

13.2 Marketplaces

13.2.1 CNSX Markets – Notice 2013-003 – Request for Comments – Passive-only Order Type

CNSX MARKETS – NOTICE 2013-003 – REQUEST FOR COMMENTS – PASSIVE-ONLY ORDER TYPE

June 13, 2013

CNSX Markets Inc. (“CNSX” or the “Exchange”) intends to make available to CNSX Dealers a “passive-only” order type that will re-price or reject orders that would otherwise be executable upon entry. The Exchange is publishing this Notice in accordance with the process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto attached as Appendix B to the Exchange’s recognition order.

Comments may be provided no later than July 15, 2013 and should be addressed to:

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Vice President, Listings and Regulation
CNSX Markets Inc.
220 Bay Street, 9th Floor
Toronto, ON, M5J 2W4
Fax: 416.572.4160
Email: Mark.Faulkner@cnsx.ca

A copy should be provided to:

Susan Greenglass
Director, Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, ON, M5H 3S8
Fax: 416.595.8940
Email: Marketregulation@osc.gov.on.ca

Terms not defined in this Notice are defined in the CNSX Rules.

Proposed Change

CNSX Markets Inc. (“CNSX” or the “Exchange”) will be providing for CNSX Dealers with Gateway Access Agreements a new optional feature that will re-price or cancel incoming orders that would otherwise be executable on entry. The change will provide the CNSX Dealers with the ability to designate the orders as “passive-only” orders.

Effective Date

The passive-only order functionality will be introduced, following public comment and OSC approval, on the later of:

- I. the date that the Exchange is notified that the change is approved;
- II. if applicable, the date of publication of the notice of approval on the OSC website; and
- III. a date designated by the Exchange.

Rationale

CNSX Dealers have requested the ability to re-price or cancel orders that would otherwise have to be routed to other marketplaces due to OPR. They have also requested the ability to designate particular orders as “passive only”, i.e. orders that would either be cancelled or re-priced to the nearest price increment away from an executable price. Both types of functionality are provided by other marketplaces and by third party vendors for order entry on all marketplaces operating in Canada at this time (including CNSX Markets), and effectively standardize CNSX’s offering with other marketplaces. A more detailed description of the “passive only” functionality is as follows:

Passive Only (Re-price or Reject)

Orders can be re-priced to the nearest price increment or rejected to ensure that a particular order will be booked (or cancelled). This feature can be enabled for all orders on a particular client gateway or an order by order basis by the CNSX Dealer.

Examples:

Symbol "XYZ", bid/ask on CNSX System, is \$10.00 - \$10.03

- a) Incoming order to sell at \$10.00, marked passive-only. The order will be cancelled without trading.*
- b) Incoming order to sell at \$10.00, marked passive-only with the re-price flag. The order will book as a \$10.01 offer.*

Impact

The order type will provide CNSX Dealers with an additional trading tool at their option. Interested parties will simply have to arrange for new network connections to the service. There is no requirement to use the feature, and there will be no direct impact on any other marketplace or participant as a result of a CNSX Dealer using or not using this new feature. Implementation will not require any changes to communications protocols for order entry or market data.

Risk

There is no anticipated increase to systemic risk in the Canadian financial system as a result of the proposed functionality.

Exchange Compliance

The new functionality does not affect Exchange compliance with Ontario Securities law, nor will it have a detrimental effect on fair access or the maintenance of a fair and orderly market.

Consultation

The enhancements to the functionality being implemented have been requested by numerous CNSX Dealers and their clients dating back to the original introduction of the Order Protection Rule. Although concerns have been expressed in some quarters that the "passive only" tag on an order can be used as an information gathering tool by sophisticated traders, the feature is supported by all other "lit" equity marketplaces operating in Canada. This issue was considered and we do not believe it poses a significant risk to CNSX Dealers. Advance consultation with access vendors and market information vendors was not required, as no technical changes will be required on their part in order to offer these services.

Technological Change

The proposed change will not require any technological changes or development by CNSX Dealers. CNSX Dealers wishing to avail themselves of the new service will have to provision new network connections to the CNSX Trading and Access System. Once the connection has been set up, the gateway will then be configured to provide the desired feature. No protocol changes for order entry or market data are required.

Comparable Functionality

The feature is common and currently available through marketplaces or third party vendors for all "lit" marketplaces in Canada.

The proposed change is recommended on the basis that:

- (i) it is not contrary to the provisions of the Securities Act or UMIR;
- (ii) it is not contrary to the public interest;
- (iii) it is warranted in the opinion of CNSX Staff after consideration of the circumstances of, and consultation with CNSX Dealers.