

Canadian Securities Exchange
Significant Change Subject to Public Comment
Amendments to Trading System Functionality & Features
Notice and Request for Comment

CNSX Markets Inc., (“CSE”) 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”). The CSE intends to implement enhancements to its trading system in response to customer feedback. The proposed changes are described below.

A. Description of the Proposed Changes

The CSE is proposing the addition of new features that enhance dark trading opportunities on the CSE. The features being proposed are already present in Canadian market structure and will be familiar to many participants who have used them on other market venues.

The enhancements are 1) non-display order execution at the protected Best Bid or Offer (also referred to as At-the-touch), 2) an enhancement to the Seek Dark Liquidity Only order type to take advantage of execution at-the-touch, and 3) a non-display order type where participants can rest their hidden liquidity on the CSE without using a dark peg.

Following is a detailed description of the proposed features.

1) At-the-touch (ATT) non-display execution

- Execution will be governed by UMIR rule 6.6 – Provision of Price Improvement by a Dark Order, which requires that the active order be greater than 50 board lots and \$30,000 in value, or \$100,000 in value. If either of these criteria are met, the CSE will match the incoming order against any resting non-display order types at-the-touch.
- Visible orders at the protected NBBO will be traded ahead of any dark orders at-the-touch.
- At-the-touch will apply only to non-display orders.
- In Notice 2018-006 the CSE filed for a CSE At the Touch Pegged Order type. It should be noted that this order is based on the same execution principles and it was [approved](#) by the OSC, but never implemented.

2) Enhance the Seek Dark Liquidity Only Order type

Seek Dark Liquidity orders are active IOC orders that will trade against dark resting orders only.

- Seek Dark orders will trade at prices up to and including Protected NBBO (or at the order's limit price if less aggressive).
- Seek Dark orders may trade against existing odd lots or odd lot portions of mixed lot tradable contra dark orders at or between the NBBO including automated odd lot fills by the CSE market maker where one is assigned.
- Any volume that is not immediately traded will be cancelled.
- Orders can be marked as "Trade with price improvement only" or "Trade with price improvement or dark at-the-touch".

3) Non-display Order type

Additional support for non-display orders:

- Non-display orders only trade during the continuous trading session.
- Non-display orders are accepted in the pre-open.
- They are not eligible for execution during the opening auction, or during the last sale session.
- During a trading session, a symbol may become ineligible to trade non-display orders due to locked, crossed, or threshold market conditions.
- Non-display orders generally offer price improvement but may trade at the National Best Bid or Offer if the active contra order meets ATT requirements.
- Non-display orders can be entered with a MKT price, a full tick limit or a fractional tick limit price.
- The CSE will assign a trading price based on the original limit or the existing bid/ask tick limits.
- Time-in-force can be Good-till-Date (GTD), Good-till-Cancel (GTC), immediate-or-cancel (IOC), fill-or-kill (FOK), and DAY.
- Non-display orders will support min quantity.
- Non-display orders will support 'post-only' instructions.
- Aggressive non-display orders will be prevented from causing a trade-through, trading with visible orders where allowed and booking the remaining volume as non-displayed.
- Non-display orders will be submitted using the disclosed volume FIX tag (MaxFloor <111> = 0).

Trading functionality of non-display orders

- If an order is entered as non-display with a price instruction of MKT or an aggressive limit price, and the order is not marked as post-only, this order will be treated like a regular order insofar as it is immediately executable against lit or dark resting orders. Any untraded volume will be booked as a non-display order at the allowable executable price.
- If a non-display order is post-only, and the order is priced as MKT or has an aggressive limit price, the full volume will be booked as a non-display order at the allowable executable price.
- If a non-display order is entered with a price that is not immediately executable, the full volume will be booked as a non-display order with price/time priority.
- In all cases, the CSE will prevent unintentional trade-throughs by non-display orders only executing these orders at or inside the National Best Bid/Offer.

Execution considerations for non-display orders at the National Best Bid or Ask (NBBO)

- Resting non-display orders interact with incoming (active) orders, lit or dark, through an allocation sequence that ensures the priority of resting displayed orders over non-display orders. To be explicit, displayed orders resting at the NBBO will be filled ahead of non-display orders resting at the same price.
- There is full post-trade transparency of non-display order execution prices which will update the last sale price.
- Non-display orders will trade at the NBBO if the contra active order is >50 board lots in volume **and** \$30 000 in value, **or** \$100 000 in value. They will not trade at the NBBO if the contra order is marked Seek Dark with price-improved-only.

Examples of non-display order behaviour:

1. A non-display buy order is entered with a MKT price.

Best Bid/Offer:	9.00/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display	200	MKT	9.01	100
	100	9.00		
	100	8.99		

A trade occurs at 9.01 for 100 shares and the remaining 100 volume is booked as a non-display order at the maximum allowable price limit.

Best Bid/Offer:	9.00/			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display	100	9.51		
	100	9.00		
C	100	8.99		

Should there be an offer entered on another protected trading venue at a price less than 9.51 which ‘sets’ the National Best Offer, any incoming sell order to the CSE would execute against the resting non-display order 1 tick inside the National Best Offer.

Said more generally, regardless of the booked price execution is subject to visible liquidity on other markets.

2. A non-display buy order for 300 shares is entered with an aggressive limit price of 9.02.

Best Bid/Offer:	8.99/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display (active)	300	9.02	9.01	100
	100	8.99	9.02	100
	100	8.98	9.03	100

A trade would occur for 100 shares at 9.01, 100 shares at 9.02, with the remaining 100 shares being booked as a non-display order at 9.02.

Best Bid/Offer:	8.99/9.03			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display (passive)	100	9.02	9.03	100
	100	8.99	9.04	100
	100	8.98	9.05	100

3. A non-display buy order for 300 shares is entered with an aggressive limit price of 9.02 and post-only instructions. The allowable executable price is restricted 1 tick inside the best offer, up to the limit of 9.02

Best Bid/Offer:	8.95/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display (passive)	300	(limit price) 9.02 (allowable executable price) 9.00	9.01	100
	100	8.95	9.02	100
	100	8.94	9.03	100

If an aggressive incoming sell order for 100 shares were to be sent to the market an execution against the Non-display order would occur at 9.00, removing 100 shares from the non-display order balance.

Best Bid/Offer:	8.95/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display (passive)	200	(limit price) 9.02 (allowable executable price) 9.00	9.01	100
	100	8.95	9.02	100
	100	8.94	9.03	100

4. A non-display

buy order for 300 shares is entered with an aggressive limit price of 9.02 and post-only instructions. The allowable execution price is restricted to 1 tick inside the best offer up to the limit of 9.02, which in this case is the mid-point between the bid and offer.

Best Bid/Offer:	9.00/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display	300	(limit price) 9.02 (allowable executable price) 9.005	9.01	100
	100	9.00	9.02	100
	100	8.99	9.03	100

If an aggressive incoming sell order for 100 shares were to be sent to the market an execution against the Non-display order would occur at the mid-point 9.005, removing 100 volume from the order.

Best Bid/Offer:	9.00/9.01			
	Bid Vol	Bid Price	Offer Price	Offer Vol
CSE – Non-display (passive)	200	(Limit price) 9.02 (allowable executable price) 9.005	9.01	100
	100	9.00	9.02	100
	100	8.99	9.03	100

So long as the NBBO is less than (or equal) to the limit price of 9.02 then executions would occur within the spread if the incoming contra order does not meet the size/value requirements of UMIR rule 6.6, or at the NBBO if it does.

B. Expected Implementation Date

The proposed Significant Change is expected to be implemented in Q2, 2021.

C. Rationale for the Proposal

The CSE is expanding its non-display (dark) execution functionality to match the features already present on other marketplaces in Canada.

At-the-touch execution for dark/non-display orders, enhancement of the Seek Dark order, as well as the non-display order type, have been requested by clients and will improve the CSE execution facilities for this segment.

D. Expected Impact

The expected impact of the Significant Change on:

- **Market Structure:** The proposed changes are currently used on other Canadian exchanges (TSX, Nasdaq Canada). There may be a marginal increase in dark trading on the CSE. The impact is expected to be relatively insignificant.
- **Members:** A number of CSE Dealers have asked for the proposed order type. The order type is optional.
- **Investors, Issuers, and the Capital Markets:** There is a possibility of price improvement if there is an increase in dark trading.

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 changes will not affect fair access or the maintenance of fair and orderly markets. The changes are consistent with the fair access requirements set out in section 5.1 of NI21-101 as they are not confined to a limited number of marketplace participants and all marketplace participants will remain subject to the same rules and conditions.

F. Technology Changes

Clients already support similar features (to the ones proposed) on other Canadian marketplaces. The CSE does not anticipate there will be any need for material technology changes.

G. Other Markets or Jurisdictions

The table below identifies where the proposed functionality is new or currently available.

FUNCTIONALITY	MARKETS AVAILABLE
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Execution at-the-touch for non-display order types	TSX, Nasdaq Canada
Seek dark enhancement	TSX
Non-display order type	TSX, Nasdaq Canada

Comments

Please submit comments on the proposed amendments no later than January 25, 2021 to:

Mark Faulkner

Vice President, Listings and Regulation
 CNSX Markets Inc.
 220 Bay Street, 9th Floor
 Toronto, ON, M5J 2W4
 Email: Mark.Faulkner@theitse.com

Market Regulation Branch

Ontario Securities Commission
 20 Queen Street West, 20th Floor
 Toronto, ON, M5H 3S8
 Email: marketregulation@osc.gov.on.ca

Vida Mehin

Senior Legal Counsel, Capital Markets Regulation
 British Columbia Securities Commission
 701 West Georgia Street
 P.O. Box 10142, Pacific Centre
 Vancouver, BC, V7Y 1L2
 Email: vmehin@bcsc.bc.ca