

13.2.2 CSNX Markets Inc. – Notice of Proposed Changes and Request for Feedback – Changes to Order Allocation Methodology for Jitney Trades

CNSX MARKETS INC.

NOTICE OF PROPOSED CHANGES and REQUEST FOR FEEDBACK

CHANGES TO ORDER ALLOCATION METHODOLOGY FOR JITNEY TRADES

CNSX Markets Inc. is publishing this Notice of Proposed Changes in accordance with the requirements set out in OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*. Pursuant to OSC Staff Notice 21-703, market participants are invited to provide the Commission with feedback on the proposed changes.

Feedback on the proposed changes should be in writing and submitted by **December 29, 2011** to:

Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
Fax: (416) 595-8940
e-mail: marketregulation@osc.gov.on.ca

And to:

Mark Faulkner
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

Feedback received will be made public on the OSC website. Upon completion of the review by OSC staff, and in the absence of any regulatory concerns, notice will be published to confirm the completion of Commission staff's review and to outline the intended implementation date of the changes.

CNSX Markets Inc.
Notice of Proposed Changes

CNSX Markets Inc. (“CNSX” or the “Exchange”) has introduced changes to the CNSX Trading System including a change to the method by which trades are allocated to jitney orders. The Exchange is publishing this Notice in accordance with OSC Staff Notice 21-703 – *Transparency of the Operations of Stock Exchanges and Alternative Trading Systems*.

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

Background

CNSX Markets Inc. (“CNSX Markets”, or the “Exchange”) operates the Canadian National Stock Exchange (“CNSX” or the “listed market”) and Pure Trading (the Alternative Market), a facility for trading, but not listing, the securities of companies listed on Canadian stock exchanges.

On July 25, 2011 CNSX provided notice of a new release to the trading system test environment. Following testing, the Exchange announced September 15 and September 27, 2011 that the CNSX and Pure Trading production environments would be updated with the new release on Monday, October 3 and Friday, October 7, 2011.

The changes to the trading system included new messages for existing features, and resolved issues previously addressed by a patch updates in September, 2011.

The following change was also announced: “Jitney markers will not prohibit a firm from participating in firm priority and cross interference matching.”

Notwithstanding its inclusion in the October releases, the Exchange is publishing this Notice and Request for Feedback to provide additional transparency and clarity about this specific change.

I. Description

The method of allocation of orders during the regular trading session is described in the CNSX Trading Rules (the “Rules”). Rule 4-111 *Trading After the Opening* states:

- (1) *A tradeable order shall be allocated among offsetting orders as follows:*
- (a) *To offsetting orders on the bid or offer (as the case may be) of the CNSX Dealer that entered the tradeable order, by time priority, and then*
 - (b) *To all other offsetting orders, by time priority.*

The descriptions of crosses in the document “Order Types”, (available on CNSX.ca and the Pure Trading website www.puretrading.ca) describe the allocation as follows:

Crosses

Unintentional Crosses

The system will search out crosses before trading other orders in the book.

Intentional Cross

Intentional crosses may be executed at or between the bid/ask in accordance with UMIR. Crosses are subject to cross interference from the continuous book. Intentional crosses will appear as passive on both sides in the Exchange Admin Field, but will be billed as crosses according to the fee schedule.

The Rules do not explicitly describe the exception for jitney orders. Historically, prior to the introduction of Alternative Trading Systems, orders entered by a Participant (the jitney) acting on behalf of another Participant, would not seek out offsetting orders of the Participant entering the order. Firm priority existed for orders that originated from, and were entered by, the same Participant.

The changes to the CNSX Trading System result in an allocation method that remains consistent with the current Rule. A jitney marker on an order will have no effect on the allocation of trades. The order will seek out offsetting orders from the executing dealer and also be subject to interference from orders previously entered by that dealer.

II. Rationale

With the introduction of several new marketplaces, the methodology by which trades are allocated to jitney orders has not been uniform. As described below, in many cases jitney orders are not included in the rules describing allocation. CNSX believes that the change in allocation makes it wholly consistent with the existing rule.

III. Impact

The impact is expected to be minimal, and is dependant entirely upon the level of jitney activity. The changes extend the concept of firm priority to include all orders entered by a firm. This expansion also provides an opportunity for firms to select a more active participant to enter orders on their behalf. It is anticipated that the change may result in increased order activity from certain CNSX Dealers without detrimental effect on others.

IV. Consultation

Limited consultation was conducted with CNSX Dealers. Those that offered feedback supported the proposed change.

V. Alternatives

The only alternative considered was the existing method of allocating trades, i.e. orders entered with a jitney marker would not be entitled to firm priority to either the executing participant or the originating participant, other than price and time priority.

VI. Existence of the Functionality

The TSX Rule Book and Alpha ATS Policies each include similar rules to that of CNSX Markets. Each rule describes the allocation of an incoming tradeable order without mention of the jitney marker. Each rule that describes cross interference also does so without reference to the jitney marker. The exact method of allocation, however, is not the same. For an order with a jitney marker, the allocation methodology on the TSX does not provide any additional priority above price and time. We understand that on Alpha ATS, the order trades as stated in the rule, ignoring the jitney marker and offering firm priority.

MATCH Now allocates trades to the same broker numbers first, and emphasizes that jitney trades will be matched according to the executing broker.

According to the Omega ATS website, "Omega ATS's order book follows Canadian industry-standard price/time priority rules".

Sigma X and TMX Select employ strict price and time priority, without firm priority, or "broker preferencing."

The TSX, Alpha ATS, MATCH Now and CNSX Markets each include firm priority in the allocation of trades. The changes to the CNSX Trading System are consistent with the allocation description in the rules of the TSX, Alpha ATS, and CNSX, and consistent with existing allocation methodology on Alpha ATS and MATCH Now.

VIII. Questions

Questions about this Notice should be directed to Mark Faulkner, Vice President, Listings & Regulation at 416.572.200 x2305 or Mark.Faulkner@cnsx.ca.

IX. Attachments

Appendix A is the blacklined text to be added to the Orders and Trades document on the CNSX and Pure Trading websites. Appendix B is the clean version of the text.

Appendix A –Text Showing Changes

Included in the document “Order Types”

Crosses

Unintentional Crosses

The system will search out crosses before trading against other orders in the book. For orders marked as jitney, crosses will be determined by the executing CNSX Dealer.

Intentional Cross

Intentional crosses may be executed at or between the bid/ask in accordance with UMIR. Crosses are subject to cross interference by orders in from the continuous book from the executing CNSX Dealer. Jitney orders/crosses will be considered orders from the executing CNSX Dealer. Intentional crosses will appear as passive on both sides in the Exchange Admin Field, but will be billed as crosses according to the fee schedule.

Appendix B – Amended Text

Included in the document “Order Types”

Crosses

Unintentional Crosses

The system will search out crosses before trading against other orders in the book. For orders marked as jitney, crosses will be determined by the executing CNSX Dealer.

Intentional Cross

Intentional crosses may be executed at or between the bid/ask in accordance with UMIR. Crosses are subject to cross interference by orders in the continuous book from the executing CNSX Dealer. Jitney orders/crosses will be considered orders from the executing CNSX Dealer. Intentional crosses will appear as passive on both sides in the Exchange Admin Field, but will be billed as crosses according to the fee schedule.