

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

CNSX Markets Inc., the company operating the Canadian Securities Exchange (CSE), intends to introduce a second trading facility in Q3 of 2022. The CSE is proposing to expand its services with the introduction of a second trading book. The additional book is intended to respond to CSE Dealer demand requests, resulting from the significant increase in online retail investor activity in the Canadian markets and the corresponding pressure to reduce commission rates. In order to remain competitive and recapture trading volume of CSE listed securities, the CSE has determined it is appropriate to introduce an additional book with an inverted fee model. The CSE is a primary listing exchange and is a leader in capital formation in Canada over many years. The exchange has experienced significant growth and intends to expand its trading solutions to address the needs of its customers.

The CSE secondary book will be available to all CSE dealers at no additional membership fee.

1) New Secondary Book

CSE is proposing an additional book (“Book 2”) which will offer an inverted pricing model; the CSE will provide a rebate to the liquidity taker and assess a fee to the liquidity provider.

Book 2 will offer functionality found in the current CSE book with the differences described in the table below.

Primary Book	Secondary Book
Supports market making which includes: <ul style="list-style-type: none"> • Auto-filled odd lots • GMF auto-fills 	Supports limited market marking which consists of: <ul style="list-style-type: none"> • Auto-filled odd lots only

<ul style="list-style-type: none"> Market Maker Participation (with order entry commands to configure the behavior of participation) 	<ul style="list-style-type: none"> No support for GMF auto-fills No Market Maker participation <p>Upon implementation Market Maker assignments on the Secondary Book will be the same as on the Primary Book, but there will be no restriction or procedures for future assignments to be aligned between books.</p>
<p>Supports both day orders Day, IOC, FOK and RHO and duration GTD and GTC multi day orders.</p>	<p>Supports Day, IOC, FOK and RHO orders only. No multi day orders.</p>
<p>Trades both lit and dark orders with Price/Broker/Time priority</p>	<p>Trades both lit and dark orders with Price/Time priority. There is no broker priority (“broker preferencing”).</p>
<p>CSE Listed</p> <ul style="list-style-type: none"> Begins the day in a Pre Open state which runs from 7:00AM to 9:30AM <p>TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Begin the day in an Open Market (continuous trading) state which runs from 8:00AM to 5:00 PM 	<p>CSE, TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Begin the day in an Open Market (continuous trading) state which runs from 8:00AM to 5:00 PM
<p>CSE Listed</p> <ul style="list-style-type: none"> Has an Opening Match at 9:30AM <p>TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Have no Opening Match 	<p>CSE, TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Have no Opening Match
<p>CSE Listed</p> <ul style="list-style-type: none"> Closes at 4:00PM Has a CSE Closing Price (“CCP”) session that starts at 4:15PM and runs to 5:00PM All order entry and trading end at 5:00PM <p>TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Close at 5:00PM Have no CCP session All order entry and trading end at 5:00PM 	<p>CSE, TSX and TSX Venture Listed</p> <ul style="list-style-type: none"> Close at 5:00PM Have no CCP session All order entry and trading end at 5:00PM

Opening and closing prices for CSE listed securities will be established in Primary Book.	Opening and closing prices will not be established by trades in the Secondary Book.
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2) Additional Routing Functionality

Optional routing functionality will allow an order destined for one book to be routed to the alternate book if the order is immediately executable at a better price. Any remaining balance that was not filled at a better price will be routed back and traded or booked at its original destination.

B. Expected Implementation Date

The proposed Significant Change is expected to be implemented in Q3, 2021.

C. Rationale for the Proposal

The CSE is expanding its trading service offerings to include a second trading book with an inverted pricing model to respond to client demand resulting from the growth of online retail investor activity levels in the Canadian markets.

The additional book will enable CSE to remain competitive and improve price discovery by capturing a greater share of trading in CSE-listed securities and provide greater choice for investment dealers in reducing execution costs while improving service levels for their clients. Consultation with participants indicates that offering a book without broker-preferencing would attract and increase quoting from smaller broker dealers and anonymous participants, leading to better price discovery.

D. Expected Impact

- **Market Structure:** The proposed significant change does not introduce functionality that is not currently available on other Canadian marketplaces, including CSE's existing Book 1, TSX, and the TSXV. Multiple books operated by a single marketplace is the norm in Canada, with the CSE being the only exchange that does not offer an additional book. This will not add any additional complexity to current market participant trade management.
- **Investment Dealers:** A number of CSE Dealers have provided feedback on the features and offerings of a second book to address industry challenges, such as higher execution-costs when trading CSE-listed securities on a CSE operated marketplace.
- **Investors, Issuers, and the Capital Markets:** The additional book will provide more routing options for Dealers and allow the CSE to expand its liquidity provision and access offering. These improvements benefit the investment dealer community and the clients they serve.

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

The CSE plans to use message protocols that are consistent with the existing trading system to reduce the integration effort required to access the second book. Subscribers will access Book 2 by way of existing networks. CSE Book 1 and Book 2 operate separately and there is no requirement to subscribe to both marketplaces. Subscribers have the option of connecting to CSE Book 2 through their existing CSE FIX connection, through our SOR, or to connect directly to Book 2 only.

Subscribers may interface their OMS software with Book 2 by writing to the CSE's standards based FIX 4.2 API for order entry. All displayed orders (i.e., full depth of book) are provided to our subscribers and to any valid market data vendor.

Order Matching and Execution

CSE Book 2 is a fully automated system. Order-entry, order matching, and trade executions are fully automated. Orders are entered electronically by subscribers and match according to the established, non-discretionary execution rules.

Price/Time Priority

All eligible orders will match according to a strict price/time priority (with the exception of intentional crosses, which will be granted time priority over other orders on the book at the same price level).

Market Data and Trade Reporting

CSE Book 2 will report accurate and timely information regarding its trade executions for Canadian listed stocks to all information vendors carrying the market data feed including the information processor TMX Information Processor. The CSE Book 2 market data feed is a separate feed from CSE Book 1, but utilizes the same multicast protocol.

Electronic confirmations of the principal trade details (execution price, volume and time of execution) will be sent to subscribers upon execution. The drop copy will be generated near real time and sent to the recipient when the order is accepted into our system, or the trade is executed.

The CSE Book 2 will provide a FIX protocol-based feed to be used as the IIROC Market Regulation Feed.

Procedures for clearance and settlement of transactions

The CSE will upload an end-of-day batch report of daily trade activity to CDS, which will clear and settle all trades under its net settlement facility. Subscribers or their Clearing Parties will thereby rely on their existing arrangements with CDS to clear and settle trades executed.

Estimated time

Although the time needed by each member and service vendor would vary on a case-by-case basis, given that that Book 2 is very similar to Book 1 with regard to functionality, and actually represents a version of Book 1 with reduced functionality, and that subscribers could access Book 2 by way of existing networks, we anticipate that Q3 2022 is a reasonable target for all parties.

G. Other Markets or Jurisdiction

The Second Book provides similar features and functionality that already exist in other marketplace groups in Canada. The new book will offer an inverted trading fee model which will rebate the active side of the trade and assess a fee on the passive side of the trade.

Comments

Please submit comments on the proposed amendments no later than April 4, 2022 to:

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