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TSX INC.

NOTICE OF PROPOSED CHANGE AND REQUEST FOR COMMENTS

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TSX Inc. ("TSX") is publishing this Notice of Proposed Change in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto".

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by August 2nd, 2016 to:

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The Exchange Tower
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Toronto, Ontario M5X 1J2
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
Email: marketregulation@osc.gov.on.ca

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Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by Commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of Commission staff's review.

Background to Proposed Changes

In July 2012, TSX proposed and published for comment similar changes to allow for the use of Post Only with dark orders. These proposed changes were subsequently withdrawn.

Details and Rationale

The Post Only order feature is currently offered for visible orders only. Nothing is changing with respect to the Post Only feature for visible orders. TSX is proposing to enhance its functionality to allow a dark order to be posted on Toronto Stock Exchange without trading as an active order. The Post Only order feature will be available to dark executions during the regular continuous trading session on Toronto Stock Exchange.

The Post Only order feature on a dark limit order type will kill the order immediately on entry if any part of the order is immediately executable with a visible order during continuous trading. If on entry the dark Post Only limit order is immediately executable with a contra-side dark order, the dark Post Only limit order will book at its limit price.

The Post Only order feature on a dark midpoint order type will book the order at the Protected NBBO midpoint subject to its limit price if immediately executable upon entry. Dark orders that

are re-priced due to quote changes will never take the active side of a trade if they are tagged as post only.

As indicated by the above, two contra-side Post Only dark orders that are eligible to match based on price will not execute. Instead, both will maintain their price until executing against an active order. In addition, no execution will take place between a resting dark limit order and an incoming contra-order marked Post Only with the same price as the resting order. Instead, both orders will sit in the book at the locked price and will not execute against each other unless the first resting dark limit order is CFO'd by the trader and becomes a new order in accordance with existing TSX CFO handling procedures.

In the scenario where the first dark resting order referred to above is instead a non-Post Only midpoint order, it will only execute actively when a Protected NBBO repricing causes it to become more aggressively priced (at which point it would become eligible to trade against any resting contra-side liquidity at that more aggressive price level, and in doing so becomes active regardless of the nature of the contra-side order as is the case with any pegged order today). An example of this particular scenario is outlined below:

Book initially as follows:

	BID order type	Order sequence	BID Size	BID	ASK	ASK Size	Order sequence	ASK order type
PNBBO				10.00	10.05			
TSX	Dark Midpoint	1	500	10.025				

Action: Order #2 received – A sell midpoint order (dark) with the Post Only instruction for quantity of 500.

Result: Order #2 will not trade upon entry against Order #1 as it is marked Post Only, and will instead book at the midpoint of the Protected NBBO.

Book is now as follows:

	BID order type	Order sequence	BID Size	BID	ASK	ASK Size	Order sequence	ASK order type
PNBBO				10.00	10.05			
TSX	Dark Midpoint	1	500	10.025	10.025	500	2	Dark Midpoint with Post Only

Action: Away Protected NBB increases to $10.01. Protected NBBO adjusts to $10.01 - $10.05.

Result: Order #1 and #2 reprice to the new Protected NBBO midpoint of $10.03 resulting in a trade for 500 shares at $10.03. Order #1 is considered the active side of the trade as it became more aggressively priced and had opportunity to interact with any resting contra-side liquidity at the more aggressive price level.

Our understanding is that the above example will result in the same trade outcome on Nasdaq CX (formerly Chi-X) today, based on current functionality. To prevent the above trade from occurring would deny the non-Post Only peg an opportunity to trade volume that it would otherwise be willing to trade, and prevents it from trading volume that is otherwise accessible to any other party subsequently entering a buy order priced at mid-point or better. It could also result in a more costly trade for the non-Post Only buy midpoint if a subsequent upward repricing of the NBBO causes it to interact with higher-priced resting dark sell limit orders.

As for a question as to the appropriateness of a non-Post Only pegged order paying active fees, even once booked, we note that this is not new. The user of a non-Post Only pegged order would expect that it may pay active fees upon entry of the order if it were to execute upon entry against resting contra-side orders.

The user of a non-Post Only pegged order would also expect that it may pay active fees even after the non-Post Only pegged order is booked in the event that a repricing causes it to interact with resting contra-side orders at the new price level. For example, this will arise today on TSX where a midpoint order reprices to a new price level resulting in a match against a resting contra-side dark limit order, irrespective of which of the two orders was booked first. We expect that other Canadian marketplaces currently execute non-Post Only pegged orders in a similar manner.

The above exemplifies the trade-off that arises between Post Only and non-Post Only in terms of likelihood of execution and fees. A user may choose to use the non-Post Only attribute when the objective is to maximize trading opportunities, and will choose to use Post Only orders when sensitive to fees.

Expected Date of Implementation

The proposed changes are expected to become effective in November 2016.

Expected Impact

TSX is extending the Post Only functionality to dark orders in response to customer demand, and to remain competitive with the offerings of other marketplaces.

This feature will encourage potential liquidity providers to post price improved liquidity to the benefit of retail, institutional and/or dealer order flow. A trader seeking fee certainty and who does not have a need for immediacy will be able to use this optional feature to post dark orders to execute with incoming liquidity while mitigating his/her transaction costs.

Expected Impact of Proposed Changes on the Exchange's Compliance with Ontario Securities Law

The proposed changes will not impact TSX's compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments

The application of the Post Only attribute to dark orders represents an extension of the applicability of existing features, and is a feature already available on other markets. On that basis, we do not anticipate that it will necessitate material efforts by TSX Participating Organizations and service vendors to accommodate the extension of this existing Post Only feature to dark orders. We also note that the feature only affects dark orders which are unprotected for regulatory purposes and its use is optional.

In any event, based on current planned implementation timelines, we anticipate that at least 90 days will be provided between regulatory approval of the proposed change and implementation. Although the proposed change is not 'material', this timing is consistent with the expectations set out in OSC Staff Notice 21-706 *Marketplaces' Initial Operations and Material System Changes* applicable to 'material' systems changes and the launch of new marketplaces.

Do the Changes Currently Exist in Other Markets or Jurisdictions

We understand that the post only attribute can be used on mid-point (dark) orders on Aequitas Lit Book.

The post only attribute is also available for use with dark orders on Nasdaq CX and CX2,[1] and was included as part of Nasdaq's dark pool proposal (Nasdaq CXD).[2]

We also understand that, for the illustrative scenario outlined above, the same trade outcome will result on Nasdaq CX today, based on current functionality.

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[1] According to the Nasdaq CX/CX2 subscriber manual at
http://business.nasdaq.com/Docs//Nasdaq%20Subscriber%20Manual_a_tcm5044-27192.pdf
[2] http://www.osc.gov.on.ca/documents/en/Marketplaces/ats_20160505_rfc-change-new-dark-trading-book.pdf