

B.11

SROs, Marketplaces, Clearing Agencies and Trade Repositories

B.11.2 Marketplaces

B.11.2.1 Coinsquare Capital Markets Ltd. – Notice of Initial Operations and Request for Comment

COINSQUARE CAPITAL MARKETS LTD.

NOTICE OF INITIAL OPERATIONS AND REQUEST FOR COMMENT

Coinsquare Capital Markets Ltd. (“Coinsquare”) plans to begin operation of an Alternative Trading System (the “Coinsquare ATS”) 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.

Feedback should be in writing and submitted by **June 15, 2022** to:

Market Regulation Branch
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, ON M5H 3S8
Fax : (416) 595-8940
marketregulation@osc.gov.on.ca

And to:

Katrina Prokopy
Chief Legal Officer and Head of Regulatory Affairs
Coinsquare Capital Markets Ltd.
590 King Street West, Suite 400
Toronto, ON M5V 1M3
Email: katrina.prokopy@coinsquare.com

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, notice will be published to confirm the completion of OSC Staff’s review and approval of the Coinsquare ATS, subject to its approval as an IIROC Dealer Member.

INFORMATION REGARDING INITIAL OPERATIONS

Overview

The Coinsquare ATS is a Canadian marketplace operated by Coinsquare that will support trading in digital assets such as bitcoin, ether, and others (“Digital Assets”) that are purchased through a securities trading account whereby the accountholder does not receive immediate ownership and control of the Digital Asset, but rather, has a contractual entitlement to receive such Digital Assets from the operator of the Coinsquare ATS.

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

ATS and Dealer Will be Separate Business Units

At launch, Coinsquare will be a registered investment dealer and a member of the Investment Industry Regulatory Organization of Canada ("IIROC"¹) operating Coinsquare ATS. In addition, as a separate business unit, Coinsquare will offer order-execution-only ("OEO") account services.

As an OEO dealer, Coinsquare will operate a "Dealer Platform" as defined in Joint CSA/IIROC Staff Notice 21-329 *Guidance for Crypto-Asset Trading Platforms: Compliance with Regulatory Requirements* under the name "CS Trade," which is separate from the Coinsquare ATS. Coinsquare has policies and procedures in place to appropriately manage any conflicts between its OEO dealer activities, the Coinsquare ATS, and other Coinsquare businesses.

In respect of CS Trade, the Coinsquare dealer will be the counterparty to each trade with a client. The Coinsquare dealer will hedge its inventory risk by trading in other markets through multiple global Digital Asset trading firms or marketplaces ("Liquidity Providers"). The Coinsquare dealer will be compensated by a "spread" that is added to the best observed price at which it can buy the Digital Assets through its Liquidity Providers or subtracted from the best observed price at which it can sell the Digital Assets through its Liquidity Providers. The "spread" is disclosed by the Coinsquare dealer to its clients.

Coinsquare also offers-over-the-counter ("OTC") dealer-facilitated trading services. The OTC services are used by institutional and high-net-worth clients to execute orders that are generally larger than CS Trade orders and provide more personalized execution assistance and greater access to liquidity through designated representatives of Coinsquare. In respect of its OTC business, the Coinsquare dealer will be the counterparty to each buy or sell transaction initiated by a client.

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

As a subscriber to the Coinsquare ATS, the Coinsquare dealer will execute orders generated through "CS Pro," the web-based client interface to the Coinsquare order book, on the Coinsquare ATS.

Subscribers

The Coinsquare ATS will accept the following two types of subscribers ("Subscribers"):

1. Dealer Members of IIROC in good standing (sometimes referred to as "Participants," in accordance with UMIR 1.1); and
2. 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

Access to the Coinsquare ATS for the provision of order entry and cancellation will be 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 Coinsquare ATS reserves the right to decline certain connections at its discretion.

Trading Hours

The Coinsquare ATS will be open for trading 24 hours a day, 7 days a week, 365 days a year, except during scheduled maintenance windows of which advance notice will be provided to Subscribers. Accordingly, there will be no opening or closing prices for Digital Assets.

Digital Assets Traded

The Coinsquare ATS will support trading, in Canadian dollars, in those Digital Assets that are set out at www.coinsquare.com.

Trading will not be offered on the Coinsquare ATS in Digital Asset pairs. (Separately, however, as an OEO dealer, Coinsquare will offer clients the ability to trade in Digital Asset pairs.)

Market Data and Trade Reporting

The Coinsquare ATS will offer FIX connectivity and access via Websockets for Subscribers and/or market data vendors to retrieve full depth-of-book and trade data. Specifications for connectivity will be available at www.coinsquare.com.

¹ IIROC 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 public will be able to view order book depth as well as trades as they occur on the Coinsquare ATS through the Coinsquare website.

Order Types and Features

The Coinsquare ATS will support only fully visible limit orders. The Coinsquare ATS will not support contingent orders, market orders, dark orders, or indications of interest. At launch, the Coinsquare ATS will not support short sale orders.

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

- Participant number
- Marketplace number, as confirmed by IIROC
- 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)

Matching Priority

The Coinsquare ATS will treat all orders as fully committed and binding, and they will immediately be entered into the Central Limit Order Book (the "CLOB"). The CLOB will match and execute buy and sell orders according to price and time priority. Pre-arranged crosses will not be accepted. 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.

On the Coinsquare ATS, the minimum order size will be .00000001 of a Digital Asset, and the minimum trading increment will be .00000001 of a Digital Asset. 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).

Risk Controls

The Coinsquare ATS will employ marketplace-level risk controls to ensure a fair and orderly market, including an "Aggressive Price Check" (aka "Fat Finger Check"), which will prevent overly aggressive orders, potentially incorrect figures, and potentially wrong asset selections. This control will be based on a configurable "aggressive" order price percentage check (e.g., buy order is 20%+ above best ask or sell order is 20%+ below best bid), and it will block orders that breach the threshold.

In addition, the CCML ATS will have other standard marketplace policies and procedures to promote fair and orderly markets, such as trading halts and trade cancellations and corrections with IIROC acting as regulation services provider.

Clearly Erroneous Trades and Trade Corrections and Cancellations

All trades are subject to the Coinsquare 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 Coinsquare 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 Coinsquare ATS to correct or cancel the trade.

For a trade to 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 Coinsquare ATS will generate a file that notifies each Subscriber, on a Subscriber-to-Subscriber basis, of their respective net settlement obligations. Subscribers will be responsible for initiating settlement based on those instructions via fiat and Digital Asset transfer, in that order of priority, and then confirming final settlement with the ATS's settlement personnel (referred to as "CS Admin").

The operator of the Coinsquare 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 Coinsquare ATS of a Digital Asset subject to such an event.

Custody

All Subscribers' Digital Assets must be custodied at a "qualified custodian" as such term is defined in section 1.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* or an alternative custodian for Digital Assets that has been approved by the OSC and/or the Market Regulator. The Coinsquare 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 Coinsquare ATS is expected to enter into a regulation services agreement pursuant to which IIROC will provide regulatory enforcement services and, at a later date, market surveillance as well. Until that later date, market surveillance will be conducted by the Coinsquare ATS itself, with IIROC oversight.

The Coinsquare ATS is also subject to regulation and oversight by the OSC, as a registered investment dealer, and by IIROC, as a Member.

Additionally, the Coinsquare 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

Coinsquare ATS fees are disclosed at www.coinsquare.com. The fees do not unreasonably condition or limit access to Coinsquare 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 Coinsquare ATS may be found on the respective website of the custodian (e.g., www.coinbase.com and www.tetratrust.com).