 “6” = Sell Short exempt “A” = Cross Short Exempt	FieldIdentifier = 221 ; TSX and TMXS ShortExempt = "Y"   "N" ; default is "N"	FieldIdentifier = 221 ; TSX and TMXS ShortExempt = "Y"   "N" ; default is "N"
Removal of Short Limit identifier	With the repealing of the tick test the short limit designation will be discontinued	Not applicable	FieldIdentifier = 185 ; TSX, TSXV, and TMXS ShortLimit = Price	FieldIdentifier = 185 ; TSX, TSXV, and TMXS ShortLimit = Price