



## Best Execution Policy and Order Handling Disclosure to Clients Canada – December 2019

Velocity Trade Capital Ltd. (“Velocity” or “the Firm”) is committed to providing its clients with best execution as well as transparency surrounding its order handling and routing practices. The purpose of this document is provide an overview on the Velocity Best Execution Policy, which are established written policies and procedures maintained by the firm that are reasonably designed to achieve best execution when acting for a client. Pursuant to Investment Industry Regulatory Organization of Canada (IIROC) Dealer Member Rule 3300 (DMR 3300), Velocity will review its best execution policies and procedures at least annually, and specifically whenever there is a material change to the trading environment or market structure that may impact the ability of Velocity to achieve best execution for its clients.

This document also sets out the approach Velocity takes to achieve best execution for customers in accordance with IIROC Universal Market Integrity Rules (UMIR) and applicable securities laws in Canada. National Instrument 23-101 Trading Rules (NI 23-101), Part 4(2) specifically requires that a dealer and an adviser must make reasonable efforts to achieve best execution when acting for a client. IIROC DMR 3300 defines Best Execution as obtaining the most advantageous execution terms reasonably available under the circumstances.

Velocity operates an electronic order execution desk as well as a high-touch order handling desk. The majority of orders are routed to the electronic order execution desk through a “FIX” connection, in which case trades are routed through the IRESS trading engine using the Smart Order Router (SOR) in order to achieve best execution. Customers who trade electronically may select several algorithm service providers from Velocity’s third party vendors. A limited number of institutional client orders are called or messaged into the high touch order handling desk. These manual orders, which are generally subject to specific client order instructions, are entered into IRESS using the SOR for best execution purposes. Please see below for additional considerations for manually handled orders.

### **Best Execution Factors**

Velocity considers the following factors for the purpose of achieving best execution for all client orders:

- Best available price
- Speed of execution
- Certainty of execution
- The overall cost of the transaction, when costs are passed on to clients
- Likelihood of available liquidity based on order size

Velocity also takes into account the following sub-factors, which are more specific considerations of the broad factors listed above:

- Reliability of quotes
- Market impact

- Opportunity cost
- Considerations taken into account when determining appropriate routing strategies for clients
- How order and trade information from all appropriate marketplaces, including unprotected marketplaces and foreign organized regulated markets, is taken into account
- Marketplace features, which includes, at a minimum, consideration of the following:
  - I. Opening and closing times
  - II. Opening mechanisms, including considerations of the fair pricing of Opening Orders when determining where to enter an Opening Order
  - III. Considerations when not all marketplaces are open and available for trading
  - IV. Order types accepted
  - V. Whether the marketplace is protected or unprotected
  - VI. Treatment of marketplace trading fees and/or rebates
- Factors related to sending orders to a foreign intermediary for execution

Velocity considers the following “prevailing market conditions” when manually handling a client order for a listed security or a foreign exchange-traded security that trades on a marketplace in Canada:

- The direction of the market for the security;
- The depth of the posted market;
- The last sale price and the prices and volumes of previous trades;
- The size of the spread; and
- The liquidity of the security

Velocity receives order, pricing and trade information for protected and unprotected markets via market data, OMS and algorithm vendors and best execution providers. Velocity monitors SOR performance on an ongoing basis, noting any potential trade-through violations, where the execution price of a trade occurs outside the best bid or offer available (protected or unprotected) at the time of execution.

## **Order Handling and Routing Practices**

### **Marketplace**

Velocity is registered as an investment dealer in the provinces of Ontario, Quebec, British Columbia, Alberta and Manitoba. The firm is a member of IIROC, the Canadian Investor Protection Fund (CIPF) and a participating organization of the Toronto Stock Exchange and TSX Venture Exchange. In addition to these Exchanges, Velocity may access ATs (protected and unprotected), dark markets and OTC for the purpose of best execution. Generally all listed equity market securities transaction can be publicly monitored on the consolidated market display under Participating Organization number 55.

Velocity is subject to NI 23-101 Trading Rules and the Order Protection Rule (OPR) as a registered investment dealer that trades in Canada. Under the OPR, Velocity is required to fill all better-priced orders on protected marketplaces before other orders at inferior prices, regardless of the marketplace on which the order is entered. Velocity ensures transactions comply with the OPR via the IRESS SOR, which utilizes robust and intelligence order handling logic to target multiple quotes across marketplaces, adjusting trading based on market conditions. The SOR sprays orders to multiple destinations to

minimize gaming, and exhausts all displayed volumes at the best available price, on both protected and unprotected venues, before moving to the next price level. Orders that are rejected by a marketplace, but are immediately tradeable, are routed by the SOR to the venue with the next best available price. Velocity does not utilize directed action orders in normal course of business. However, should a directed action order be specifically required for best execution or to accommodate exceptional circumstances, approval to override the SOR will be received from the Head Trader at Velocity.

### **Conflicts of Interest and Disclosure**

Canadian provincial and territorial securities laws require securities registered firms such as Velocity when they trade in or advise with respect to their own securities or securities of certain issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. Velocity has established procedures that are designed to identify and manage such conflicts of interest. Velocity does not have any ownership interest in any marketplace, and it does not conduct client facilitation trading, so obtaining the best execution for client orders is in the best interest of Velocity and its employees. Velocity is not aware of any material conflicts and connected or related issuers.

Velocity is directly connected to the following marketplaces (see below) in Canada. Velocity does not have any ownership interest in any exchange or marketplace. Velocity may receive payment from various Canadian marketplaces for giving or taking liquidity, but fees are not a significant factor in determining where Velocity directs an order. Likewise, when sending an order to US marketplaces, Velocity does not currently receive any payment from the executing broker for directing the order to them.

Velocity is a member and subscriber of the following marketplaces (protected and unprotected):

<b>Marketplace</b>	<b>OPR Status</b>
TSX	Protected
TSX Venture	Protected
CSE	Protected
NASDAQ CXC	Protected
NASDAQ CX2	Protected
OMEGA ATS	Protected
Aequitas Lit Book	Protected
TSX Alpha	Unprotected. Does not provide automated trading
Aequitas NEO Book	Unprotected
Lynx ATS	Unprotected.
ICX	Unprotected. Does not display orders
Liquidnet	Unprotected. Does not display orders
MatchNow	Unprotected. Does not display orders
NASDAQ CXD	Unprotected. Does not display orders

### **Evaluation of Marketplaces**

While Velocity is required under OPR to connect to all “protected” marketplaces. The firm also connects and considers quotes from all Canadian marketplaces, except Liquidnet, when routing client orders. The ability to access additional marketplaces enables Velocity to provide its clients with supplementary

sources of liquidity and further ensures the firm achieves its best execution obligations. In the event of a situation where the same quote is available on more than one marketplace, the IRESS SOR targets the quote on the venue that is higher on Velocity's Standard Routing Table. Marketplaces are placed in preferential order on the Standard Routing Table based on an evaluation of the available Canadian marketplaces, which takes into consideration the following factors:

- The likelihood of available liquidity based on historical volume, value and transaction volume;
- Hit rate;
- Each marketplace's status under the Order Protection Rule (whether protected or not protected);
- Speed of execution, including whether a marketplace employs a speed bump;
- Certainty of execution;
- Reliability of Quotes; and

Overall cost of the transaction. Velocity reviews, at least quarterly, all marketplaces and firm activity to ensure optimal trading outcomes for its clients. Velocity also assesses the impact of any announced marketplace changes to determine whether adjustments are required to the Standard Routing Table. The firm also reviews both protected and unprotected markets to optimize liquidity and overall execution prices for its clients. Utilizing historical trading data and marketplace behaviour, Velocity may route to unprotected marketplaces if displayed volumes are insufficient to complete the order, and if the unprotected venue has demonstrated sufficient liquidity for comparable orders.

The comprehensive best execution factors listed above are used to select and rank venues in addition to the following factors: experience, analysis and market data. Specific factors will be considered when handling orders with unique circumstances, such as market opening and closing, client instructions, and venues that may have specific attributes (e.g. after hours trading or dark pools). Velocity may pay marketplace fees or receive marketplace rebates when routing orders to certain marketplaces. However, these are not a primary factor in determining market routing.

Velocity may elect to move an order entered on one marketplace to another marketplace, if the determination is made that best execution can be more readily achieved. A decision to move one or many orders from the original marketplaces will be weighed against order priority factors and the potential for partial fills.

Velocity will not send listed securities in bulk to a foreign intermediary for execution outside of Canada without considering other liquidity sources, including liquidity sources in Canada.

### **Intermediaries**

Most of Velocity's institutional client orders are executed through Virtu Financial algorithms (formerly ITG Securities). These orders are subject to Virtu's SOR which can direct orders to all protected and all unprotected Canadian marketplaces available to Canadian investment dealers. Velocity has many years of experience with Virtu's trading system and has confidence that Virtu provides a very robust Best Execution system. Velocity has obtained and will obtain annually a certificate of Best Execution from Virtu Financial.

Velocity may use the affiliates for foreign market trades as well as the following third parties for execution services:

1. Fidelity Clearing Canada ULC, the carrying broker for Velocity (Domestic, US and foreign trading)
2. Virtu Financial (Domestic, US and global trading)
3. Société Générale (London),
4. Instinet (New York)
5. Clearpool (US trading only)
6. Citadel (US trading only).

Velocity may also route orders to an intermediary when one or more of Velocity's best execution processes are impaired. Velocity will review the order handling and routing practices of the intermediary to ensure that they are reasonably designed to achieve best execution. Copies of these brokers best execution policy can be found at the following website:

**Instinet LLC:** <https://www.instinet.com/statement-order-routing-and-execution-practices>

**Clearpool Group:** <https://clearpoolgroup.com/solutions/venue-analysis/>

**Citadel Securities LLC:** <https://www.citadelsecurities.com/disclosures/mifid-ii-rt27-bestex-report/>

**Société Générale:** <https://www.societegenerale.co.uk/en/legal-information/>

**Virtu Financial:** <https://www.virtu.com/uploads/documents/virtu-itg-canada-corp--best-execution-and-order-handling-disclosure-03062019.pdf>.

### **Client Instructions & Order Protection Rule**

Velocity will consider specific trading and order handling instructions received from a client, subject to compliance with any regulatory requirement. However, the order may be returned to the client for clarification or may be rejected if these instructions compromise Velocity's regulatory obligations.

Despite any instruction or consent of the client, achieving best execution for a client order for any listed security is subject to compliance with the OPR by:

- The marketplace on which the order is entered; or
- Velocity if we have marked the order as a "direct-action order", in accordance with the IIROC UMIR Section 6.2.

### **Order Handling Protocols**

The trading day consists of three sessions:

1. Pre-open: the session ending with the opening of the primary Canadian listing marketplace at 9:30 AM EST
2. Continuous Session: The main session of the primary Canadian listing marketplace, 9:30 AM to 4:00 PM, plus Extended Trading Session from 4:15 PM to 5:00 PM. Trades conducted at last sale price of primary Canadian listing marketplace.
3. Post Close: The session starting with the closing of the primary Canadian listing marketplace.

Velocity supports trading in both the pre-open and the post-close. Trading in these sessions is handled in accordance with this best execution policy and specific client order handling instructions are required for participation.

By default, orders received in the pre-open are queued for execution at 9:30 AM and will be routed to the primary Canadian listing marketplace or will target the opening price on that marketplace. By default, orders received in the post-close are queued for the opening of the primary Canadian listing marketplace on the following business day. An order received during the continuous session is handled in accordance with this policy and routed appropriately for best execution at the time of entry.

Client instructions and orders should not be sent to Velocity via e-mail given these messages may not be received by the firm due to many factors. Thus, these e-mails are not considered to be received or accepted unless and/or until an agent of Velocity confirms the order. Velocity cannot execute client order instructions if they would cause Velocity to contravene any regulatory requirements. If the high-touch order handling desk receives instructions that may cause Velocity to violate a trading rule or requirement if immediately executed, Velocity reserves the right to reject the order and seek clarification from the client.

Trading by Velocity will follow the holiday calendar of the primary Canadian listing marketplace for Canadian orders and the holiday calendar of the primary US listing marketplace for US orders. Each Canadian marketplace supports a variety of order types.

Trade execution details are available via trade confirmation, electronically via FIX and/or upon request. This includes marketplace execution details, execution capacity and average price details. Velocity pricing of Over-the-Counter (OTC) securities will be fair at all times and will reflect the size, the total cost and difficulty of the particular transaction. OTC transactions in Canadian securities will be posted to the Canadian Unlisted Board (CUB), when required. Markups and markdowns and total pricing will reflect the scarcity of the issue, the work that is required to trade, clear and settle the overall transaction as well as market forces.

### **Risk Controls**

Velocity has in place robust policies, procedures and controls to effectively manage its financial, operational, market, regulatory and legal risks. This includes a series of risk checks that are applied to all orders handled and/or executed by the firm or through its systems.

- **Single Order Value Check:** Intended to operate as a control to limit the entry of an order that may be in error because the order is larger in dollar value or in number of shares than the threshold set for the client and/or is a size that has the potential to disrupt trading in a security. The check is designed to reject any single order that exceeds the defined threshold. All clients adhere to the same constraints.
- **Limit Price Check:** Intended to prevent the submission of an order with a limit price that exceeds an allowed combination of a dollar amount and percentage band away from the aggressive quote of the national best bid and/or offer (NBBO). This includes stocks in the IIROC Single Stock Circuit Breaker (SSC) list.

- Daily Aggregated Value Check: Intended to prevent Velocity's clients from trading above their assigned credit limits by establishing a daily dollar-amount limit, per customer, of the total notional value of all executed and outstanding orders submitted by the customer. Additional pre-trade risk limits are applied to a client's order flow, which is established at Velocity's discretion.

### **Restrictions on Securities Traded**

An order may be rejected if the order is for a security that falls under the following categories:

Securities under a Cease Trade Order (CTO): Is an order issued by a Canadian provincial or territorial securities regulatory authority or similar regulatory body against a company or an individual. A CTO can be issued for failing to meet disclosure requirements; failure to submit financial filings; or an enforcement action that involves an investigation. Equity marketplaces in Canada have retained IIROC as their regulation services provider. Under IIROC Rules, if a securities regulator issues a CTO with respect to an issuer whose securities are traded on a marketplace, IIROC imposes a regulatory halt on trading of those securities on all marketplaces for which IIROC acts as the regulatory services provider. Such action is taken regardless of whether the regulator that issued the CTO is the principal regulator of the issuer. Once the halt is imposed by IIROC, no person subject to these rules may trade those securities on any marketplace in Canada, Over-the-Counter, or on a foreign organized regulated market.

### **Certain Over-the-Counter Securities**

Velocity will not accept orders in certain OTC that lack critical information such as sufficient financial filings, or that pose other risks to the Firm or the Firm's customers or counterparties.

All orders for securities traded on OTC Pink (The Open Market) with the following designations (as applied by OTC Markets Inc.) will be rejected:

- Limited Information: Designed for companies with financial reporting problems, economic distress, or in bankruptcy to make the limited information they have publicly available. This category can also include companies that may not be troubled, but are unwilling to provide disclosure pursuant to the prescribed guidelines of OTC Markets Inc.
- No Information: Indicates companies that are not able or willing to provide disclosure to the public markets either to a regulator, an exchange or OTC Markets Inc. This category also includes defunct companies that have ceased operations as well as 'dark' companies with questionable management and market disclosure practices.
- *Caveat Emptor*: This category applies to securities where there is a public interest concern associated with the company, security, or control person which may include but is not limited to a spam campaign, questionable stock promotion, investigation of fraudulent or other criminal activity, regulatory suspensions, or disruptive corporate actions. This category is also referred to as "Buyer Beware."
- Grey Market: Applied to securities that are not currently traded on the OTCQX, OTCQB or Pink markets. Broker-dealers are not willing or able to publicly quote OTC securities because of a lack of investor interest, company information availability or regulatory compliance.

## Internal Testing

The Firm will conduct a periodic sample of client orders to determine if they received best execution. This will include the following:

- A sampling of unfilled Day and GTC orders;
- Execution rates of dark pools;
- Opening orders should be sampled to determine whether a fair price was achieved;
- Effectiveness of SOR settings;
- Marketplace liquidity analysis should also be conducted.

The Firm has access to IRESS and Liquid Metrics which allows both the Firm, and on request, its clients to review the execution performance for each order.

The results of this testing will be brought up at the Best Execution Committee meeting and will be filed together with the Committee's minutes for seven years.

## Best Execution Policies & Procedures Review

The Firm's best execution policies and procedures will be reviewed by the Best Execution Committee (BEC) at least annually or whenever there is a significant change in the Firm's trading environment, such as a new marketplace, the closing of an existing marketplace, or a significant change in a marketplace's functionality. Best execution and Routing Table maintenance is governed and reviewed by Velocity's Best Execution Committee (BEC). The BEC meets quarterly at a minimum, or periodically as needed, and is responsible for the oversight and supervision of all items relating to trading at Velocity. The Firm will also review Canadian marketplaces volume, value and transaction tables, hit reports, any new regulations or rules, results of best execution testing, and comments from clients and Firm traders on their ability to execute on a specific marketplace. The Firm will also conduct a review whenever there is a significant change in the Firm's trading technology.

The Best Execution Committee is made up of the Chief Executive Officer/Ultimate Designated Person, Head Trader, Chief Compliance Officer and Operations Manager. The Committee will be responsible for making decisions around the Firm's Best Execution policy, including any changes to the Firm's SOR settings, testing procedures, and, if in the Committee's opinion changes to the SOR ranking or access to an additional marketplace would improve the Firm's Best Execution. The Committee's review will be documented, and any changes to the policy or the Firm's SOR settings will be documented in the meeting's minutes. A copy of the Best Execution Committee minutes will be sent to the Chief Executive Officer within two weeks of the meeting. Best Execution Committee minutes will be filed by the Chief Compliance Officer and kept for seven years.

## Order Handling Disclosure

Order Type	Order Handling Description
Market Orders	A market order is immediately sent to the SOR for execution on the trading facility or marketplace offering best execution. The SOR generally uses sweep or spray technology to route orders. Should your order be executed on multiple marketplaces, Velocity will indicate on your trade confirmation as "Traded on Multiple Marketplaces". Similarly "Maybe an Average Price" will be listed on your

	confirmation, if part or all of your client order were executed at different prices. The specific details of the execution of your trade are available upon request.
Day Orders	If your order was booked on the TSX and unless you have instructed otherwise: <ul style="list-style-type: none"> <li>(i) An unfilled day order on the TSX that has not priced at the last trade price on the TSX will expire at the close of trading at 4:00 pm EST, and</li> <li>(ii) If an order is priced at the last trade price on the TSX, the order will remain eligible for trading on the TSX until the extended trading session is over at 5:00 pm EST. If your order was initially booked on a trading facility or marketplace other than TSX, it will expire at the close of trading for that facility or marketplace.</li> </ul>
Good until Cancelled (GTC) Orders	Client orders specified as GTC will be entered and will remain on a trading facility or marketplace until they are executed or expire. Velocity's carrying broker, Fidelity Clearing Canada ULC, will only allow the entry of orders with a 30 calendar-day maximum. It is your responsibility as the client to ensure what the date of expiry will be on an outstanding order and to contact your representative on or before the order's expiry date should you wish to have the order re-instated.
Market-on-Close (MOC) Orders	All orders must be entered on the TSX's MOC facility prior to 3:40 pm EST and will be executed at the calculated closing price for that security on the TSX. The TSX MOC is an anonymous price facility, so you will not know the price and volume of your execution until after execution has completed. Please note that trading on the MOC facility will be executed at the same time as other trading facilities or marketplaces will be offering quotes on their order book and Velocity cannot guarantee that the order will be executed at the best price for an MOC trade.
Limit-on-Close (LOC) Orders	MOC imbalance is published at 3:40 pm EST after which LOC orders opposite to the imbalance side are accepted (subject to a price collar) into the non-displayed TSX MOC facility. LOC orders execute if the security's closing price is at or above the limit price for sell orders, or at or below the limit price for buy orders. If the specified conditions are not met at market close, the LOC order is cancelled. Similar to MOC orders, other trading facilities or marketplaces will be offering quotes on their order book up to closing and Velocity cannot guarantee that the order will be executed at the best price for an LOC trade.
All-or-None (AON) Orders	Orders will not book to a marketplace unless they can be immediately filled in their entirety at the time of receipt. AON orders can be booked on any trading facility or marketplace offering sufficient liquidity.
"Fill or Kill" Orders	Velocity will execute these orders on the trading facility or marketplace which will provide the best price. All trading facilities and marketplaces will be reviewed for "fill" opportunities before the order will be "killed."
Limit Orders	Where a client limit order is received between the hours of 9:30 AM and 4:00 PM EST but is not immediately executable (i.e. the minimum sale price is below the best bid or the maximum purchase price is above the best offer), the order will be entered in accordance with Velocity's policies in effect at the time. Where a limit order is received outside of the hours of 9:30 AM and 4:00 PM EST or on a day when TSX is not open for trading, the order will not be released until the TSX opens its regular trading (regardless of which trading facility or marketplace's order book will be utilized). Please be aware that once a limit order is booked on a marketplace it is possible for the security to trade in other markets without that order participating in a multiple market environment.

Stop-Loss Orders	Stop-Loss orders will be entered in the order book of a transparent trading facility or marketplace and will become an active market order once the trigger price is achieved on the trading facility or marketplace. Once triggered, Velocity will undertake, on a best efforts basis, to ensure that the best possible fill price is obtained taking all available trading facilities and marketplaces into consideration at the time.
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## Training

Velocity has trained its employees involved in the execution of client orders to have the proper knowledge and understand the application of the firm’s written best execution policies and procedures. All Velocity sales and trading staff will receive best execution training at least annually.

Velocity will also assist clients with order entry and provide guidance on rules and regulations. If you are customer and are unsure about a trade, how to enter an order, or if there are any potential regulatory risks with respect to a trade, the trade should not be entered, please feel free to contact a member of our trading desks:

High-Touch Order Handling Desk

Mark KerrTaylor

416-323-2144

[Mark.Kerrtaylor@velocitytradecapital.com](mailto:Mark.Kerrtaylor@velocitytradecapital.com)

Electronic Order Execution Desk

Pete Gombocz

413-323-2831

[Pete.Gombocz@velocitytradecapital.com](mailto:Pete.Gombocz@velocitytradecapital.com)

## Trade Matching Statement

Velocity confirms that the firm have established, maintain and enforce policies and procedures to achieve matching in accordance with National Instrument 24-101 – *Institutional Trade Matching and Settlement* and Companion Policy 24-101 CP.

## Business Continuity Plan

Velocity does maintain a business continuity plan, which is tested at least on an annual basis. The firm policy is to respond to a Significant Business Disruption (SBD) by safeguarding employees’ lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the firm’s books and records, and allowing our customers to transact business. In accordance with IIROC Rule 17.16 in the event of a SBD Velocity Trade Capital is required to provide all clients’ access to their assets within 48 hours following the event. Access to assets means the ability of our clients to buy, sell or redeem securities and have assets, including cash, delivered out based on the client’s instructions. In the event that we determine we are unable to continue our business, we will assure customers prompt access to their funds and securities.

Velocity has an uninterruptible power supply system to deal with temporary power outages which includes battery backup and surge protection. We also have redundant internet connections should our main connection go down. Both lines have firewalls, one line proving connectivity to the servers, the other serves as a backup, activated automatically if the primary line experiences a disruption.

## Disclosures Regarding Best Execution

Disclosures relating to best execution are prepared and reviewed on a periodic basis. Prior iterations of this policy will be made available for a period of 6 months following any changes thereto. Updates are posted at: <https://velocitytrade.com/canada-equities/privacy-policy-website-disclosure/>

## Contacts

Any questions regarding this document, application of a trading rule or customer complaint can be referred to our Chief Operating Officer, Todd Sikorski, via phone at 416-323-2155.

Signature:

A handwritten signature in black ink, appearing to read "Simon Grayson". The signature is written in a cursive, flowing style.

Signed by: Simon Grayson  
Chief Executive Officer  
Ultimate Designated Person

Date: December 28, 2019

CC: Simon Law, Director, Velocity Trade Holdings  
Greg Morgan, Director, Velocity Trade Holdings