

NDAX CANADA INC.

NOTICE OF INITIAL OPERATIONS AND REQUEST FOR COMMENT

Ndax Canada Inc. (“**Ndax**”) plans to operate an Alternative Trading System (the “**Ndax ATS**”) in each of the provinces and territories of Canada to provide Subscribers (as defined below) with access to trading Crypto Assets (as defined below) and is publishing this *Notice of Initial Operations and Request for Comment* (the “**Notice**”) in accordance with the expectations of staff of the Ontario Securities Commission (“**OSC Staff**”). Market participants are invited to provide OSC Staff with comments on this Notice.

Comments should be in writing and submitted by **September 2, 2024** to:

Trading & Markets Division
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, ON M5H 3S8
TradingandMarkets@osc.gov.on.ca

And to:

Bilal Hammoud
Chief Executive Officer
Ndax Canada Inc.
1900-215 9th Avenue SW
Calgary, AB T2P 1K3
info@ndax.io

Comments received on the Notice will be made public on the OSC website. Upon completion of the applicable review by OSC Staff, and in the absence of any regulatory concerns, a notice will be published to confirm the completion of OSC Staff’s review and approval of the Ndax ATS, subject to its approval as a CIRO Dealer Member.

INFORMATION REGARDING INITIAL OPERATIONS

Overview

The Ndax ATS is a Canadian marketplace operated by Ndax as a proprietary and fully-automated internet-based order-execution only platform that supports the trading of bitcoin, ethereum and other products considered to be a crypto asset, digital or virtual currency, or digital or virtual token (“**Crypto Assets**”) that are purchased through a securities-trading account whereby the accountholder does not receive immediate delivery and control of the Crypto Assets, but rather, has a contractual entitlement to receive such Crypto Assets from the operator of the Ndax ATS (referred to as a “**Crypto Contract**”).

The Ndax ATS will support orders to trade in Crypto Contracts to buy and sell Crypto Assets from multiple buyers and sellers. It will function as an auction market, matching buy and sell orders for Crypto Assets at “top of book” (i.e., sellers with the lowest “ask” against buyers with the highest “bid”) in strict price/time priority. The dealer operated by Ndax (see the next section for additional details) will be the sole subscriber to the Ndax ATS, and all the orders displayed in the book will be either agency orders (whereby the Ndax dealer will be representing client-order flow) or Ndax principal orders (which will be entered by the Ndax dealer, in its capacity as dealer, using the automated system remarketer described below, to provide liquidity on the Ndax ATS).

ATS and Dealer Will be Separate Business Units

Ndax will be a registered investment dealer and a member of the Canadian Investment Regulatory Organization (“**CIRO**”¹) operating the Ndax ATS. In addition, as a separate business unit, Ndax will offer order-execution-only (“**OEO**”) account services and an over-the-counter (“**OTC**”) trading desk.

The Ndax dealer as a principal will post passive liquidity on the Ndax ATS. The Ndax dealer will hedge its inventory risk by using an automated system remarketer to trade with other Crypto Asset trading firms or liquidity providers.

¹ CIRO is sometimes referred to herein as the “Market Regulator,” in accordance with the definition of that term in section 1.1 of the Universal Market Integrity Rules (“**UMIR**”).

The remarketer system is an automated smart-routing system that is utilized by the Ndax dealer to deliver passive liquidity as a principal by aggregating liquidity from multiple liquidity providers.

The Ndax dealer also provides OTC dealer-facilitated trading services. The OTC services are used by institutional and high-net-worth clients to execute orders. In respect of its OTC business, the Ndax dealer will be the counterparty to each buy or sell transaction initiated by a client.

The Ndax dealer will require every client to prefund their account with the applicable asset (fiat currency or Crypto Asset). Margin will not be available.

Ndax has policies and procedures in place to appropriately manage any conflicts of interest between its OEO-dealer activities, the Ndax ATS, and any other Ndax businesses.

Subscribers

The Ndax ATS will accept the following types of users ("**Subscribers**"):

- Dealer Members of CIRO in good standing (sometimes referred to as "Participants," in accordance with UMIR 1.1); and
- Persons that meet the definition of "eligible institutional investor" as set out in subsection 1.1(1) of National Instrument 62-103 *The Early Warning System and Related Take-Over Bid and Insider Reporting Issues* (sometimes referred to as "Access Persons", in accordance with UMIR s. 1.1).

Access

Generally, Subscribers can access the Ndax ATS by means of a standard financial information exchange ("**FIX**") protocol gateway. All Subscribers will need to execute a subscriber agreement prior to being granted trading access. The Ndax ATS reserves the right to decline Subscribers at its discretion.

Entry, Display and Execution of Orders

The Ndax ATS maintains a public order book that displays all open orders based on the price and time priority that were entered in by the Subscribers. The Ndax ATS provides market data feeds to its Subscribers, which includes bid and ask prices, recent trades and orderbook depth.

Trading pairs available on the Ndax ATS are created by the Ndax ATS management system operated by Ndax. Once enabled, these trading pairs will be available via a "FIX" protocol gateway to each Subscriber. Currently the only Subscriber to the Ndax ATS is the Ndax dealer.

Order Types and Features

The Ndax ATS will support only the following orders:

- *Market Order* – A buy or sell order executed at the best available ask or bid price on the Ndax orderbook at the time of execution. This type of order is simple, and the trade is fully executed immediately at the best available ask or bid price. The price of the order cannot be guaranteed. The ability to place the market order is dependent upon available liquidity. If the order is placed and there are insufficient assets available in the orderbook, the order will be immediately rejected by the system and cancelled.
- *Limit Order* – A buy or sell order executed at a specific price. If the order is executed, it will be done at fixed price or better price. There is no guarantee that the order will ever be executed or filled.
- *Stop Order* – A market order or sell order that is triggered once a Crypto Asset hits an exact price. The exact price of the executed order is not guaranteed, but the order is executed once the price trigger has been met, assuming sufficient offsetting liquidity.
- *Stop Limit Order* – A limit buy or sell order that is triggered once a Crypto Asset reaches an exact price. A fixed price or a better price for the order is assured assuming sufficient liquidity, but, like any limit order, it may not execute if the price does not reach the specified price.

- *Trailing Stop Limit Order* – A trade order where the stop-loss price is not fixed at a single, absolute dollar amount, but rather is set at a certain percentage or dollar amount below the current market price, which is constantly revised as the market changes.
- *Trailing Stop Market Order* – A market order or sell order that is triggered once a Crypto Asset reaches a trailing amount set.
- *Reserve Order/Iceberg Order* – A large trade that is divided into multiple limit orders. The orders are split into visible and concealed amounts. The concealed orders become visible as the visible portions are executed.
- *Fill or Kill Order* – An order that executes immediately and completely at a certain price, but if the entire order cannot be filled in its entirety and immediately, it is cancelled entirely.
- *IOC (Immediate or Cancel) Order* – An order that executes immediately and any unfilled portion of a partially filled order is cancelled.

For each order and trade, the Ndax ATS will support audit-trail data required under applicable rules, including, as appropriate:

- Subscriber number, as applicable
- Marketplace number, as confirmed by CIRO
- Account Type (i.e., Order-Execution-Only Client / Non-Client / Principal)
- Client Identifier (i.e., Legal Entity Identifier or client account number, as applicable)
- Time in Force (i.e., Good-Til-Canceled / Fill-Or-Kill / Immediate-Or-Cancel)

Indications of interest are not used and short sale orders are not permitted.

Matching Priority

The Ndax ATS will treat all orders as fully committed and binding, and they will immediately be entered into the order book. The order book will match and execute buy and sell orders according to price and time priority. Pre-arranged crosses will not be accepted. Market orders are matched immediately in the order book or rejected immediately if there is insufficient liquidity. Partially filled limit orders retain their priority until filled or cancelled. To change any resting order, it must be cancelled and replaced by the Subscriber with a new order, which will then be handled according to price and time priority rules applicable to all orders.

Trading Increments

On the Ndax ATS, the minimum order size, and the minimum trading increment of a Crypto Asset will be available on <https://ndax.io/en/trade-rule>. However, all limit orders and displayed best bid and best ask prices shall be expressed in dollars and cents (i.e., there shall be no sub-penny prices).

Hours of Operation

The Ndax ATS will operate 24 hours a day, 7 days a week, 365 days a year, except during scheduled maintenance windows of which advance notice will be provided. Accordingly, there will be no opening or closing prices for Crypto Assets.

Crypto Assets Traded

The Ndax ATS will support trading, in Canadian dollars, in those Crypto Assets that are set out at www.ndax.io. Trading pairs available on the Ndax ATS include Crypto Asset-for-Fiat and Crypto Asset-for-Crypto Asset.

Market Data and Trade Reporting

The Ndax ATS will offer standard Financial Information Exchange (“**FIX**”) connectivity and access via Websocket or Rest API for Subscribers and market data vendors to retrieve full depth-of-book and trade data. Specifications for connectivity will be available at www.ndax.io.

The public will be able to view order book depth as well as trades as they occur on the Ndax ATS through its Ndax website.

Risk Controls

- a. Ndax ATS will have standard marketplace policies and procedures to promote fair and orderly markets, such as trading halts and trade cancellations and corrections with CIRO acting as regulation services provider. The system will prevent the placement of incomplete orders and orders that may have been entered incorrectly (fat finger check).
- b. In addition, Ndax has implemented pre-trade controls to safeguard the market integrity that includes several controls that work in sync to prevent market manipulation:
 - i. Index Variant Percentage;
 - ii. Minimum Order Sizes;
 - iii. API Rate Limits; and
 - iv. Price slippage percentage set to a specific predetermined percentage for each Crypto Asset based on the internal marketplace condition and liquidity.

Clearly Erroneous Trades and Trade Corrections and Cancellations

All trades are subject to the Ndax ATS' trading policies, which include written procedures for "clearly erroneous" trades and trade correction and cancellation that comply with applicable regulatory requirements.

In order to correct or cancel a trade, the trader requesting the correction or cancellation may reach out to the trade counterparty or contact personnel of the Ndax ATS to reach out to the counterparty on the trader's behalf, with the desired action and rationale.

The Market Regulator may also instruct the Ndax ATS to correct or cancel the trade. In addition, the Ndax ATS may cancel trades to maintain a fair and orderly marketplace, if there is marketplace manipulation or if there is a verifiable disruption or malfunction in any electronic communication or trading facility.

For a trade to otherwise be corrected or cancelled, both parties (sides) of the trade must agree to the correction or cancellation, unless otherwise instructed by the Market Regulator.

Settlement

Each business day, the Ndax ATS will generate a file that notifies each Subscriber, on a Subscriber-to-Subscriber basis, of their respective net settlement obligations. If necessary, Subscribers will be responsible for initiating settlement based on those instructions via fiat and Crypto Asset transfer, in that order of priority, and then confirming final settlement with the Ndax ATS's settlement personnel.

The operator of the Ndax ATS will, in its sole discretion, make any decisions in respect of forks, airdrops, or other similar events, including whether or not to continue supporting trading on the Ndax ATS of a Crypto Asset subject to such an event.

Custody

All Subscribers' Crypto Assets will be custodied at an "acceptable third-party custodian", being: (a) Canadian custodian or Canadian financial institution, as those terms are defined in NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103)*; (b) a custodian qualified to act as a custodian or sub-custodian for assets held in Canada pursuant to section 6.2 of National Instrument 81-102 *Investment Funds*; (c) a custodian that meets the definition of an "acceptable securities location" in accordance with the Investment Dealer and Partially Consolidated Rules and Form 1 of CIRO; (d) a foreign custodian (as defined in NI 31-103) for which the Ndax ATS has obtained the prior written consent from Alberta Securities Commission as the principal regulator of Ndax and the regulator or securities regulatory authority of the applicable jurisdiction(s); or (e) an entity that does not meet the criteria for a qualified custodian (as defined in NI 31-103) and for which the Ndax ATS has obtained the prior written consent from the Alberta Securities Commission as the principal regulator of Ndax and the regulator or securities regulatory authority of the applicable jurisdiction(s).

The Ndax ATS will require that each Subscriber execute an agreement with the relevant custodian(s) prior to being granted access to the marketplace.

Market Surveillance and Other Regulations

The Ndax ATS will be subject to the terms of a Regulation Services Agreement entered into with CIRO, whereby CIRO will act a capacity as a regulation service provider to, among other things, administer and enforce compliance with applicable UMIR Requirements.

The Ndax ATS will be subject to CSA marketplace and CIRO rules, unless it receives specific exemptive relief from a particular provision.

Also, Ndax will be subject to regulation and oversight by the Alberta Securities Commission as the principal regulator of Ndax, as a registered investment dealer, and by CIRO, as a Member, and the Ndax ATS will be subject to regulation as an Alternative Trading System.

Additionally, the Ndax ATS will supervise trading on its marketplace in accordance with its written trading policies, and it will suspend or terminate access for Subscribers that are not in compliance with such policies, if appropriate.

Fees

Ndax ATS fees are disclosed at www.ndax.io/en/fees. Subscribers will be charged fees based on a percentage of the value of the Crypto Assets traded with minimum transaction fees for smaller value trades.

The fees do not unreasonably condition or limit access to Ndax ATS' services and are in compliance with the requirements set out in section 5.1 of National Instrument 21-101 *Marketplace Operation*.

Fees charged by custodians for custody services required in connection with trading on the Ndax ATS may be found on the respective website of the custodian, for example: (a) <https://www.coinbase.com/en-ca/prime/custody>; (b) <https://www.bitgo.com>; and (c) <https://tetratrust.com>.