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BY EMAIL
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To whom it may concern:

RE: Proposed Guidance on Marketplace Thresholds and Single-Stock Circuit Breakers

CNSX Markets Inc., operator of the Canadian Securities Exchange (CSE), thanks the Canadian Investment Regulatory Organization (CIRO) for the opportunity to comment on the Proposed Guidance on Marketplace Thresholds and Single-Stock Circuit Breakers (the Proposal). The CSE commends CIRO for taking initial steps to extend investor protections across all trading hours in Canada, which promotes investor and participant confidence. We look forward to providing feedback on the Proposal's impact on Canadian marketplaces and the wider Canadian investor base.

The CSE continues to strive to reduce the cost of trading and offer market participants both choice and access to fair and efficient trading systems. Innovation in trading technology and investor protection remain top priorities as we continue to change public markets for the better.

Introduction

The Proposal is directly relevant to the CSE in two respects. As a Primary Listing Exchange, the CSE's Opening Trade would become the reference point other marketplaces must consume for CSE-listed securities. In addition, outside of core trading hours, the CSE and CSE2 currently operate from 8:00 a.m. to 9:30 a.m. and from 4:00 p.m. to 5:00 p.m., periods that would become subject to Marketplace Thresholds and Single Stock Circuit Breakers (SSCBs) for the first time under the Proposal.

The CSE supports CIRO's goal to apply volatility controls outside of core trading hours, providing additional protection for participants that may seek to utilize the additional timeframes. The CSE also endorses the principle of a phased, empirically driven approach, where after the Initial Implementation Period, CIRO will conduct a further review to finalize the best framework to support extended hours. As the Canadian market has not historically supported trading from 7:00 a.m. – 8:00 a.m. and 5:00 p.m. – 8:00 p.m., we anticipate less liquidity and wider quotes compared to core trading hours.

In responding to the request for comment, CSE is of the view that there is a viable alternative. This letter first outlines our proposed alternative. Then, it responds to CIROs questions, assuming that the alternative is not adopted.

A Potential Alternative

For consideration, the CSE asks that CIRO explore the possibility of implementing Marketplace Thresholds in later stages of the implementation timeline and proceed only with SSCBs on initial implementation. We suggest that CIRO extend SSCBs and not implement the Marketplace Thresholds for extended hours until data from the initial implementation period is gathered and analyzed. As the demand, volume, spreads and impact of after-hours trading are currently unknown, a phased approach is a measured and reasonable option. In addition, as CIRO detects and distributes SSCBs centrally, this may serve to shorten the timeline of implementation for additional safeguards outside of core hours. An SSCB-only phase would also produce data during extended hours that may inform how Marketplace Thresholds can and should be applied.

Additionally, SSCBs are designed to prevent large price movements in a short timeframe via a halt, while Marketplace Thresholds prevent individual trades from executing at price levels too far from established reference prices. Currently both Marketplace Thresholds and SSCBs do not apply from 8:00 a.m. – 9:30 a.m. and from 4:00 p.m. – 5:00 p.m. To our knowledge, there have not been significant or material issues that have arisen due to a lack of Marketplace Thresholds during these timeframe.

The CSE recognizes that SSCBs do not apply to all listed securities. However, for many securities not subject to SSCBs, particularly lower-priced securities, the prescribed threshold levels (300% below $0.50 and 50% from $0.50 to $1.00) are wide enough that Marketplace Thresholds would provide limited additional protection during an initial phase. For these securities, participant pre-trade controls, and principles of best execution would continue to apply.

Consequently, it is our view that Marketplace Thresholds for extended hours should be implemented as part of the finalized Volatility Framework for Extended Trading Hours. A review of the data will inform CIRO whether volatility is such that the Marketplace Thresholds should be in place and at what parameters, to maximize protection for investors.

Responses to CIROs Questions

Assuming that CIRO proceeds as proposed, we have the following comments on the proposal.

(a) Implementation Period

(i.) Effective date of Final Guidance

The currently proposed implementation date of 120 days after publication does not provide marketplaces enough time to prepare for the implementation period. Given that marketplaces are required to implement changes in the GTE two months prior to deployment and provide 90 days' notice prior to implementation, the proposed 120-day implementation period would effectively leave only 30 days for development and testing, which is insufficient.. For the Marketplace Thresholds specifically, all marketplaces must be prepared to consume the Opening Trade of the Primary Listing Exchange and develop logic

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that resets the One-Minute Reference Price following the open, which may take significant time.

Instead, the CSE suggests an implementation date of at least **six to nine months** following publication of final guidance. The CSE also asks that CIRO publish any revised parameters following the Initial Implementation Period for comment.

(ii.) Initial Implementation Period

The CSE suggests a period of at least six months for the Initial Implementation Period prior to full implementation of the Finalized Volatility Framework for Extended Trading Hours. This provides adequate time for CIRO to collect all necessary trade and quote data and determine the correct Marketplace Thresholds for this timeframe. The CSE also requests that CIRO publish its findings and any proposed changes prior to full implementation of the volatility framework.

(b) Data from Initial Implementation Period to be used for Assessment

The CSE agrees with CIROs approach to assess the appropriateness of Marketplace Threshold parameters following the Initial Implementation Period. The CSE recommends that CIRO prescribe a standard file format and field definitions across marketplaces, and with periodic submission as opposed to a single report at the end of the period.

(c) Reprice One-Minute Reference Price to the Opening Trade Price Only

(i.) Other trades resulting from an auction

The CSE agrees that the majority of risk is concentrated in the open of standard continuous trading hours and agrees that trades on other marketplaces for CSE Listed symbols should not impact the opening auction, or any trades immediately following the opening auction. The principle of repricing the One-Minute Reference Price from the Primary Listing Exchange's Opening Trade (also sets NLSP) is the appropriate approach to addressing this potential gap. However, the CSE asks CIRO for clarification on the below circumstances:

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1. The CSE asks CIRO to consider how the CSE Closing Price (CCP) Session will be treated. The CSE's closing auction sets the closing price at 4:00 p.m., and from 4:15 p.m. to 5:00 p.m. participants can enter orders that only trade at that closing price. Given that these orders can only execute at the closing price, the CSE asks CIRO to confirm that CCP Session orders are Closing Price Orders under UMIR 1.1, and are therefore exempt from Marketplace Thresholds. For example, if a CSE-listed security closes at $10.00 and then trades at $11.30 on another marketplace, CCP Session trades at $10.00 should not be blocked by the NLSP or One-Minute Reference Price. The CSE also asks CIRO to confirm that trading on other marketplaces before 4:00 p.m. cannot prevent the closing auction from executing at its calculated price, consistent with the current exemption for Market-on-Close Orders.
2. While the closing auction price sets the NLSP, it does not reset the One-Minute Reference Price. Now that other marketplaces will continue trading past 4:00 p.m., orders immediately after the close could be measured against a pre-close reference price, especially if the closing auction is extended. The CSE asks CIRO to consider whether a similar reset should apply following the closing auction on the Primary Listing Exchange.
3. With respect to Halts, CSE suggests that CIRO consider the possibility of resetting the One-Minute Reference Price to the Primary Listing Exchanges re-opening price following a halt, given that this trade will set the NLSP. This post-halt risk follows the same principles as a reset following the Opening Trade, especially given that halts are often due to large price moves in relation to dissemination of material information. However, the CSE does note that halts and reopenings already occur during core trading hours without a Reference Price reset, and CIRO has not identified material issues.
4. Lastly, CSE currently offers a call market opening for Other-Listed Securities at 8 a.m., following a pre-open session from 7:00 a.m. to 8:00 a.m. Where other marketplaces may now have traded these securities prior to 8:00 a.m., applying Marketplace Thresholds could prevent this call from executing at its calculated price, which is the outcome the exemption for Opening Orders is intended to avoid. The CSE seeks clarity as to whether the open of Other-Listed Securities on CSE will be subject to Marketplace Thresholds.

(ii.) Implementation Impact of Reprice One-Minute Reference Price to Opening Trade Price.

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The CSE's Multicast Market Data Feed already flags the Opening Trade on each trade message. The feed also separately flags CCP Session trades and MOC/LOC trades, shows whether a trade sets the last sale price, and identifies the Primary Listing Exchange for each symbol. Given this, other marketplaces should be able to identify the CSE's Opening Trade.

The CSE does not foresee any issue identifying opening trade from other Listing Exchanges given that we already consume this data. However, as outlined in question (a.)(i.), the CSE would require development work to ensure that the reference price is properly calibrated with the Opening Trade from other Primary Listing Exchanges. Additionally, marketplaces that run their own opening auction for securities listed elsewhere (for example, the CSE's 8:00 a.m. opening for Other-Listed Securities) may also flag those trades as Opening Trades. CIRO should confirm in the final guidance whether only the Opening Trade on the Primary Listing Exchange triggers the reset.

Furthermore, following the Initial Implementation Period, any additional changes to threshold values (SSCB or Marketplace Thresholds) for different time windows would also represent additional development for implementation. The CSE asks CIRO to consider this when confirming the timeline for the Finalized Volatility Framework.

(iii.) No Opening Trade on Listing Exchange

The CSE generally agrees with CIRO's proposed approach and we recognize that this situation can occur under the current framework, where securities may trade on other marketplaces prior to the Primary Listing Exchanges first trade, and that first trade currently is not exempt from Marketplace Thresholds.

However, we note that by extending Marketplace Thresholds to 7:00 a.m., the length of time where a pre-market trade may set the reference price is extended. When a Primary Listing Exchange has no Opening Trade, the first trade on that listing marketplace may be measured against a reference price that is several hours old. These scenarios are more likely to occur for illiquid symbols, which are also the most likely to not have an Opening Trade.

The CSE asks that CIRO specifically monitor this scenario during the Initial Implementation Period, including threshold breaches on a Primary Listing Exchange where no Opening

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Trade has occurred. If material issues arise, CIRO should consider extending this requirement to the Primary Listing Exchanges first trade of the day.

(d.) Operation of SSCBs near Opening

The CSE supports wider trigger levels of 20% and 40 trading increments in the period leading up and immediately following the open (9:00 a.m. – 9:50 a.m.). Marketplace Thresholds will continue to prevent individual orders from executing beyond the accepted threshold, and the wider trigger appropriately accounts for sustained price movement up to the open at 9:30 a.m.

However, CIRO should consider suspending SSCBs from 9:20 a.m. to 9:30 a.m. Since SSCBs last a minimum of five minutes, any halts triggered at or after 9:25 a.m. for example may delay the Opening Trade on the Primary Listing Exchange. Suspending SSCBs from 9:20 a.m. to 9:30 a.m. allows for a buffer of time that will minimize potential impact to the open. Additionally, since Opening Auction can assist with liquidity aggregation during large price movements, scenarios in which it can be delayed should be minimized. This approach would be consistent with CIRO's rationale for suspending SSCBs from 3:30 p.m. to 4:15 p.m., so as not to interfere with the Listing Exchanges closing price.

Assuming that CIRO proceeds with its proposal to allow SSCBs to be active up until 9:30 a.m., the CSE asks CIRO to confirm whether the Primary Listing Exchange's post halt reopening count as the Opening Trade for the One-Minute Reference Price reset?

Lastly, when SSCBs resume at 4:15 p.m., since the CSE's CCP Session is active at this time, we would also assume, based on the current proposal, that a SSCB halt triggered elsewhere would also halt CCP trading at the closing price. The CSE requests that CIRO consider trading during CSE's CCP to not be affected by SSCB halts, since these trades can only occur at the CSE closing price.

Additional Points for CIRO's Consideration

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(a) Under the Proposed Guidance, the first trade of the day is exempt from Marketplace Thresholds and sets the initial NLSP, and the previous days last sale price is not used as a reference price. With continuous trading now beginning at 7:00 a.m., the first trade of the day may occur in thin conditions on a marketplace other than the Primary Listing Exchange. A potentially erroneous or unrepresentative trade would set both reference prices for the remainder of the pre-market session, potentially providing a problematic or starting point and preventing trades at legitimate prices. The CSE asks CIRO to consider whether the first trade of the day should be measured against the Primary Listing Exchanges previous day's closing price and potentially enacting wider threshold levels to accommodate overnight news.

(b) Now with Marketplace Thresholds proposed for extended trading hours, a security may not trade for long periods, meaning the NLSP and One-Minute Reference Price may remain unchanged during these time periods. Therefore, an order may be measured against a reference price that is several hours old. The CSE asks CIRO to monitor this during the Initial Implementation Period and to consider whether a reference price should be treated as stale after a defined period without trading, for example by applying a wider threshold level to the next trade.

Conclusion

Again, we thank CIRO and CSA members for the opportunity to comment on the Proposal and we appreciate the effort to ensure investor protection, Canadian market resiliency, and Canadian market growth. The CSE believes CIRO is taking the correct steps to ensure that the finalized Volatility Framework for Extended Hours is structured to best ensure the health of Canadian Capital Markets. We do, however, suggest that the Initial Implementation Period take effect six to nine months following publication, providing marketplaces adequate time to develop, test and notify relevant stakeholders.

Additionally, the CSE also asks that CIRO consider proceeding with only extending SSCBs for extended hours and wait to enact Marketplace Thresholds until further data can be provided. This may significantly cut down on the time to implementation and would allow CIRO to gather data and determine the right Marketplace Threshold parameters, and timing

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for any One-Minute Reference Price resets, to ensure that the finalized Volatility Framework is correctly calibrated.

Lastly, the CSE asks CIRO to consider the effect of both SSCBs and Marketplace Thresholds on the CSEs CCP Session. We ask, that since trades during the CCP Session can only happen at the CSE Closing Price, that SSCB halts and Marketplace Thresholds do not prevent trading from occurring on CSE from 4:15 p.m. to 5:00 p.m.

The CSE thanks CIRO for facilitating this important discussion and are happy to engage fully with CIRO or other Marketplace participants on this matter at any point.

Sincerely,

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