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The Secretary
Ontario Securities Commission
20 Queen Street West
Toronto, ON M5H 3S8

Proposed Amendments to OSC Rule 13-502 Fees

We appreciate this opportunity to comment on the Proposed Amendments to OSC Rule 13-502 and Companion Policy 13-502, dated August 23, 2012. CNSX Markets Inc. ("CNSX Markets") is a recognized stock exchange that operates Pure Trading and the Canadian National Stock Exchange ("CNSX"). CNSX Markets is subject to the fees imposed by the Ontario Securities Commission (the "commission").

General Comments

We understand the rationale for the changes proposed and appreciate that, as the role of the Commission adapts to changing market conditions, changes must be made to ensure that the fee schedule supports its mandated activities. As an operator of marketplaces we accept that it is appropriate to apply fees to marketplaces that reflect the regulatory activity of the Commission. The challenge is to strike the appropriate balance. The proposed changes raise some questions as to whether that balance will be achieved.

Corporate Finance and Capital Markets Participation Fees

We are in favour of the proposed introduction of additional tiers for the calculation of capital markets participation fees for dealers and corporate finance participation fees for issuers. To improve the fairness of the proposed fee regime we suggest the following two additions:

1. The tier structure should be modified to introduce a more graduated fee schedule, such as a rate per \$1 million of market capitalization so that participants moving from one tier to the next do not incur as large an increase in the fee payable.
2. Capital markets participants fees are charged in proportion to the revenues of the participant earned in Ontario. Consideration should be given to reducing the fees for corporate finance participants who are reporting issuers in another Canadian province where the securities regulator in that province acts as the principal regulator of the participant.

Fees for Specified Regulated Entities

The commission is proposing to raise the fees significantly for applications for recognition and applications required when these entities undergo certain kinds of fundamental changes which trigger a review by commission staff. The introduction of participation fees for exchanges, ATSs, clearing agencies and trade repositories creates new sources of revenue that need to be carefully assessed to ensure that fairness is achieved across these categories. As there are no historical rates to evaluate on the basis of experience, and no review was made of other jurisdictions that might have such fees, we are concerned that an appropriate level of fees be imposed that reflects the regulatory activity of the commission. Some of the fees proposed do not appear adequately supported.

Notable among these is the disparity between the new fees to be imposed on ATS's compared to those to be charged to exchanges. Despite the similarity in function of these marketplaces and the similarity in the role of the Commission overseeing them, and notwithstanding the role played by IROC in the regulation of ATS's, the order of magnitude difference in the relative fees is remarkable. The exchanges also have regulatory responsibilities for issuers that assist or align with the commission's oversight of issuers, for which exchanges incur material expenses.

The proposed participation fees for regulated entities including marketplaces vary from \$8,750 to \$500,000. The proposed fees for exchanges would vary depending on the relative share of market activity and range from \$30,000 to \$500,000. The fee for an ATS would be a flat fee of \$17,000 no matter what market share is achieved.

The proposed fees also include a flat fee for an application for recognition or a fundamental change made by an exchange or an ATS of \$100,000 and \$50,000 respectively, both of which are significant increases from the current fee levels. In addition, it is proposed that a variable cost-based fee be imposed where the cost of the work on the application exceeds \$300,000 for either an exchange or an ATS, begging the question as to why the difference in the flat fee between an exchange and an ATS but not in the threshold for the imposition of the variable fee. An exchange application that costs the commission three times the amount of the flat fee would give rise to an additional variable fee while an ATS would not have a variable fee imposed unless the cost of its application exceeded the flat fee by six times.

Another aspect of the proposed participation fees for exchanges that could be improved is the measurement method. It is proposed that market share be determined on the basis of the "greatest of" the share of value, volume or trades. This measure could discriminate against exchanges that specialize in certain types of trading or securities such that one of these three variables far exceeds the other two. It would be more equitable to base the market share on an average of the three. It hasn't been argued that any of the three measures is the most likely driver of the commission's cost of regulating an exchange so it doesn't appear reasonable to select the measure based solely on which would yield the

highest fee. In the interest of balancing the market share measure further we would also propose to introduce an allocation for each exchange's share of the total market capitalization of the issuers listed on all exchanges. This would introduce an element that also reflects the commission's involvement in the regulation of the exchanges.

Conclusion

CNSX Markets believes that effective regulation is extremely important to the capital markets and is best funded on a cost recovery basis in a manner that is fair to all participants. Achieving the right balance may be as much an art as a science but it is appropriate to examine all of the alternative methods and possible outcomes before arriving at a conclusion. We appreciate any opportunity to contribute to the discussion.

Yours truly,

CNSX Markets Inc.

Robert Cook
President