

# **TSX DRK** **CONDITIONAL** **ORDERS**



# OVERVIEW

TSX DRK™, Canada's fastest growing dark pool, is excited to offer Conditional orders for all TSX and TSXV listed securities. TSX DRK Conditional orders will allow members to source price improving, block sized liquidity, while minimizing market impact.

## WHAT ARE CONDITIONAL ORDERS?

Anonymously accessing large amounts of hidden and natural liquidity has become an essential part of trading equities markets. Conditional orders enable traders to search for liquidity in multiple venues by representing their orders 'conditionally', without committing an order to any single market. When the contra side of the order meets specified criteria and is matched against the Conditional order, these orders must 'firm up' in order to execute, which confirms their intention to trade and cancels similar orders in other venues. In an increasingly fragmented market, Conditional orders allow institutions to be represented anonymously in several markets without the risk of overfilling or double execution. The general structure of Conditional orders is similar across the marketplaces, with a variety of differentiated offerings, including minimum size requirements, timing, interaction, priority, liquidity, and behaviour enforcement. It is important to understand these differences, particularly with the complexity in the U.S. markets when utilizing these venues and accessing them as an essential larger-order liquidity source.

### CONDITIONAL ORDERS HAVE NUMEROUS BENEFITS AND PURPOSES

- The majority of conditional books have higher than the average 10,000 share block-sized trades\*; these venues are particularly useful for institutional clients to source larger and natural liquidity.
- As block trades decline in Canada, where, according to TSX data\*, Canadian block volume is approximately only 6% YTD 2021 in reported attributed markets, due to factors including the increase in algorithmic trading, volatility, and declined use of capital in the upstairs markets, institutional clients can now access block liquidity on TSX DRK.
- Another advantage of Conditionals over other dark order types is the ability to be represented in multiple places at the same time, reducing the previous matching issues of 'two ships passing in the night' or 'putting all your eggs in one basket'. Investors can search for deep pools of liquidity without committing an order.
- Conditional orders reduce the institutional concern of information leakage and market impact on large orders, which can also be reduced when trading in dark markets with a minimum quantity requirement. Minimum size and midpoint requirements in Conditional orders make it much more difficult for others to determine if there is a large natural order in the pool and attempt to move the market away from its levels.

## KEY BENEFITS

- **GLOBAL MINIMUM SIZE**  
Requires large orders, greater than 50 boardlots and \$30,000, or \$100,000 assuring only larger executions
- **PRICE IMPROVEMENT**  
Trades at the midpoint only
- **TSX DRK TO CONDITIONALS OPT-IN**  
No locked in period reduces missed dark trading opportunities. Additional liquidity in the Conditional book from the DRK book, increasing the opportunity to match and trade.
- **SHORT FIRM-UP PERIOD**  
Reduces leakage, cancels and missed trading opportunities
- **CONDITIONALS RESIDUAL OPT-IN TO TSX DRK**  
Opportunity to complete order and size without entering another order
- **ENHANCED ENFORCEMENT**  
Improves behaviour, integrity and quality of facility
- **FAIR TRADE ALLOCATION**  
Achieved on a pro-rata basis

\* Unless otherwise noted, all data is sourced from the Market Intelligence Group of TMX Group as of October 21, 2021.

# HOW IT WORKS

## STEP 1:

### ENTER THE CONDITIONAL ORDER

In order to enhance block midpoint liquidity and minimize market impact, TSX DRK will enforce a minimum order size of Global Minimum Size either (a) greater than 50 boardlots and greater than \$30,000, or (b) greater than \$100,000 in value. The ability to enter Conditional orders will start at 7:00 am ET and end at 4:00 pm ET (the “Conditional Order Period”). The Conditional order book will not interact with orders in the visible Central Limit Order Book. Only participants who entered Conditional orders can see the size of the order and the price which they entered; the contra side of a Conditional order will not have any visible information.

## STEP 2:

### CONFIRM VOLUME AND PRICE

When there is a potential contra side match, our trading system will send an invitation to each applicable participant to ‘firm up’ the desired volume and price at which they wish to trade. Participants will have 0.5 seconds to ‘firm up’ their orders. All Conditional orders will execute at NBBO mid-point. Orders in the Conditional Order Book will be allocated first to offset orders from the same participating organization (broker preferencing), and then on a pro rata basis. During the Conditional Order Period, CFOs and CXLs will be allowed.

## STEP 3:

### DECIDE WHERE TO ROUTE UNFILLED ORDER

Participants may opt-in to interact with the dark book (TSX DRK) to fill any remaining unfilled portion of the Conditional order. If there are no matches in the TSX DRK book for the remaining order, the remainder will be cancelled. All unmatched Conditional orders will expire at the end of the Conditional Order Period.

### INTERACTION BETWEEN TSX DRK AND CONDITIONAL ORDERS

Participants may also elect to opt-in to have their TSX DRK orders interact with Conditional orders. While the Conditional order is being firmed up, the TSX DRK order will not be held, locked or removed from the book and can continue to execute against contra dark and visible liquidity. If a participant has opted-in to have its TSX DRK orders interact with a Conditional order, such an order must (a) meet the Global Minimum Size (b) will not receive an invitation to ‘firm up’, and (c) will execute at the midpoint if there is a contra side Conditional order match. In addition, TSX will have the ability to disable a participant’s ability to enter Conditional orders if TSX determines, in its sole discretion, that Conditional orders are being misused by a participant.

# CONDITIONAL ORDER EXAMPLES

## 1. Conditional Order to Conditional Order

Conditional Order book				
NBBO Mid-point 10.01				
ORDER	BROKER	VOLUME	SIDE	PRICE
1	A	40,000	Buy	10.01
2	B	50,000	Buy	10.01
3	C	75,000	Sell	10.01

### STEP 1: INVITATION

- Orders 1 and 2 are eligible for an Invitation to Firm up and Buy
- Order 3 is eligible for an Invitation to Firm up and Sell

### STEP 2: FIRMED UP ORDER CONFIRMATION

- Orders 1 and 2 sends a Firmed up response for full Buy Volume, cancel residual volume
- Order 3 sends a Firmed up response for full sell Volume, cancel residual volume

### STEP 3: PRO-RATA ALLOCATION AND RESULTING TRADES AT MID-POINT PRICE 10.01

Calculation for pro-rata allocation:  $[(\text{Individual orders} / \text{total buy volume}) \times \text{total sell volume}]$

Conditional Order book		
NBBO Mid-point 10.01		
ORDER	BROKER	RESULTING TRADES (PARTIAL FILLS ARE ROUNDED TO THE NEAREST BOARDLOT AS PER TSX RULES)
Total Buy Volume = 90,000		
Total Sell Volume = 75,000		
1	A	Partial fill for 33,300 shares (being $[40,000 \text{ shares} / 90,000] \times 75,000$ )
2	B	Partial fill for 41,700 shares ( $[50,000 \text{ shares} / 90,000] \times 75,000$ )
3	C	Full fill for 75,000 shares

Orders 1 and 2 residual untraded volumes are cancelled back to Brokers if they have not opted-in for the dark book.

## 2. Remaining Order Opting-in to Interact with Dark Order

Conditional Order book				
NBBO Mid-point 10.01				
ORDER	BROKER	VOLUME	SIDE	PRICE
1	A	40,000	Buy	10.01
2	B	50,000	Buy	10.01
3	C	75,000	Sell	10.01

Dark Order book				
NBBO Mid-point 10.01				
ORDER	BROKER	VOLUME	SIDE	PRICE
4	D	10,000	Sell	10.01

## STEP 1: INVITATION

- Orders 1 and 2 are eligible for an Invitation to Firm up and Buy
- Order 3 is eligible for an Invitation to Firm up and Sell

## STEP 2: FIRMED UP ORDER CONFIRMATION

- Order 1 sends a Firmed up response for full Buy Volume, opt-in residual sweep dark
- Order 2 sends a Firmed up response for full Buy Volume, cancel residual volume
- Order 3 sends a Firmed up response for full Sell Volume, cancel residual volume

## STEP 3: PRO-RATA ALLOCATION AND RESULTING TRADES AT MID-POINT PRICE 10.01

Calculation for pro-rata allocation  $[(\text{Individual orders} / \text{total buy volume}) \times \text{total sell volume}]$

Total Buy Volume = 90,000		
Total Sell Volume = 75,000		
ORDER	BROKER	RESULTING TRADES (PARTIAL FILLS ARE ROUNDED TO THE NEAREST BOARDLOT AS PER TSX'S RULES)
1	A	Partial fill for 33,300 shares in Conditional book $[(40,000 \text{ shares} / 90,000) \times 75,000]$ Remainder fill for 6,700 shares in dark book
2	B	Partial fill for 41,700 shares $[(50,000 \text{ shares} / 90,000) \times 75,000]$
3	C	Full fill for 75,000 shares
4	D	Partial fill for 6,700 shares

Order 1 opted-in to trade with the dark book. Remaining Order sweeps dark book.

Order 2 residual untraded volumes are cancelled back to Broker as they have not opted-in for the dark book.

### 3. Dark Order Opting-in to Interact with Conditional Order

Dark Order book					
NBBO Mid-point 10.01					
ORDER	BROKER	VOLUME	SIDE	PRICE	OPT-IN
1 (booked)	A	10,000	Buy	10.01	True
4 (booked)	D	5,000	Buy	10.01	False

Order 1 is a Passive TSX DRK Midpoint order that has opted-in to interact with the conditional book.

Conditional Order book				
NBBO Mid-point 10.01				
ORDER	BROKER	VOLUME	SIDE	PRICE
2	B	15,000	Sell	10.01

## STEP 1: INVITATION

- Order 1 meets the global minimum size and issues an invitation to order 2

## STEP 2: NEW TSX DRK ORDER ARRIVES (INVITATION OUTSTANDING)

NBBO Mid-point 10.01					
ORDER	BROKER	VOLUME	SIDE	PRICE	OPT-IN
3 (Active)	C	1,000	Sell	10.01	NA

New TSX DRK active order arrives during the period where the invitation has not expired, and is still outstanding. Firm TSX DRK orders will execute against TSX DRK orders that have issued an invitation to the conditional book. Order 1 has time priority over order 4 and receives a partial fill for 1000, and order 3 receives a full fill.

Total Buy Volume = 90,000		
Total Sell Volume = 75,000		
ORDER	BROKER	RESULTING TRADES (PARTIAL FILLS ARE ROUNDED TO THE NEAREST BOARDLOT AS PER TSX'S RULES)
1	A	Partial fill for 1,000
3	C	Full Fill for 1,000

### STEP 3: CONDITIONAL ORDER FIRMS

Order 2 firms for full sell volume, and Opts to sweep TSX DRK. Order 1 still meets global minimum size and is fully executed against the firm Conditional order 2. Order 2 receives 9,000 share partial fill.

Total Dark MP Buy Volume = 9,000		
Total Conditional Sell Volume = 15,000		
ORDER	BROKER	RESULTING TRADES (PARTIAL FILLS ARE ROUNDED TO THE NEAREST BOARDLOT AS PER TSX'S RULES)
1	A	Full fill for 9,000 shares
2	B	Partial fill for 9,000 Remaining 6,000 sweeps TSX DRK and is executed against order 4
4	D	Executes against order 2 for a full fill of 5,000



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