

NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX VENTURE EXCHANGE INC.

TSX Venture Exchange Inc. (“**TSXV**”) is publishing this Notice of Proposed Amendments and Request for Comments regarding amendments to the functionality of the Minimum Price Improvement Peg order type on TSXV (on the dark book only), as described below (the “**Amendments**”). The Amendments will be implemented following receipt of approval by the British Columbia Securities Commission and Alberta Securities Commission (collectively, the “**Commissions**”) following public notice and comment.

Market participants are invited to provide comments. Comments should be in writing and delivered by June 17, 2024 to:

Joanne Sanci
Senior Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Michael Brady
Deputy Director, Capital Markets Regulation
British Columbia Securities Commission
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Email: mbrady@bcsc.bc.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by staff at the Commissions, and in the absence of any regulatory concerns, a notice will be published to confirm approval by the Commissions.

Background, Outline and Rationale for the Amendments

In 2017, the MPIP order type (a dark pegged order type) was introduced on TSXV. At the time, TSXV’s on-book dark functionality generally consisted of dark limit orders and dark mid-point orders only, but not dark pegged order types. Pegged order types allow participants to better manage their orders and maintain optimal order book positioning by allowing their booked order price to float in reference to current market prices. After reviewing the offerings of other marketplaces and consulting with various stakeholders, TSXV introduced the MPIP order type (along with other dark pegged order types) as part of enhancements to its on-book dark functionality in recognition of the then continued evolution and growth of dark trading in Canada.

These enhancements were introduced to better accommodate the range of dark strategies employed by TSXV participants and their clients and in order to remain competitive with the offerings of other marketplaces in Canada at the time.

The MPIP order type, as implemented, provides the minimum required price improvement in certain circumstances, and behaves in the same manner as the Primary Peg order type but with a one-tick aggressive offset. A one-tick aggressive offset means that a participant has specified they are willing to pay one-tick above the protected national best bid (or NBB) if it is a buy order, or one-tick below the protected national best offer (or the NBO) if it is a sell order. Where the spread is two ticks or less, the MPIP order rests as a dark order at the same-side NBBO instead of resting at the mid-point. As a result, MPIP order types will never rest at the mid-point of the Protected NBBO. For example, if the protected NBBO is 10.00 (bid) and 10.02 (offer), and you submit a buy MPIP order, the order would be placed at 10.00 (being the same-side protected NBB) and would not “rest” or remain on the trading book at 10.01 (being the mid-point). A participant that wishes to always peg with minimum price improvement, including at the mid-point when the spread is two ticks or less, can do so by using a Primary Peg with a one-tick aggressive offset.

Analysis of December 2023 trading data revealed that over 78% of all shares traded on TSXV and Toronto Stock Exchange occurred with underlying spreads at or below two ticks. Consequently, in such instances, orders seeking minimum price improvement (“MPI”) become non-executable, as MPIP orders would align with the same side of the NBBO.

As a result of extensive feedback from clients who collectively represent over 98% of MPIP usage, TSXV is proposing to modify the functionality of its MPIP order type by removing the exceptions relating to behaving the same manner as a Primary Peg with a one-tick offset.

The desire for a redesign of the MPIP order type emerges from its widespread utilization and the challenges it presents in scenarios with tight spreads. The current design inadvertently renders MPI orders non-executable in a significant portion of trades, thereby limiting the efficacy of this mechanism in facilitating price improvement under certain market conditions. The proposed amendments aim to enhance the flexibility and applicability of the MPIP order type, ensuring it effectively serves its purpose across a broader range of trading scenarios without compromising the intent of providing MPI.

Amendments to the TSX Venture Exchange Rule Book are not required in order to take into account the Amendments.

Analysis of Impact

(i) Impact on Market

TSXV anticipates that the Amendments will have a positive impact on the market structure, members, investors, issuers or the capital markets. TSXV believes that the Amendments are fair and reasonable, and will not create barriers to access.

(ii) Impact on Clients and Service Vendors

Clients will be required to update their routing methodology and trading strategies to take the Amendments into account. Technical developments are not required for clients to take the Amendments into account.

(iii) Impact on Compliance with Applicable Securities Laws

The Amendments will not impact TSXV's compliance with applicable securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. As noted above, TSXV is of the view that the Amendments will support the maintenance of fair and orderly markets.

Consultations Undertaken in Formulating the Amendments

In formulating the Amendments, the internal governance process for TSXV was followed, which included receipt of the appropriate management-level approval, and all applicable internal groups at TSXV were consulted. As stated above, clients, who collectively represent over 98% of MPIP usage, were consulted and were supportive of the Amendments.

Any alternatives considered

No alternatives were considered.

Timing

TSXV intends to implement the Amendments in the Q3 of 2024, subject to regulatory approval and members having made the necessary changes.