

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.2 Marketplaces

13.2.1 CNSX Notice 2010-005 – Notice and Request for Comments – Amendments to CNSX Rules 1, 3, 4, and 11 including the repeal of Rules 4-107 – Entry of Orders for Market Maker Securities and 4-108 – Fair Prices, and the addition of Rule 12

NOTICE 2010-005

NOTICE AND REQUEST FOR COMMENTS

AMENDMENTS TO CNSX RULES 1, 3, 4, AND 11 INCLUDING THE REPEAL OF RULES 4-107 – ENTRY OF ORDERS FOR MARKET MAKER SECURITIES AND 4-108 – FAIR PRICES, AND THE ADDITION OF RULE 12

September 24, 2010

The Board of Directors of CNSX Markets Inc. (the “Board”) has approved amendments to the CNSX Rules, which are set out below. The main changes are that Rules 4-107 Entry of Orders for Market Maker Securities and 4-108 Fair Prices would be repealed. Certain sections of Rule 11 would be repealed and their substantive requirements incorporated into Rule 4 and proposed new Rule 12 Access by Eligible Clients would be added. Amendments are also proposed to the requirements relating to eligible clients to update them to reflect current practices. Minor housekeeping and consequential amendments will be made to Rule 3 Governance of Trading, and several amendments have been proposed to update or clarify existing definitions in Rule 1.

The Board has determined that the proposed amendments to the Rules (the Amendments) described in this notice are in the public interest and has authorized them to be published for public notice and comment. The text of the Amendments to Rules 1, 3, 4 and 11 and the text of proposed new Rule 12 are attached as Appendix A and the text of the Rules is attached as Appendix B. The Amendments will be effective upon approval by the Ontario Securities Commission, following public notice and comment.

Comments should be made no later than 30 days from the date of publication of this notice and should be addressed to:

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A copy should be provided to:

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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. To support both CNSX and Pure Trading, CNSX Markets currently operates two different instances of its trading system software. In order to reduce the software and operational costs of deploying two systems to the organization and to simplify the means of access for investors, the Exchange intends to operate CNSX and Pure Trading with identical versions of the “X-stream” trading system.

The review of the Rules for the single system project provided an opportunity to update other parts of the Rules, including the sections relating to trading by eligible clients.

I. Rationale

CNSX Markets is proposing amendments to its Rules necessary to allow for the migration of CNSX-listed securities to the software version employed on the Pure Trading platform. A common set of rules for all securities traded on CNSX Markets would eliminate the need for different compliance procedures for trading on CNSX and Pure Trading, potentially lowering compliance costs for CNSX Dealers.

There have been several periods during which one or more securities were listed on both CNSX and Toronto Stock Exchange or TSX Venture Exchange. The inclusion of CNSX listed securities on the same version of the system used for Pure Trading will facilitate the provision of smart order routing services to ensure order protection. As order entry systems are currently connected to Pure Trading, it should be a straightforward exercise for service providers to add CNSX securities to the routing tables as necessary. Also, if an ATS were to post CNSX securities for trading, the provision of smart order routing services would be accomplished more readily.

II. Description of Amendments

Some of the proposed changes are required to accommodate the trading of listed securities and Alternative Market securities in an identical system, others update the requirements for eligible client access, and several other amendments are proposed to harmonize and simplify the Rules.

The substantive changes to the Rules include the elimination of the requirement to provide, in all cases, price improvement from the bid or offer when executing a cross. Currently, when entering a cross for a CNSX-listed security a CNSX Dealer may only enter the cross in between the bid/ask spread, which imposes a greater restriction than what is allowed under the Universal Market Integrity Rules (UMIR).

The changes would also repeal member regulation related requirements that have been superseded by IROC requirements, extend trading access for eligible clients to all securities, and clarify the latter requirements to address current practices by CNSX Dealers.

The amended text of the Rules is attached as Appendix A and the text of the Rules is attached as Appendix B.

Rule 3 Governance of Trading

Rule 3-101(2) is amended to clarify the personnel to whom the President can delegate the authority to reduce, suspend or otherwise alter a trading session in the event of an emergency or technical problem with the CNSX Trading System.

Rule 4 Trading of CNSX-Listed Securities

Rule 4 is renamed “Trading of Securities” and will apply to trading in all securities, eliminating the need for distinct rules for Alternative Market Securities.

Rule 4-103 currently specifies the minimum price variation and is identical to UMIR order entry price increments. As this is subject to UMIR the provision has been made more general to provide flexibility.

Rule 4-106 restricts the entry of crosses to “between the bid and offer”, and will be amended to “at or between the bid and offer”, consistent with UMIR and the other stock exchanges.

Partially disclosed orders will require disclosure of at least a board lot or such greater amount as may be prescribed, rather than the current 50% of the order.

In addition, we are proposing to repeal Rule 4-107 Entry of Orders for Market Maker Securities, and Rule 4-108 Fair Prices. Rule 4-107 restricts CNSX Dealers that are not Designated Market Makers from entering jitney orders on Market Maker Securities. It was intended to encourage CNSX Dealers to participate as Market Makers and to assist Participants that were not CNSX Dealers in managing their client order flow. There is now more participation from CNSX Dealers generally, and lower participation as Designated Market Makers. The Rule is no longer necessary, and is inconsistent with the rules of other marketplaces.

Repeal of Rule 4-108: this is a Rule that predates the recognition of CNSX Markets as a stock exchange and applies to CNSX Dealers executing trades with customers. The principles are covered by IIROC requirements and IIROC is in a better position to oversee the interaction between dealer and client that is not related to the entry of orders.

Amendments to Rule 4-109 include the deletion of unnecessary rule references and of a specific reference to "hit and take orders", which are already included as "orders".

Changes are required to Rule 4-111 to reflect the allocation method for order execution currently used in the Alternative Market and other marketplaces. Rather than the current allocation of absolute time priority, the change will result in allocation first to offsetting orders of the CNSX Dealer, then to all other orders by time priority.

Repeal of Rule 4-113(6) – Autoquote Restrictions. The prohibition on the use of "automatic quotation update techniques or systems ..." by Market Makers predates recognition as a stock exchange and is an unnecessary restriction.

Repeal of Rule 4-114(2). This rule entitles a Market Maker to charge a fee for handling an order. We propose to remove this from the Rules as the Rules are not intended to define or influence the business relationship between CNSX Dealers. Repeal of the Rule will not deny a Market Maker the right to charge a fee or commission.

Rule 11 Trading of Alternative Market Securities

Rule 11-101 Application of Rules is amended to a simple statement to the effect that, with the exception of Rule 9 Reporting of Trades, all Rules apply to Alternative Market Securities and CNSX listed securities. Rules 11-103 and 11-104 will be renumbered as Rules 12-101 and 12-102. Rules 11-105 through 11-111 will be repealed, as the proposed amendments will combine the substance of these rules with Rule 4 Trading of Securities.

Rule 12 Access by Eligible Clients

Rule 12 Access by Eligible Clients would now include the substance of Rule 11-102 and is divided into sections relating to eligibility requirements, conditions for providing access, and responsibility of dealers. These changes also allow for eligible client access to the CNSX Trading System to trade all securities, removing the distinction between the Listed Market and the Alternative Market. The current practices of transmission through the dealers' systems and third party vendors' systems are now both reflected. We also propose to transfer to CNSX Dealers the currently impractical exchange obligation to ensure CNSX Dealers' systems meet the requirements defined in the Rule, and add a provision for CNSX Dealers to provide similar controls over access through third-party vendors. Such a provision is already included in the rules of other exchanges.

III. Consultation and Review

The proposed amendments began as part of a comprehensive strategy to improve efficiency and performance of the trading systems. A common trading platform provides significant reductions in cost, software development and support efforts. While no specific consultation sessions were held with respect to the Rule amendments, discussions with customers during routine operations indicate a strong level of support for the technological changes. The amendments are required to facilitate those changes. Amendments relating to the eligible client access were based on discussions with OSC and IIROC staff and current regulatory initiatives in that area.

IV. Comparable Rules

With respect to price improvement when posting a cross, the current CNSX Rules impose a greater restriction than what is allowed under UMIR. CNSX Markets is the only exchange in Canada to require that price improvement. Removing the requirement will result in uniformity in the rules across all visible marketplaces.

None of the other stock exchanges in Canada restrict jitney activity to designated market makers.

Eligible clients are provided access to the other Canadian stock exchanges, and currently to Pure Trading as well. Allowing the same access to trade CNSX-listed securities will simplify the dealer/client agreement and routing options for those clients.

V. Impact

No technological changes will be required as a result of the Rule amendments. Compliance should be simplified, given that the Amendments eliminate or reduce requirements unique to CNSX Markets.

VI. Alternatives

The obvious alternative is to continue operating two trading systems. The costs and ongoing support efforts to maintain and update two distinct trading platforms however, are disproportionate to the minor differences between them.

Two different trading systems would facilitate the maintenance of the principle of absolute priority in the listed market and the current system of priority and allocation in the Alternative Market. Several of the Universal Market Integrity Rules relate to the execution of client orders, and more specifically customer/principal trades. The additional CNSX requirement that currently exists for price protection is a marketplace specific rule that may provide a marginal improvement in fill quality, yet no other marketplace in Canada has adopted it. Given the protection already in place through UMIR requirements, CNSX Markets believes that uniformity in the rules will create less confusion and better compliance with all trading rules.

VII. Public Interest Assessment

In accordance with the "Rule Review Process" set out in Appendix B of the CNSX Markets Inc. Recognition Order, the changes include amendments that are classified as "public interest ". The Amendments will be effective following public notice, a comment period, and OSC approval. For ease of review, certain housekeeping changes were included to definitions, e.g. "CNSX Markets", instead of "CNSX" and "CNSX Trading System" instead of "CNSX System". Further housekeeping changes will be published upon approval of the Amendments to make the other Rules consistent in these respects.

VIII. Questions

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

IX. Attachments

The text of the Amendments, shown as blacklined text, is attached as Appendix A and the text of the Rules is attached as Appendix B.

Appendix A – Text of the Amendments

RULE 1

INTERPRETATION AND GENERAL PROVISIONS

1-101 Definitions

(2) In these Rules, unless the subject matter or context otherwise requires:

“Alternative Market” means the ~~market~~Pure Trading facility for trading Alternative Market securities operated by CNSX Markets;

“Client Matching Order” ~~[deleted May 4, 2007]~~

“CNSX” ~~means~~ and “CNSX listed market” both mean the Canadian National Stock Exchange operated by CNSX Markets Inc.

“CNSX Board” means the Board of Directors of CNSX Markets and includes any committee of the CNSX’s Markets Board of Directors to which powers have been delegated in accordance with the by-laws or the Rules.

“CNSX Issuer” ~~means~~ and “Issuer” both mean an issuer which has its securities qualified for listing on the CNSX Trading System or which has applied to have its securities qualified~~approved~~ for listing on the CNSX Trading System, as applicable.

“CNSX listed market” means the market for trading CNSX-listed securities.

“CNSX-listed security” or “listed security” means a security that has been listed and approved for trading on CNSX and, for greater certainty includes a CNSX-listed security that is also listed on another Canadian stock exchange;

“CNSX Markets” and “Exchange” both mean CNSX Markets Inc.

“CNSX Trading System” means the electronic system operated by CNSX for receiving orders and trading and quoting securities.

“CNSX Trading and Access Systems” includes all facilities and services ~~provide~~provided by CNSX Markets to facilitate ~~quotation and trading, including, but not limited to: the CNSX Trading System; data~~order entry services; any other computer-based ~~quotation and trading systems and programs, communications facilities between a system operated or maintained by CNSX Markets and a trading or order routing system operated or maintained by a CNSX Dealer, another market or other person approved by CNSX Markets; a communications network linking quotation dissemination, trade reporting and order execution systems; and the content entered, displayed and processed by the foregoing, including price quotations~~order and other market information provided by or through CNSX Markets.

“Fill or Kill Order” ~~means~~ immediate or cancel” and “IOC” both mean an order that is ~~filled~~must execute immediately, ~~in whole or in part, with and may receive a full or partial fill, after which~~ any unfilled balance cancelled from the CNSX System and **“fill or kill basis”** ~~means entering an order as a Fill or Kill Order~~will expire.

“listed security” means a security of a CNSX Issuer listed on the CNSX System.

“Policy” means any policy statement, direction or decision adopted by the CNSX Board or any committee of the CNSX Board in connection with the administration or application of the Rules as such policy statement is amended, supplemented and in effect from time to time.

“recognized self-regulatory organization” means a self-regulatory organization recognized by the Commission applicable securities regulatory authority.

“**Regulation**” means Ontario Regulation 1015 – General Regulation made under the Securities Act, as amended from time to time.

~~“**take order**” means a market or limit order entered on a Fill or Kill basis to buy up to the amount available on the offer.~~

RULE 3

GOVERNANCE OF TRADING

3-101 Trading Sessions

- (1) The CNSX Trading System shall be open for order entry and trading on each Business Day.
- (2) Unless otherwise changed by resolution of the Board, the CNSX Trading System shall be open for continuous trading from 8:00 a.m. to 6:00 p.m.

3-102 Trading Suspensions and Halts

- (1) The CNSX Board may at any time:
 - (a) suspend order entry and trading on the CNSX Trading System;
 - (b) close the CNSX Trading System; or
 - (c) reduce, extend or otherwise alter the time of operation of the CNSX Trading System.
- (2) The CNSX Board, the Chairman, the CEO, the President or a member of senior officer management designated by the President to act in his or her absence may, in the event of an emergency or a technical problem with the CNSX Trading and Access Systems that is substantially impairing trading or will likely substantially impair trading if not resolved,
 - (a) suspend all order entry and trading or order entry and trading in particular ~~CNSX-listed securities~~ in the CNSX Trading System for that Trading Day; or
 - (b) reduce, extend or otherwise alter the time of operation of the CNSX Trading System for that Trading Day.
- (3) The Market Regulator may halt order entry and trading on the CNSX Trading System in any ~~CNSX-listed security~~ at any time and for such period of time as the Market Regulator may consider appropriate in the interest of a fair and orderly market.
- (4) Notwithstanding any other provision, the Market Regulator may delay the opening of trading in any ~~CNSX-listed security~~ in the CNSX Trading System until after the customary time of opening for any period in order to assist in the orderly opening of such trading.

RULE 4

TRADING OF CNSX-LISTED SECURITIES

ORDER ENTRY AND TRADING ON THE CNSX SYSTEM

4-101 Access to CNSX Trading System

- (1) A CNSX Dealer shall not permit any person to trade on the CNSX Trading System unless such person is
 - (a) is an Approved Trader in good standing on the Toronto Stock Exchange or the TSX Venture Exchange;

- (b) has successfully completed the Trader Training Course of the Canadian Securities Institute; or
 - (c) has completed such other courses to ensure proficiency in the CNSX Rules as CNSX Markets may determine from time to time.
- (2) A CNSX Dealer shall ensure that each person entering orders on the CNSX Trading System has all necessary registrations under applicable securities legislation and is trained in and understands these Rules.
- (3) A CNSX Dealer's trade supervision procedures adopted pursuant to Part 7.1 of UMIR shall include provisions to monitor trading on the CNSX Trading System in compliance with these Rules.

4-102 General Rules Applicable to Order Entry

- (1) Each order entered on the CNSX Trading System shall be subject to any special rule or direction issued by CNSX Markets or the Market Regulator with respect to:
- (a) clearing and settlement; and
 - (b) entitlement of the purchaser to receive a dividend, interest or any other distribution made or right given to holders of that security.
- (2) Each order entered on the CNSX Trading System shall contain in addition to the UMIR required identifiers and designations a designation acceptable to the Market Regulator, if the order is:
- (a) a Market Maker short sale exempt order; or
 - (b) of a type for which CNSX Markets or the Market Regulator may from time to time require a specific or particular designation.
- (3) A CNSX Dealer entering a client order on CNSX Trading System which is a distribution of a security of a CNSX Issuer being made in reliance on Multilateral Instrument 45-102 shall not enter the client order until the Form 45-102F3 Notice of Intention to Distribute Securities and Accompanying Declaration has been filed with the Commission and posted concurrently by the CNSX Issuer on behalf of the seller on the CNSX.ca website within the time frame prescribed in Multilateral Instrument 45-102.

4-103 Minimum Price Variation

The minimum trading increment for the CNSX-listed securities Trading System shall be as follows: determined by the CNSX Board, subject to UMIR.

Price per security	Increment
less than \$0.50	\$0.005
\$0.50 and higher	\$0.01

4-104 Advantage Goes with Securities Sold

- (1) In all trades of CNSX-listed securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNSX, the Market Regulator or the parties to the trade by mutual agreement.
- (2) Claims for dividends, rights or any other benefits to be distributed to holders of record of CNSX-listed securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.
- (3) If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNSX Trading System, a CNSX Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNSX Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

4-105 Foreign Currency Trading

- (1) A report of a cross trade in a CNSX-listed security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.
- (2) The CNSX Dealer making the cross shall keep a record of the exchange rate used.

TYPES OF ORDERS THAT MAY BE ENTERED

4-106 Entry of Orders for CNSX-Listed Securities

- (1) Subject to Rule 4-107, any CNSX Dealer may enter
 - (a) orders; and
 - (b) crosses at any price between the bid and offerinto the CNSX Trading System for a CNSX-listed security.
- (2) Orders (other than special terms orders Special Terms Orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.
- (3) Orders entered on a partially-disclosed basis must disclose at least 50% of the total volume on entry and must be at least 5 Board Lots in size one board lot or such greater amount as may be prescribed.

4-107 Entry of Orders for Market Maker Securities [Repealed]

- (1) Only a Designated Market Maker may enter
 - (a) orders and
 - (b) crosses at any price between the bid and offerinto the CNSX System on behalf of another participant for a Market Maker security.

MARKET INTEGRITY RULES

4-108 Fair Prices

A CNSX Dealer dealing in a CNSX-listed security for its own account with a customer shall buy or sell at a fair price, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that it is entitled to a profit; and if the Dealer acts as agent in any such transaction, it shall not charge the customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service it may have rendered by reason of its experience in and knowledge of such security and the market.

Commentary: Rule 4-108 — Mark-Up Policy

It is a violation of Rule 4-108 for a CNSX Dealer to enter into any transaction with a customer in any CNSX-listed security at any price not reasonably related to the current market price of the security or to charge a commission that is not reasonable. The Ontario Securities Commission has also held that excessive mark-ups are contrary to public policy in several enforcement actions against securities dealers operating in the over-the-counter market.

The following guidelines, which are adapted from the NASD Regulation Inc. IM-2440, apply to dealings with customers in CNSX listed securities. In addition, CNSX Dealers are reminded that all other applicable rules (for example, the best execution and customer-principal trading rules) also apply to trades subject to Rule 4-108.

(1) General Considerations

- (a) A dealer shall not excessively charge a customer on a transaction in a CNSX security. "Charges," which are referred to as "mark-ups" in this Policy, may take the form of premiums or discounts from the prevailing market price,

commissions, or profit from the difference between acquisition and disposition price in a riskless or near-riskless trade. Generally speaking, mark-ups should not be more than 5% of the purchase price, but this is a guideline and not a limit. Depending on the circumstances, a mark-up pattern of 5% or even less may be considered unfair or unreasonable while, in other circumstances, mark-ups above 5% may be justified.

- (b) — A Dealer may not justify mark-ups on the basis of expenses that are excessive.
- (c) — The mark-up over the prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions. *In the absence of other bona fide evidence of the prevailing market, a Dealer's own contemporaneous cost is the best indication of the prevailing market price of a security.*
- (d) — Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of mark-up is only one.

(2) — Relevant Factors

Some of the factors which CNSX Dealers should take into consideration in determining the fairness of a mark-up are as follows:

- (a) — *The Availability of the Security in the Market.* In the case of an inactive security the effort and cost of buying or selling the security, or any other unusual circumstances connected with its acquisition or sale, may have a bearing on the amount of mark-up justified.
- (b) — *The Price of the Security.* While there is no direct correlation, the percentage of mark-up or rate of commission generally increases as the price of the security decreases. Even where the amount of money is substantial, transactions in lower priced securities may require more handling and expense and may warrant a wider spread.
- (c) — *The Amount of Money Involved in a Transaction.* A transaction which involves a small amount of money may warrant a higher percentage of mark-up to cover the expenses of handling.
- (d) — *Disclosure.* Any disclosure to the customer, before the transaction is effected, of information that would indicate (i) the amount of commission charged in an agency transaction or (ii) mark-up made in a principal transaction is a factor to be considered. Disclosure itself, however, does not justify a commission or mark-up which is unfair or excessive in light of all other relevant circumstances.
- (e) — *The Pattern of Mark-Ups.* While each transaction must meet the test of fairness, CNSX believes that particular attention should be given to the pattern of a Dealer's mark-ups.
- (f) — *The Nature of the Dealer's Business.* Different services and facilities are needed by, and provided for, customers of Dealers. If not excessive, the cost of providing such services and facilities, particularly when they are of a continuing nature, may properly be considered in determining the fairness of a Dealer's mark-ups.

(3) — Transactions to Which the Policy is Applicable

The Policy applies to trading in CNSX-listed securities, and particular, in the following transactions:

- (a) — A transaction in which a Dealer buys a security to fill an order for the same security previously received from a customer. This transaction would include the so-called "riskless" or "simultaneous" transaction.
- (b) — A transaction in which the Dealer sells a security to a customer from inventory. In such a case the amount of the mark-up would be determined on the basis of the mark-up over the bona fide representative current market. The amount of profit or loss to the Dealer from market appreciation or depreciation before, or after, the date of the transaction with the customer would not ordinarily enter into the determination of the amount or fairness of the mark-up. If however, the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-up is to be calculated, and not the prevailing market at the time of the trade.
- (c) — A transaction in which a Dealer purchases a security from a customer. The price paid to the customer or the mark-down applied by the Dealer must be reasonably related to the prevailing market price of the security. Again, if the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-down is to be calculated, and not the prevailing market at the time of the trade.

- (d) ~~— A transaction in which the Dealer acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances.~~
- (e) ~~— Transactions wherein a customer sells securities to, or through, a Dealer, the proceeds of which are utilized to pay for other securities purchased from, or through, the Dealer at or about the same time. In such instances, the mark-up shall be computed in the same way as if the customer had purchased for cash and in computing the mark-up there shall be included any profit or commission realized by the Dealer on the securities being liquidated, the proceeds of which are used to pay for securities being purchased.~~

4-108 [Repealed]

TRADING IN THE SYSTEM

4-109 Trading at the Opening

- (1) Subject to Rules 4-106, 4-107, and 4-114, ~~the~~The following orders may be entered prior to the opening:
 - (a) ~~limit orders; and~~
 - (b) ~~unpriced orders; and,~~
 - (c) ~~hit and take orders.~~
- (2) Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) Any orders that remain unfilled after the opening will remain entered on the CNSX Trading System and have time priority based on the actual time of entry.

4-110 Special Terms Orders

- (1) Special Terms Orders are queued in a special terms book, separate from the regular book orders.
- (2) Multiple Special Term Orders at a single limit price are queued by time priority amongst themselves.
- (3) Special fill term orders are eligible for matching with orders from the regular book.
- (4) Special delivery term orders are not eligible for matching with orders from the regular book. Special delivery term orders must trade with orders from the special terms book.

4-111 Trading After the Opening

- (1) ~~A tradeable order for a CNSX-listed security shall be allocated among offsetting orders on the bid or offer (as the case may be) individually by time priority. 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.
- (2) ~~The undisclosed portion of a partially-disclosed order does not have time priority until it is disclosed, at which time it ranks behind all other orders in the CNSX System at that price. Each disclosed portion of such an order is assigned priority at the time of disclosure, as if the disclosed portion were an incoming order.~~

MARKET MAKERS

4-112 Appointment of Market Makers

- (1) A CNSX Dealer wishing to ~~make~~act as a market Market Maker in a CNSX-listed security shall file notice thereof with CNSX on the prescribed form and shall become obligated to perform the functions of a Market Maker upon approval by CNSX Markets.

- (2) Subject to Rule 4-101, a CNSX Dealer approved as a Market Maker shall appoint a Primary Trader to perform the obligations set out in these Rules and an Alternate Trader to act in the absence of the Primary Trader.
- (3) A CNSX Dealer approved as a Market Maker must maintain a two-sided continuous quotation for a period of not less than three consecutive calendar months and must give CNSX at least 30 days advance notice of its intention to relinquish any Market Maker Obligations.
- (4) A CNSX Dealer which ceases to act as a Market Maker in respect of a CNSX-listed security may not become a Market Maker in that security for a period of 30 days.
- (5) CNSX Markets may in its sole discretion designate a CNSX Dealer as a Market Maker in respect of a CNSX-listed security where the CNSX Dealer's trading activities suggest the market will be better served by the CNSX Dealer assuming the responsibilities of a Market Maker.

4-113 Quotations

- (1) *Two-Sided Quotations.* A Designated Market Maker shall
 - (a) buy and sell such security for its own account on a continuous basis, and
 - (b) enter and maintain two sided quotations in the CNSX Trading System.
- (2) *Minimum Size.* A Designated Market Maker's displayed quotation size shall be for at least one Board Lot on each side of the market and may be for larger multiples thereof.
- (3) *Firm Quotations.* A Designated Market Maker that receives a tradeable client order to buy or sell from another CNSX Dealer shall execute the order to at least to the size displayed on the bid or offer (as the case may be).
- (4) *Quotations Reasonably Related to the Market.* A Market Maker shall enter and maintain quotations that are reasonably related to the prevailing market.
- (5) *Reasonably Competitive Quotations.* A Market Maker must enter reasonably competitive quotations for a security into the CNSX Trading System, in the context of the market and over time, that generally do not exceed the average of all Market Maker spreads in that security over time.
- ~~(6) *Autoquote Restrictions.* A Market Maker may not use automatic quotation update techniques or systems that track changes to best ask price and best bid price quotations and automatically generate quotations.~~

4-114 Limit Order Protection

- (1) A Designated Market Maker shall accept and provide best execution of a client order of a CNSX Dealer (other than another Designated Market Maker in the same security) if the CNSX Dealer declares to the Market Maker that the order is a client order.
- ~~(2) Subject to Rule 4-108, a Market Maker shall be entitled to a commercially reasonable commission or transaction fee for handling a client order, to be negotiated between the Market Maker and the CNSX Dealer.~~
- ~~(3) A Market Maker is under no obligation to accept or handle a non-client or principal order.~~

4-115 Additional Requirements

- (1) A Market Maker shall immediately notify CNSX Markets and the Market Regulator of any unusual trading or order-entry patterns in a listed security that suggests that the security may be subject to manipulative trading practices or unusual volatility.
- (2) A Market Maker shall comply with such additional requirements as may be prescribed from time to time by CNSX Markets or the Market Regulator.
- (3) A Market Maker shall make such reports to ~~the~~ CNSX Markets or the Market Regulator as may be prescribed or requested from time to time by CNSX Markets or the Market Regulator.

RULE 11

TRADING OF ALTERNATIVE MARKET SECURITIES

11-101 Application of Rules

~~The following rules~~With the exception of Rule 9 – Reporting of Trades, the Rules apply to trading in the Alternative Market Securities and any reference to CNSX-listed securities, unless the context otherwise requires, shall be deemed to be a reference to Alternative Market securities and any reference to delisting, unless the context otherwise requires, shall be deemed to be a reference to disqualification from trading in the Alternative Market:

- (a) ~~Rule 1 in its entirety;~~
- (b) ~~Rule 2 in its entirety;~~
- (c) ~~Rule 3 in its entirety;~~
- (d) ~~Rule 4-101;~~
- (e) ~~Rule 5 in its entirety;~~
- (f) ~~Rule 6-102;~~
- (g) ~~Rule 7 in its entirety; and~~
- (h) ~~Rule 8-101, otherwise specified.~~

11-102 Qualification for Alternative Market

- (1) CNSX Markets may designate securities listed on a stock exchange recognized in a jurisdiction in Canada as eligible for trading in the Alternative Market provided such securities are not suspended or subject to a regulatory halt.
- (2) CNSX Markets may disqualify an Alternative Market security for trading at any time without prior notice.
- (3) Notwithstanding the foregoing, an Alternative Market security shall be disqualified for trading immediately if
 - (a) the security is delisted by a stock exchange and is not listed on any stock exchange recognized in a jurisdiction in Canada;
 - (b) the security is suspended by a stock exchange and the Alternative Market is the only venue on which the security would trade in Canada;
 - (bc) the security is subject to a regulatory halt; or
 - (ed) CNSX Markets, acting reasonably, determines that disqualification is necessary to protect the public interest or the maintenance of a fair and orderly market.

RULE 12

ACCESS BY ELIGIBLE CLIENTS

12-101 Eligibility Requirements

There are no changes, other than the heading. The text of current Rule 11-103(1) through 11-103(4) would comprise Rule 12-101(1) through (4).

12-102 Conditions for Providing Direct Access to Eligible Clients

- (51) A CNSX Dealer may transmit orders received electronically from an eligible client in an Alternative Market security directly to the CNSX System Trading System through the infrastructure of the CNSX Dealer or by

sponsoring such orders transmitted through a third-party system acceptable to the CNSX Dealer, provided that the CNSX Dealer has obtained prior written approval from CNSX

- (a) confirmed to CNSX Markets that the system of the CNSX Dealer or the applicable third party system meets the prescribed conditions;
 - (b) obtained prior written approval from CNSX Markets for the standard form of agreement containing the prescribed conditions to be entered into between the CNSX Dealer and an eligible client and the CNSX Dealer has entered into an agreement in such form with the eligible client; ~~and~~
 - (c) obtained prior written approval from CNSX Markets for any amendments to the standard form of agreement; and
 - (d) _____ has met such other conditions as prescribed.
- (62) For the purposes of Rule 41-103(~~512-102(1)~~)(a), the system of the CNSX Dealer or third-party system, as applicable, is required to:
- (a) support compliance with CNSX Requirements dealing with the entry and trading of orders by all eligible clients who will have direct access (for example, supporting all valid order information that may be required, including designation of short sales);
 - (b) ensure security of access to the system (for example, through a password that will only enable persons at the eligible client authorized by the CNSX Dealer to have access to the system);
 - (c) comply with the specific requirements prescribed pursuant to Rule ~~412-101A(5)~~;
 - (d) provide the CNSX Dealer with an immediate report of the entry or execution of orders;
 - (e) enable the CNSX Dealer to employ order parameters or filters that will route orders over a certain size or value to the CNSX Dealer's trading desk (which parameters can be customized for each eligible client on the system) and to reject orders that do not fall within those designated parameters;
 - (f) enable the CNSX Dealer to transmit information concerning orders entered by eligible clients to the CNSX Dealer's compliance staff on a real time basis; and
 - (g) support any other requirements of this Rule or UMIR.
- (73) For the purposes of Rule 41-103(~~512-102(1)~~)(b), the agreement between the CNSX Dealer and the eligible client shall provide that:
- (a) the eligible client is authorized to connect to the CNSX Dealer's order routing system or to use the CNSX Dealer's sponsored access to the CNSX Trading System;
 - (b) the eligible client shall enter orders in compliance with CNSX Requirements respecting the entry and trading of orders and other applicable regulatory requirements;
 - (c) specific parameters defining the orders that may be entered by the eligible client are stated, including restriction to specific securities or size of orders;
 - (d) the CNSX Dealer has the right to reject an order for any reason;
 - (e) the CNSX Dealer has the right to change or remove an order in the CNSX Trading System and has the right to cancel any trade made by the eligible client for any reason;
 - (f) the CNSX Dealer has the right to discontinue accepting or sponsoring orders from the eligible client at any time without notice;
 - (g) the CNSX Dealer agrees to train the eligible client in the CNSX Requirements dealing with the entry and trading of orders and other applicable CNSX Requirements; and

- (h) the CNSX Dealer accepts the responsibility to ensure that revisions and updates to CNSX Requirements relating to the entry and trading of orders are promptly communicated to the eligible client;

provided that, in respect of an agreement with a client in respect of an order execution account, the agreement:

- (i) may be in written form or be in the form of a written or electronic notice acknowledged by the client prior to the entry of the initial order in respect of such order execution account; and
- (j) may omit provisions that would otherwise be required by clauses (c), (g) and (h) above if the system:
 - (i) enforces CNSX Requirements relating to the entry of orders, or
 - (ii) routes orders that do not comply with CNSX Requirements relating to the entry of orders to a person authorized to enter orders pursuant to Rule ~~4412-403~~102 for review prior to entry to the trading system.

- (~~84~~) Training materials regarding CNSX Requirements that the CNSX Dealer proposes to use must be reviewed by CNSX Markets prior to use.
- (~~95~~) The CNSX Dealer shall designate a specific person as being responsible for the system.
- (~~406~~) Orders executed through the system shall be reviewed for compliance and credit purposes daily by such designated person of the CNSX Dealer.
- (~~447~~) The CNSX Dealer shall have procedures in place to ensure that only eligible clients use the system and that such eligible clients can comply with CNSX Requirements and other applicable regulatory requirements.
- (~~428~~) The CNSX Dealer shall review the eligibility of eligible clients using the system at least annually.
- (~~439~~) The CNSX Dealer shall make available for review by CNSX Markets, as required from time to time, copies of the agreements between the CNSX Dealer and its eligible clients.
- (~~10~~) The CNSX Dealer shall identify whether accounts are for eligible clients, upon request.

11-104-12-103 Responsibility of CNSX Dealers for Eligible Client Access

A CNSX Dealer that enters into an agreement with a client to transmit orders in ~~Alternative Market securities received from the client in accordance with Rule ~~11103~~Rules 12-101 and 12-102~~ shall

- (a) be responsible for compliance with CNSX Requirements with respect to the entry and execution of orders transmitted by such clients ~~through the CNSX Dealer; and~~
- (b) provide CNSX Markets with prior written notification of the individual appointed to be responsible for such compliance and of the accounts through which the orders will be transacted.

11-105—Minimum Price Variation

The minimum trading increment for ~~Alternative Market securities~~ shall be as follows:

3 Price per security	Increment
less than \$0.50	\$0.005
\$0.50 and higher	\$0.01

11-106—Advantage Goes with Securities Sold

- (1) ~~In all trades of Alternative Market securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNSX, the Market Regulator or the parties to the trade by mutual agreement.~~

- (2) — Claims for dividends, rights or any other benefits to be distributed to holders of record of Alternative Market securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.
- (3) — If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNSX System, a CNSX Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNSX Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

11-107 Foreign Currency Trading

- (1) — A report of a cross trade in an Alternative Market security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.
- (2) — The CNSX Dealer making the cross shall keep a record of the exchange rate used.

11-108 Entry of Orders for Alternative Market Securities

- (1) — Any CNSX Dealer may enter
 - (a) — orders and
 - (b) — crosses at the price of the bid or offer and at any price between the bid and offerinto the CNSX System for an Alternative Market security.
- (2) — Orders (other than special terms orders and crosses) may be entered on a fully disclosed or partially disclosed basis.
- (3) — Orders entered on a partially disclosed basis must disclose at least one board lot or such greater amount as may be prescribed.

11-109 Trading at the Opening

- (1) — Subject to Rule 11-108, the following orders may be entered prior to the opening:
 - (a) — limit orders;
 - (b) — unpriced orders; and
 - (c) — hit and take orders.
- (2) — Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) — Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) — Any orders that remain unfilled after the opening remain entered on the CNSX System and have time priority based on the actual time of entry.

11-110 Special Terms Orders

- (1) — Special terms orders are queued in a special terms book, separate from the regular book orders.
- (2) — Multiple special terms orders at a single limit price are queued by time priority amongst themselves.
- (3) — Special fill term orders are eligible for matching with orders from the regular market.
- (4) — Special delivery term orders are not eligible for matching with the regular book. Special delivery term orders must trade with orders from the special terms book.

11-111 Trading After the Opening

- (1) — A tradeable order for an Alternative Market security shall be allocated among offsetting orders as follows:
 - (i) — to offsetting orders on the bid or offer (as the case may be) of the CNSX Dealer that entered the tradeable order individually by time priority, then
 - (ii) — to all other offsetting orders individually by time priority.

- (2) — The undisclosed portion of a partially disclosed order does not have time priority until it is disclosed, at which time it ranks behind all other orders in the CNSX System at that price.

Appendix B – Text of the Rules

RULE 1

INTERPRETATION AND GENERAL PROVISIONS

1-101 Definitions

(2) In these Rules, unless the subject matter or context otherwise requires:

“**Alternative Market**” means the Pure Trading facility for trading Alternative Market securities operated by CNSX Markets;

“**CNSX**” and “**CNSX listed market**” both mean the Canadian National Stock Exchange operated by CNSX Markets Inc.

“**CNSX Board**” means the Board of Directors of CNSX Markets and includes any committee of the CNSX Markets Board of Directors to which powers have been delegated in accordance with the by-laws or the Rules.

“**CNSX Issuer**” and “**Issuer**” both mean an issuer which has its securities qualified for listing on the CNSX Trading System or which has applied to have its securities approved for listing on the CNSX Trading System, as applicable.

“**CNSX-listed security**” or “**listed security**” means a security that has been listed and approved for trading on CNSX and, for greater certainty includes a CNSX-listed security that is also listed on another Canadian stock exchange;

“**CNSX Markets**” and “**Exchange**” both mean CNSX Markets Inc.

“**CNSX Trading System**” means the electronic system operated by CNSX for receiving orders and trading securities.

“**CNSX Trading and Access Systems**” includes all facilities and services provided by CNSX Markets to facilitate trading, including, but not limited to: the CNSX Trading System; order entry services; any other computer-based trading systems and programs, communications facilities between a system operated or maintained by CNSX Markets and a trading or order routing system operated or maintained by a CNSX Dealer, another market or other person approved by CNSX Markets; a communications network linking quotation dissemination, trade reporting and order execution systems; and the content entered, displayed and processed by the foregoing, including order and other market information provided by or through CNSX Markets.

“**immediate or cancel**” and “**IOC**” both mean an order that must execute immediately and may receive a full or partial fill, after which any unfilled balance will expire.

“**Policy**” means any policy statement, direction or decision adopted by the CNSX Board in connection with the administration or application of the Rules as such policy statement is amended, supplemented and in effect from time to time.

“**recognized self-regulatory organization**” means a self-regulatory organization recognized by the applicable securities regulatory authority.

“**Regulation**” means Ontario Regulation 1015 – General Regulation made under the Securities Act, as amended from time to time.

RULE 3

GOVERNANCE OF TRADING

3-101 Trading Sessions

- (1) The CNSX Trading System shall be open for order entry and trading on each Business Day.
- (2) Unless otherwise changed by resolution of the Board, the CNSX Trading System shall be open for continuous trading from 8:00 a.m. to 6:00 p.m.

3-102 Trading Suspensions and Halts

- (1) The CNSX Board may at any time:
 - (a) suspend order entry and trading on the CNSX Trading System;
 - (b) close the CNSX Trading System; or
 - (c) reduce, extend or otherwise alter the time of operation of the CNSX Trading System.
- (2) The CNSX Board, the Chairman, the CEO, the President or a member of senior management designated by the President to act in his or her absence may, in the event of an emergency or a technical problem with the CNSX Trading and Access Systems that is substantially impairing trading or will likely substantially impair trading if not resolved,
 - (a) suspend all order entry and trading or order entry and trading in particular securities in the CNSX Trading System for that Trading Day; or
 - (b) reduce, extend or otherwise alter the time of operation of the CNSX Trading System for that Trading Day.
- (3) The Market Regulator may halt order entry and trading on the CNSX Trading System in any security at any time and for such period of time as the Market Regulator may consider appropriate in the interest of a fair and orderly market.
- (4) Notwithstanding any other provision, the Market Regulator may delay the opening of trading in any security in the CNSX Trading System until after the customary time of opening for any period in order to assist in the orderly opening of such trading.

RULE 4

TRADING OF SECURITIES

ORDER ENTRY AND TRADING

4-101 Access to CNSX Trading System

- (1) A CNSX Dealer shall not permit any person to trade on the CNSX Trading System unless such person
 - (a) is an Approved Trader in good standing on the Toronto Stock Exchange or the TSX Venture Exchange;
 - (b) has successfully completed the Trader Training Course of the Canadian Securities Institute; or
 - (c) has completed such other courses to ensure proficiency in the CNSX Rules as CNSX Markets may determine from time to time.
- (2) A CNSX Dealer shall ensure that each person entering orders on the CNSX Trading System has all necessary registrations under applicable securities legislation and is trained in and understands these Rules.

- (3) A CNSX Dealer's trade supervision procedures adopted pursuant to Part 7.1 of UMIR shall include provisions to monitor trading on the CNSX Trading System in compliance with these Rules.

4-102 General Rules Applicable to Order Entry

- (1) Each order entered on the CNSX Trading System shall be subject to any special rule or direction issued by CNSX Markets or the Market Regulator with respect to:
 - (a) clearing and settlement; and
 - (b) entitlement of the purchaser to receive a dividend, interest or any other distribution made or right given to holders of that security.
- (2) Each order entered on the CNSX Trading System shall contain in addition to the UMIR required identifiers and designations a designation acceptable to the Market Regulator, if the order is:
 - (a) a Market Maker short sale exempt order; or
 - (b) of a type for which CNSX Markets or the Market Regulator may from time to time require a specific or particular designation.
- (3) A CNSX Dealer entering a client order on CNSX Trading System which is a distribution of a security of a CNSX Issuer being made in reliance on Multilateral Instrument 45-102 shall not enter the client order until the Form 45-102F3 Notice of Intention to Distribute Securities and Accompanying Declaration has been filed with the Commission and posted concurrently by the CNSX Issuer on behalf of the seller on the CNSX.ca website within the time frame prescribed in Multilateral Instrument 45-102.

4-103 Minimum Price Variation

The minimum trading increment in the CNSX Trading System shall be determined by the CNSX Board, subject to UMIR.

4-104 Advantage Goes with Securities Sold

- (1) In all trades of CNSX-listed securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNSX, the Market Regulator or the parties to the trade by mutual agreement.
- (2) Claims for dividends, rights or any other benefits to be distributed to holders of record of CNSX-listed securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.
- (3) If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNSX Trading System, a CNSX Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNSX Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

4-105 Foreign Currency Trading

- (1) A report of a cross trade in a CNSX-listed security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.
- (2) The CNSX Dealer making the cross shall keep a record of the exchange rate used.

4-106 Entry of Orders

- (1) A CNSX Dealer may enter
 - (a) orders; and

- (b) crosses at or between the bid and offer into the CNSX Trading System.
- (2) Orders (other than Special Terms Orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.
- (3) Orders entered on a partially-disclosed basis must disclose at least one board lot or such greater amount as may be prescribed.

4-107 [Repealed]

4-108 [Repealed]

4-109 Trading at the Opening

- (1) The following orders may be entered prior to the opening:
 - (a) limit orders; and
 - (b) unpriced orders.
- (2) Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) Any orders that remain unfilled after the opening will remain entered on the CNSX Trading System and have time priority based on the actual time of entry.

4-110 Special Terms Orders

- (1) Special Terms Orders are queued in a special terms book, separate from the regular book orders.
- (2) Multiple Special Term Orders at a single limit price are queued by time priority amongst themselves.
- (3) Special fill term orders are eligible for matching with orders from the regular book.
- (4) Special delivery term orders are not eligible for matching with orders from the regular book. Special delivery term orders must trade with orders from the special terms book.

4-111 Trading After the Opening

- (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.
- (2) The undisclosed portion of a partially-disclosed order does not have time priority. Each disclosed portion of such an order is assigned priority at the time of disclosure, as if the disclosed portion were an incoming order.

MARKET MAKERS

4-112 Appointment of Market Makers

- (1) A CNSX Dealer wishing to act as a Market Maker in a CNSX-listed security shall file notice thereof with CNSX on the prescribed form and shall become obligated to perform the functions of a Market Maker upon approval by CNSX Markets.
- (2) Subject to Rule 4-101, a CNSX Dealer approved as a Market Maker shall appoint a Primary Trader to perform the obligations set out in these Rules and an Alternate Trader to act in the absence of the Primary Trader.

- (3) A CNSX Dealer approved as a Market Maker must maintain a two-sided continuous quotation for a period of not less than three consecutive calendar months and must give CNSX at least 30 days advance notice of its intention to relinquish any Market Maker Obligations.
- (4) A CNSX Dealer which ceases to act as a Market Maker in respect of a CNSX-listed security may not become a Market Maker in that security for a period of 30 days.
- (5) CNSX Markets may in its sole discretion designate a CNSX Dealer as a Market Maker in respect of a CNSX-listed security where the CNSX Dealer's trading activities suggest the market will be better served by the CNSX Dealer assuming the responsibilities of a Market Maker.

4-113 Quotations

- (1) *Two-Sided Quotations.* A Designated Market Maker shall
 - (a) buy and sell such security for its own account on a continuous basis, and
 - (b) enter and maintain two sided quotations in the CNSX Trading System.
- (2) *Minimum Size.* A Designated Market Maker's displayed quotation size shall be for at least one Board Lot on each side of the market and may be for larger multiples thereof.
- (3) *Firm Quotations.* A Designated Market Maker that receives a tradeable client order to buy or sell from another CNSX Dealer shall execute the order to at least to the size displayed on the bid or offer (as the case may be).
- (4) *Quotations Reasonably Related to the Market.* A Market Maker shall enter and maintain quotations that are reasonably related to the prevailing market.
- (5) *Reasonably Competitive Quotations.* A Market Maker must enter reasonably competitive quotations for a security into the CNSX Trading System, in the context of the market and over time, that generally do not exceed the average of all Market Maker spreads in that security over time.

4-114 Limit Order Protection

- (1) A Designated Market Maker shall accept and provide best execution of a client order of a CNSX Dealer (other than another Designated Market Maker in the same security) if the CNSX Dealer declares to the Market Maker that the order is a client order.
- (2) A Market Maker is under no obligation to accept or handle a non-client or principal order.

4-115 Additional Requirements

- (1) A Market Maker shall immediately notify CNSX Markets and the Market Regulator of any unusual trading or order-entry patterns in a listed security that suggests that the security may be subject to manipulative trading practices or unusual volatility.
- (2) A Market Maker shall comply with such additional requirements as may be prescribed from time to time by CNSX Markets or the Market Regulator.
- (3) A Market Maker shall make such reports to CNSX Markets or the Market Regulator as may be prescribed or requested from time to time by CNSX Markets or the Market Regulator.

RULE 11

TRADING OF ALTERNATIVE MARKET SECURITIES

11-101 Application of Rules

With the exception of Rule 9 – Reporting of Trades, the Rules apply to trading in Alternative Market Securities and CNSX-listed securities unless otherwise specified.

11-102 Qualification for Alternative Market

- (1) CNSX Markets may designate securities listed on a stock exchange recognized in a jurisdiction in Canada as eligible for trading in the Alternative Market provided such securities are not suspended or subject to a regulatory halt.
- (2) CNSX Markets may disqualify an Alternative Market security for trading at any time without prior notice.
- (3) Notwithstanding the foregoing, an Alternative Market security shall be disqualified for trading immediately if
 - (a) the security is delisted by a stock exchange and is not listed on any stock exchange recognized in a jurisdiction in Canada;
 - (b) the security is suspended by a stock exchange and the Alternative Market is the only venue on which the security would trade in Canada;
 - (c) the security is subject to a regulatory halt; or
 - (d) CNSX Markets, acting reasonably, determines that disqualification is necessary to protect the public interest or the maintenance of a fair and orderly market.

RULE 12

ACCESS BY ELIGIBLE CLIENTS

12-101 Eligibility Requirements

There are no changes, other than the heading. The text of current Rule 11-103(1) through 11-103(4) would comprise Rule 12-101(1) through (4).

12-102 Conditions for Providing Direct Access to Eligible Clients

- (1) A CNSX Dealer may transmit orders from an eligible client directly to the CNSX Trading System through the infrastructure of the CNSX Dealer or by sponsoring such orders transmitted through a third-party system acceptable to the CNSX Dealer, provided that the CNSX Dealer has
 - (a) confirmed to CNSX Markets that the system of the CNSX Dealer or the applicable third party system meets the prescribed conditions;
 - (b) obtained prior written approval from CNSX Markets for the standard form of agreement containing the prescribed conditions to be entered into between the CNSX Dealer and an eligible client and the CNSX Dealer has entered into an agreement in such form with the eligible client;
 - (c) obtained prior written approval from CNSX Markets for any amendments to the standard form of agreement; and
 - (d) has met such other conditions as prescribed.
- (2) For the purposes of Rule 12-102(1)(a), the system of the CNSX Dealer or third-party system, as applicable, is required to:
 - (a) support compliance with CNSX Requirements dealing with the entry and trading of orders by all eligible clients who will have direct access (for example, supporting all valid order information that may be required, including designation of short sales);
 - (b) ensure security of access to the system (for example, through a password that will only enable persons at the eligible client authorized by the CNSX Dealer to have access to the system);
 - (c) comply with the specific requirements prescribed pursuant to Rule 12-101;
 - (d) provide the CNSX Dealer with an immediate report of the entry or execution of orders;

- (e) enable the CNSX Dealer to employ order parameters or filters that will route orders over a certain size or value to the CNSX Dealer's trading desk (which parameters can be customized for each eligible client on the system) and to reject orders that do not fall within those designated parameters;
 - (f) enable the CNSX Dealer to transmit information concerning orders entered by eligible clients to the CNSX Dealer's compliance staff on a real time basis; and
 - (g) support any other requirements of this Rule or UMIR.
- (3) For the purposes of Rule 12-102(1)(b), the agreement between the CNSX Dealer and the eligible client shall provide that:
- (a) the eligible client is authorized to connect to the CNSX Dealer's order routing system or to use the CNSX Dealer's sponsored access to the CNSX Trading System;
 - (b) the eligible client shall enter orders in compliance with CNSX Requirements respecting the entry and trading of orders and other applicable regulatory requirements;
 - (c) specific parameters defining the orders that may be entered by the eligible client are stated, including restriction to specific securities or size of orders;
 - (d) the CNSX Dealer has the right to reject an order for any reason;
 - (e) the CNSX Dealer has the right to change or remove an order in the CNSX Trading System and has the right to cancel any trade made by the eligible client for any reason;
 - (f) the CNSX Dealer has the right to discontinue accepting or sponsoring orders from the eligible client at any time without notice;
 - (g) the CNSX Dealer agrees to train the eligible client in the CNSX Requirements dealing with the entry and trading of orders and other applicable CNSX Requirements; and
 - (h) the CNSX Dealer accepts the responsibility to ensure that revisions and updates to CNSX Requirements relating to the entry and trading of orders are promptly communicated to the eligible client;

provided that, in respect of an agreement with a client in respect of an order execution account, the agreement:

- (i) may be in written form or be in the form of a written or electronic notice acknowledged by the client prior to the entry of the initial order in respect of such order execution account; and
 - (j) may omit provisions that would otherwise be required by clauses (c), (g) and (h) above if the system:
 - (i) enforces CNSX Requirements relating to the entry of orders, or
 - (ii) routes orders that do not comply with CNSX Requirements relating to the entry of orders to an person authorized to enter orders pursuant to Rule 12-102 for review prior to entry to the trading system.
- (4) Training materials regarding CNSX Requirements that the CNSX Dealer proposes to use must be reviewed by CNSX Markets prior to use.
- (5) The CNSX Dealer shall designate a specific person as being responsible for the system.
- (6) Orders executed through the system shall be reviewed for compliance and credit purposes daily by such designated person of the CNSX Dealer.
- (7) The CNSX Dealer shall have procedures in place to ensure that only eligible clients use the system and that such eligible clients can comply with CNSX Requirements and other applicable regulatory requirements.
- (8) The CNSX Dealer shall review the eligibility of eligible clients using the system at least annually.

- (9) The CNSX Dealer shall make available for review by CNSX Markets, as required from time to time, copies of the agreements between the CNSX Dealer and its eligible clients.
- (10) The CNSX Dealer shall identify whether accounts are for eligible clients, upon request.

12-103 Responsibility of CNSX Dealers for Eligible Client Access

A CNSX Dealer that enters into an agreement with a client to transmit orders from the client in accordance with Rules 12-101 and 12-102 shall

- (a) be responsible for compliance with CNSX Requirements with respect to the entry and execution of orders transmitted by such clients; and
- (b) provide CNSX Markets with prior written notification of the individual appointed to be responsible for such compliance and of the accounts through which the orders will be transacted.