

CANADIAN SECURITIES EXCHANGE

SIGNIFICANT CHANGE SUBJECT TO PUBLIC COMMENT

Public Interest Rule Amendment and Significant Change

Notice and Request for Comments

CNSX Markets Inc., operator of the Canadian Securities Exchange (“CSE” or “Exchange”) is filing this Notice in accordance with the Process for the Review and Approval of Rules and Information Contained in Form 21-101F1 and the Exhibits Thereto attached as Appendices to the Exchange’s recognition orders (the “Protocol”). CSE intends to implement changes to its Trading Rule in response to client feedback (“Significant Change”). The proposed Significant Change is described below.

A. Description of the Significant Change

Under section 3 of CSE Trading Rule 4-113 - *Commitments and Performance* (“Rule”) and in accordance with the CSE Order Types and Functionality Guide, CSE Market Makers are, among other requirements, obligated to auto execute odd lots at the National Best Bid and Offer price (“NBBO”) or at the Single Odd Lot Price (“SOP”) if there is no NBBO.

CSE proposes to amend the treatment of odd lots so that where there is no NBBO, or if there is only a best bid or best offer displayed, odd lots will not be auto-executed against the assigned Market Maker for the symbol. Odd lots entered in the absence of an NBBO will still book and potentially trade against each other at the SOP where there is a match. If the board lot portion of a mixed lot order takes out one side of the market for stocks with an assigned Market Maker, the odd lot is still guaranteed a fill by the Market Maker at the same price that the first board lot portion was filled at. If there is a best bid and a best offer, odd lots will auto-execute.

A blackline of the Rule showing the proposed Significant Change is attached as Appendix A to this Notice.

B. Expected Implementation Date

The proposed Significant Change is expected to be implemented following receipt of regulatory approval in Q2 of 2023.

C. Rationale and Analysis

CSE has experienced unprecedented growth and client demand resulting from the growth of online retail investor activity levels in the Canadian markets. Facilitating liquidity and market maker activity to facilitate their activity is critical to facilitate fair and efficient markets. On symbols that are illiquid or that are on the path to being delisted, the SOP may not be reflective of current market conditions. In those cases, auto-execution at the SOP exposes CSE Market Makers to risk because in these circumstances there is no reasonable ability to offset their position. Protecting market makers that provide this liquidity in the market will support their participation in the market. The Significant Change proposed achieves this objective.

D. Expected Impact

Market Structure: The Significant Change does not impact the overall market structure, just the operations of CSE. As described above, odd lots that are entered into the book in these circumstances will not be auto-executed, but instead will be booked at the SOP if priced at, or better, than the SOP.

Members and Dealers: The Significant Change protects assigned Market Makers and ensures that their obligations under the CSE Market Making Program do not introduce unnecessary risk to their operations. In developing the Significant Change, CSE has consulted with a number of dealers, market makers, and industry stakeholders and considered the feedback received during informal dialogue.

Investors, Issuers and the Capital Markets: The Significant Change facilitates transparency of the operations of CSE. The Significant Change, while removing the auto-execution of a small number of odd lot executions, will facilitate greater liquidity by protecting market makers and ensuring that executions that occur are reflective of prices at current market conditions. This facilitates price discovery, transparency and liquidity in the CSE market.

E. Compliance with Ontario and British Columbia Securities Law

There is no expected impact on the CSE's compliance with Ontario or British Columbia securities laws. The Significant Change will not affect fair access or the maintenance of fair and orderly markets. The Significant Change is consistent with the fair access requirements set out in section 5.1 of NI21-101. They facilitate liquidity on CSE and they apply to all market makers.

F. Technology Changes

The Significant Change does not change the existing practices of any marketplace participants.

G. Other Markets or Jurisdictions

Other marketplaces in Canada already limit auto executions of odd lots against Market Makers in the absence of an NBBO. Some marketplaces stop auto executions when there is only a one-sided market. CSE proposes to limit auto executions when there is no NBBO, or a one-sided market, but will still permit odd lots to trade at the SOP.

Comments

Please submit comments on the proposed Significant Change no later than March 20, 2023 to:

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APPENDIX A
Text of Amendments to the CSE Trading Rules

CSE TRADING RULES

RULE 4

TRADING OF SECURITIES

[...]

MARKET MAKERS

[...]

4-113 Commitments and Performance

[...]

(3) Odd Lots. **An order that is a A** better priced limit order or market order that is for a volume less than a Board Lot, or the portion of a tradable order that is less than a Board Lot, shall be filled automatically by the Market Maker **as prescribed by the Exchange.**

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