

## CSA Notice

# Amendments to National Instrument 23-101 *Trading Rules* and Companion Policy 23-101CP to National Instrument 23-101 *Trading Rules*

January 26, 2017

## I. Introduction

The Canadian Securities Administrators (the **CSA** or **we**) have approved amendments to National Instrument 23-101 *Trading Rules* (**NI 23-101**) and its related Companion Policy (**23-101 CP**) (together, the **Amendments**).

We are publishing clean and blacklined versions of the text of the Amendments in Annexes A and B to this notice, together with certain other relevant information at Annexes C through E. The text of the Amendments will also be available on the websites of the CSA jurisdictions, including:

[www.lautorite.qc.ca](http://www.lautorite.qc.ca)  
[www.albertasecurities.com](http://www.albertasecurities.com)  
[www.bsc.bc.ca](http://www.bsc.bc.ca)  
[www.nssc.novascotia.ca](http://www.nssc.novascotia.ca)  
[www.fcnb.ca](http://www.fcnb.ca)  
[www.osc.gov.on.ca](http://www.osc.gov.on.ca)  
[www.fcaa.gov.sk.ca](http://www.fcaa.gov.sk.ca)  
[www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)

Provided all necessary ministerial approvals are obtained, the Amendments will come into force on April 10, 2017.

## II. Substance and Purpose

The substance and purpose of the Amendments is to amend NI 23-101 to lower the active trading fee cap<sup>1</sup> applicable to trading in certain securities. In setting out the maximum fee that can be applied to the execution of an order entered to execute against displayed volume, the Amendments distinguish between securities that are listed on both a Canadian and a U.S. exchange (**Inter-listed Securities**) and securities that are listed on a Canadian exchange, but not listed on a U.S. exchange (**Non-Inter-listed Securities**).

The Amendments amend section 6.6.1 of NI 23-101 to cap active trading fees for Non-Inter-listed Securities at \$0.0017 per security traded for an equity security or per unit traded for an

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<sup>1</sup> An active trading fee refers to the fee applied for executing an order that was entered to execute against a displayed order on a particular marketplace.

exchange-traded fund, if the execution price of the security or unit traded is greater than or equal to \$1.00.

### **III. Background**

As of July 6, 2016, an active trading fee cap of \$0.0030 per share or unit traded has been imposed on equity securities and exchange-traded funds priced at or above \$1.00.<sup>2</sup> This cap is an established benchmark created by the U.S. Securities and Exchange Commission in the context of order protection requirements similar to those in NI 23-101.

However, when we proposed the \$0.0030 per share or unit fee cap in 2014, we acknowledged that the U.S. trading fee cap was considered by some to be too high. These concerns were also reflected in the comments received on the proposed fee cap, where a number of commenters indicated that the cap was not reflective of the lower average price of Canadian securities relative to the average price of U.S. securities.

We recognized the views of some stakeholders that the fee cap should be lower. However, our market is highly integrated with the U.S. and there is significant trading activity in Inter-listed Securities in the U.S. As a result, we remained concerned about the potential negative consequences for the Canadian market from establishing a trading fee cap for Inter-listed Securities that is significantly different than comparable regulatory requirements in the U.S. As liquidity providers are sensitive to rebates they receive for posting orders on certain marketplaces, a decrease in fees charged by Canadian marketplaces would also result in a decrease in rebates available to liquidity providers. If the difference in rebates between Canada and the U.S. for Inter-listed Securities was too large, a shift of liquidity to U.S. marketplaces and widening spreads on Canadian marketplaces could result.

However, the concerns noted above do not apply for Non-Inter-listed Securities, and in determining a method by which we could address some of the concerns raised in relation to trading fee costs, we considered, among other things, the comments that the trading fee should reflect the value of the stocks traded. We calculated the volume-weighted average price for Inter-listed Securities<sup>3</sup> and found that the \$0.0030 cap for Inter-listed Securities represents 1.2 basis points. We then calculated the volume-weighted average price for Non-Inter-listed Securities and applied the same basis point equivalent. The results are illustrated in the table below.

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<sup>2</sup> The trading fee cap for equity securities and exchange-traded funds priced below \$1.00 is \$0.0004 per security or unit traded. The Amendments do not change this cap.

<sup>3</sup> The volume-weighted average price is calculated from June 29, 2014 to June 28, 2015.

	<b>Volume-Weighted Average Price</b>	<b>Trading Fee Cap</b>	<b>Basis Point Equivalent</b>
Inter-listed Securities	\$25.26	\$0.0030 per share or unit	1.2 bps
Non-Inter-listed Securities	\$14.30	\$0.0017 per share or unit	1.2 bps

#### **IV. The Amendments**

The Amendments cap active trading fees for Non-Inter-listed Securities at \$0.0017 per security traded for an equity security or per unit traded for an exchange-traded fund, if the execution price of the security or unit traded is greater than or equal to \$1.00. The \$0.0030 per share or unit cap will continue to apply to Inter-listed Securities priced at or above \$1.00. The current cap of \$0.0004 per share or unit priced at less than \$1.00 remains in place for both Inter-listed Securities and Non-Inter-listed Securities.

We received comments concerning a marketplace’s ability to identify when a security’s status as Inter-listed or Non-Inter-listed changes, and particularly where an Inter-listed Security becomes a Non-Inter-listed Security (e.g., the issuer has delisted the security from all U.S. exchanges on which it was listed), and becomes subject to the lower trading fee cap. In response to these comments, we have made non-material amendments to NI 23-101 and 23-101CP. New subsections 6.6.1(3) and 6.6.1(4) require a recognized exchange to publish a quarterly list of Inter-listed Securities, and new section 6.6.2 requires marketplaces to make any required reductions to their active trading fees no later than 35 days following publication of the list. We are of the view that this requirement will have limited impact because some exchanges currently publish this information, and all exchanges can require listed issuers to provide them with this information. It will not be onerous for listed issuers to inform their listing exchange of their status as Inter-listed or not.

The exchanges’ lists are to be as of the last day of each calendar quarter and published no later than 7 days after the quarter end. A transitional provision provides that the first lists are to be as of April 10, 2017, and published no later than April 17, 2017. Marketplaces must make any required fee adjustments no later than May 15, 2017.

We note that if a Non-Inter-listed Security becomes an Inter-listed Security, the Amendments will not require a marketplace to adjust its trading fee as the maximum fee for a Non-Inter-Listed Security is below the maximum fee for an Inter-listed Security.

#### **V. Summary of Written Comments Received by the CSA**

Proposed amendments were published for comment on April 7, 2016. We received submissions from six commenters. We have considered the comments received and thank all of the commenters for their input. A list of those who submitted comments and a summary of the comments and our responses are attached at Annexes C and D to this notice. Copies of the comment letters are available at [www.osc.gov.on.ca](http://www.osc.gov.on.ca).

## VI. Local Matters

Certain jurisdictions are publishing other information required by local securities legislation. In Ontario, this information is contained in Annex E of this notice.

## VII. Annexes

- A. Amendments to NI 23-101 and 23-101CP;
- B. Amendments to NI 23-101 and 23-101CP, blacklined to the version published for comment on April 7, 2016;
- C. List of commenters;
- D. Summary of Comments and CSA Responses; and
- E. Local Matters.

## VIII. Questions

Please refer your questions to any of the following:

Tracey Stern Manager, Market Regulation Ontario Securities Commission tstern@osc.gov.on.ca	Timothy Baikie Senior Legal Counsel, Market Regulation Ontario Securities Commission tbaikie@osc.gov.on.ca
Alina Bazavan Senior Analyst, Market Regulation Ontario Securities Commission abazavan@osc.gov.on.ca	Paul Redman Chief Economist and Head of Research, Strategy & Operations Ontario Securities Commission predman@osc.gov.on.ca
Kathleen Blevins Senior Legal Counsel Alberta Securities Commission kathleen.blevins@asc.ca	Sasha Cekerevac Regulatory Analyst, Market Regulation Alberta Securities Commission sasha.cekerevac@asc.ca
Serge Boisvert Senior Policy Advisor Direction des bourses et des OAR Autorité des marchés financiers serge.boisvert@lautorite.qc.ca	Roland Geiling Derivatives Product Analyst Direction des bourses et des OAR Autorité des marchés financiers roland.geiling@lautorite.qc.ca
Bruce Sinclair Securities Market Specialist British Columbia Securities Commission bsinclair@bcsbc.bc.ca	

ANNEX A

AMENDMENTS TO NATIONAL INSTRUMENT 23-101  
TRADING RULES

1. *National Instrument 23-101 Trading Rules is amended by this Instrument.*
2. *Section 6.6.1 is replaced with the following:*

**6.6.1 Trading Fees**

- (1) In this section

“exchange-traded fund” means a mutual fund

- (a) the units of which are listed securities or quoted securities, and
- (b) that is in continuous distribution in accordance with applicable securities legislation; and

“inter-listed security” means an exchange-traded security that is also listed on an exchange that is registered as a “national securities exchange” in the United States of America under section 6 of the 1934 Act.

- (2) A marketplace that is subject to section 7.1 of NI 21-101 must not charge a fee for executing an order that was entered to execute against a displayed order on the marketplace that,
  - (a) in the case of an order involving an inter-listed security,
    - (i) is greater than \$0.0030 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is greater than or equal to \$1.00, and
    - (ii) is greater than \$0.0004 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is less than \$1.00; or
  - (b) in the case of an order involving a security that is not an inter-listed security,
    - (i) is greater than \$0.0017 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is greater than or equal to \$1.00, and
    - (ii) is greater than \$0.0004 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is less than \$1.00.
- (3) A recognized exchange must maintain a list of inter-listed securities that are listed on the exchange as of the last day of each calendar quarter.
- (4) A recognized exchange must publicly disclose on its website the list referred to in subsection (3)

- (a) within 7 days after the last day of each calendar quarter, and
- (b) for a period of at least 12 months commencing on the date it is publicly disclosed on the website..

3. ***The following section is added after section 6.6.1:***

**6.6.2 Ceasing to be inter-listed security – fee transition period** — If a security ceases to be an inter-listed security, paragraph 6.6.1(2)(b) does not apply if

- (a) less than 35 days has passed since the first date, following the cessation, the list referred to in subsection 6.6.1(4) was publicly disclosed, and
- (b) the fee charged is in compliance with paragraph 6.6.1(2)(a) as if the security were still an inter-listed security..

4. **Transition – publication of inter-listed securities**

On or before April 17, 2017, a recognized exchange must publicly disclose on its website a list of the inter-listed securities that were listed on the exchange as of April 10, 2017.

5. **Transition – fee adjustment for orders involving non-inter-listed securities**

Despite paragraph 6.6.1(2)(b), as enacted by section 2 of this Instrument, a marketplace to which that paragraph applies may, until May 15, 2017, charge a fee that exceeds the amount referred to in that paragraph provided the fee charged is not greater than

- (a) \$0.0030 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is greater than or equal to \$1.00, and
- (b) \$0.0004 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price is less than \$1.00.

6. **Effective Date**

- (1) This Instrument comes into force on April 10, 2017.
- (2) In Saskatchewan, despite subsection (1), if these regulations are filed with the Registrar of Regulations after April 10, 2017, these regulations come into force on the day on which they are filed with the Registrar of Regulations.

## SCHEDULE

**1. *The changes to Companion Policy 23-101 to National Instrument 23-101 Trading Rules are set out in this Schedule.***

**2. *Part 6 is changed by adding the following section:***

6.4.1 Trading Fees – Section 6.6.1 provides caps on the fee that a marketplace subject to section 7.1 of NI 21-101 can charge for execution against a displayed order on the marketplace. Paragraph 6.6.1(2)(a) establishes a higher trading fee cap for exchange-traded securities that are inter-listed (i.e., listed on both a recognized exchange and a national securities exchange in the United States of America) and priced at or above \$1.00. Subsections 6.6.1(3) and (4) provide a process to ensure transparency of a security’s status as an inter-listed security, and require a recognized exchange to publish a quarterly list of all of its inter-listed securities no later than seven days after the end of each quarter. In compiling the list, an exchange may rely on representations made by its listed issuers as to their status. Section 6.6.2 addresses the situation where a security’s status as an inter-listed security changes, specifically, when a security is delisted from all U.S. national securities exchanges on which it was listed and is now only listed on a recognized exchange in Canada and is no longer an inter-listed security. Section 6.6.2 requires marketplaces to make any reductions to their fees that are necessary to comply with paragraph 6.6.1(2)(b) no later than 35 days following the publication of the first list indicating that the security is no longer an inter-listed security.

ANNEX B

AMENDMENTS TO NATIONAL INSTRUMENT 23-101  
TRADING RULES

(blacklined to version published for comment April 7, 2016)

1. *National Instrument 23-101 Trading Rules is amended by this Instrument.*
2. *Section 6.6.1 is replaced with the following:*

**6.6.1 Trading Fees**

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“exchange-traded fund” means a mutual fund,

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- (b) that is in continuous distribution in accordance with applicable securities legislation; and

“inter-listed security” means an exchange-traded security that is also listed ~~on a recognized exchange and~~ on an exchange that is registered as a “national securities exchange” in the United States of America under section 6 of the 1934 Act.

- (2) A marketplace that is subject to section 7.1 of NI 21-101 must not charge a fee for executing an order that was entered to execute against a displayed order on the marketplace that,

(a) ~~for~~ in the case of an order involving an inter-listed security,

- (i) ~~that~~ is greater than \$0.0030 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is greater than or equal to \$1.00, and
- (ii) ~~that~~ is greater than \$0.0004 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is less than \$1.00; or

(b) ~~for~~ in the case of an order involving a security that is not an inter-listed security,

- (i) ~~that~~ is greater than \$0.0017 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is greater than or equal to \$1.00, and
- (ii) ~~that~~ is greater than \$0.0004 per security traded for an equity security, or per unit traded for an exchange-traded fund, if the execution price of each security or unit traded is less than \$1.00.

- (3) A recognized exchange must maintain a list of inter-listed securities that are listed on the exchange as of the last day of each calendar quarter.
- (4) A recognized exchange must publicly disclose on its website the list referred to in subsection (3)
  - (a) within 7 days after the last day of each calendar quarter, and
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**SCHEDULE**

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**2. Part 6 is changed by adding the following section:**

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**ANNEX C**

**List of Commenters**

Canadian Advocacy Council for the Canadian CFA Institute  
Canadian Foundation for the Advancement of Investor Rights  
Canadian Securities Exchange  
Investment Industry Association of Canada  
Nasdaq CXC  
TMX Group Ltd.

**ANNEX D**

**Summary of Comments and CSA Responses**

<b>Topic</b>	<b>Summary of Comments</b>	<b>CSA Response</b>
<p><b>Size of Trading Fee Cap</b></p>	<p>Responses were mixed, with some supporting the proposed cap, some suggesting a higher cap, and one suggesting a lower cap.</p> <p>Two commenters were concerned about the impact on the market, as lowering active fees would lead to lower rebates, which may affect liquidity, particularly in exchange traded funds and less liquid securities. It was noted that marketplaces in Canada and the US lost market share when they unilaterally lowered fees and rebates. If liquidity is damaged, small cap Canadian issuers considering an initial public offering may choose to list in foreign markets, and currently-listed issuers may migrate to those markets. One commenter suggested a cap of \$0.0023 as a compromise.</p> <p>One commenter suggested that the proposed fee cap is too high and would permit rebates that overcompensate liquidity providers, as does the current \$0.0030 cap. The correct comparison is to the average US share price of \$75 rather than the Canadian average of \$25.26 for Inter-listed Securities. The cap should be closer to \$0.0006 per share.</p>	<p>We acknowledge that the comments received in relation to amount of the cap were mixed. However, we continue to be of the view that a cap of \$0.0017 per share or unit of Non –Inter-listed Securities is the most appropriate way to address concerns previously raised that the current \$0.0030 cap is too high.</p> <p>We believe the impact of the fee cap will be mitigated by the fact that it will apply to active orders on all lit marketplaces. We also note that the cap is proportionate to the existing \$0.0030 cap when the average price of Non-Inter-listed Securities is compared to the average price of Inter-listed Securities.</p> <p>We will monitor over time whether the level of the fee cap remains appropriate.</p>

<p><b>Application to Inverted-Fee Markets</b></p>	<p>One commenter suggested that the fee cap apply to marketplaces with inverted (take-make) pricing, where the passive order pays a fee and the active order receives a rebate. One commenter believed that it should not apply to these marketplaces.</p>	<p>The fee cap is intended to apply to orders that a marketplace participant may be required to interact with as a result of the order protection rule. No one is required to post a passive order on an inverted market.</p> <p>In an inverted maker taker structure, setting a fee to post liquidity that is too high would most likely result in a reduction in posted liquidity which will ultimately impact the passive flow routed to that marketplace and the corresponding trading revenue. This provides an incentive to keep any fee at a reasonable level.</p> <p>Despite this, we will continue to examine trading fees to determine what, if any, regulation is required for inverted fee models.</p>
<p><b>Application to Iceberg Orders and Dark Marketplaces</b></p>	<p>One commenter asked whether the cap would apply to iceberg orders.</p>	<p>The cap currently applies to iceberg orders on marketplaces that display orders. The fee cap does not apply to marketplaces that do not display orders.</p>
<p><b>Compliance Issues</b></p>	<p>One commenter suggested it may be difficult for marketplaces to know whether a security is a Non-Inter-listed Security, particularly in the case where an issuer of a security listed on a US exchange delists. The CSA or IIROC should provide a list of Non-Interlisted Securities.</p> <p>It will be difficult to change fees in the middle of a billing cycle if necessary.</p>	<p>We have amended the rule to require recognized exchanges to publish a quarterly list of their Inter-listed securities.</p> <p>To address this concern, we have amended the rule to provide that such changes must be made no later than 35 days following publication of the quarterly list.</p>

<p><b>SEC Trading Fee Pilot</b></p>	<p>Three commenters suggested that the CSA monitor any Securities Exchange Commission (SEC) trading fee pilot and consider participating.</p>	<p>We are monitoring and will continue to monitor developments in the US, including the recommendations of the SEC’s Equity Market Structure Advisory Committee for an access (trading) fee pilot.</p>
<p><b>Ban Rebates</b></p>	<p>One commenter suggested banning rebates on Non-Interlisted Securities, as there is no risk of loss of order flow to US marketplaces</p>	<p>Before considering a ban, we will monitor developments with the US fee pilot.</p>
<p><b>Other Comments</b></p>	<p>One commenter made a number of suggestions with respect to pricing and availability of market data.</p>	<p>These comments are out of scope of the request for comments. We note that the CSA has recently adopted a formal methodology for reviewing marketplaces’ market data fees. See CSA Staff Notice 21-319 dated December 8, 2016.</p>

**ANNEX E**

**Local Matters**

There are no local matters for Alberta to consider at this time.