TSX VENTURE EXCHANGE INC.

NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX Venture Exchange Inc. ("**TSXV**") is publishing this Notice of Proposed Amendments and Request for Comments relating to proposed amendments to the TSXV Rule Book (the "**TSXV Rules**") to reflect the introduction of allocation priority for price setting orders (the "**Amendments**"). The Amendments will be implemented following receipt of approval by the British Columbia Securities Commission and Alberta Securities Commission (collectively, the "**Commissions**") follow public notice and comment.

Market participants are invited to provide comments. Comments should be in writing and delivered by June 6, 2022 to:

Joanne Sanci
Legal Counsel, Regulatory Affairs
TMX Group
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Michael Brady
Deputy Director, Capital Markets Regulation,
British Columbia Securities Commission
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Email: mbrady@bcsc.bc.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by staff at the Commissions, and in the absence of any regulatory concerns, a notice will be published to confirm approval by the Commissions.

Background

TSXV operates a real-time, continuous auction market that matches individual orders with continual price discovery from 9:30 AM to 4:00 PM (Toronto time) in the central limit order book ("**CLOB**"). This period is referred to as the "regular session". All order types are accepted during this session. During the regular session, orders are individually displayed in the CLOB. Displayed portions of CLOB orders are given trading priority in the following order:

1. Price (best price gets priority ie. highest bid and lowest offer);
2. Broker (broker preferencing ie. buy and sell orders from the same broker get preference);
3. Long Life order type ("Long Life" or "LL"); and
4. Time priority (orders entered first get priority over orders entered after them) (please see example below).

Set out below is an example of the sequence of execution of orders pursuant to the current allocation priority rules as set out above:

Trading Priority Example 1:

An incoming market order ("**MKT**") to Sell 1000 shares from Broker 7 is entered against the buy order book below.

Order #	Side	Shares	Price	Broker No.	LL
1	B	100	10.00	2	N
2	B	200	10.00	7	N
3	B	300	10.00	5	Y
4	B	400	10.00	7	Y

Orders are numbered based on their time of entry. For example, Order #1 was entered first, and prior to Order #2. Correspondingly, Order #4 was entered last. Based on the existing allocation priority rules, and given that the price is the same for all four orders, the sequence of execution would be as follows:
Order Priority:

1. Order 4 (broker preference for broker 7 and Long Life)
2. Order 2 (broker preference for broker 7)
3. Order 3 (Long Life order)
4. Order 1 (no broker preference, non-Long Life)

Long Life Orders Type

Long Life is a special order type that was designed to enhance the quality of execution by providing allocation benefit within a price level to participants who are willing to commit liquidity to the book for a period of time.

In exchange for this allocation benefit, Long Life orders commit to a one second minimum resting time in the CLOB, during which time the order cannot be modified or canceled.

As noted above, pursuant to the current TSXV Rules, the allocation priority for orders identified is as follows:

1. Price
2. Broker
3. Long Life
4. Time

While Long Life has been successful since its inception, one of its unintended consequences has been its use to jump over price setting orders (i.e. orders that set the best price at TSXV see definition below), an activity that we have dubbed as *tailgating*. The manner in which such *tailgating* happens is as follows:

- When TSXV Liquidity Providers ("**LPs**") create new price levels, the price levels are untested (no other orders exist at price level) and LP's create them without using Long Life.

- Fractions of seconds later, a second party will join, having seen that the new level is not immediately taken.
- This second participant enters a Long Life order and hence is provided priority over the original order that set a new price level despite the second order (i.e. the Long Life order incurring far less risk).

The prevalence of such tailgating disincentivizes liquidity provision on TSXV at new price levels negatively impacting price discovery in the Canadian market.

Overview of the Amendments

Pursuant to the Amendments, Rule C.2.01 – Establishing Priority will be amended to give a price setting order (i.e. an order that sets the best price on TSXV), the same allocation priority as a Long Life order entered after such price setting order, subject to other applicable priority allocation rules.

Pursuant to the Amendments, the allocation priority for orders identified would be as follows:

1. Price
2. Broker
3. Long Life/Price Setting
4. Time priority

Pursuant to the Amendments, the sequence of execution as per the previous example outlined above would be as follows:

Trading Priority Example 1:

An incoming order to Sell 1000 shares @ MKT from Broker 7 is entered against the buy order book below:

Order #	Side	Shares	Price	Broker	LL	Price Setter
1	B	100	10.00	2	N	Y
2	B	200	10.00	7	N	N
3	B	300	10.00	5	Y	N
4	B	400	10.00	7	Y	N

Based on the proposed allocation priority, the sequence of execution would be as follows:

Order Priority:

1. Order 4 (broker preference for broker 7 and Long Life)
2. Order 2 (broker preference for broker 7)
3. Order 1 (Price Setting order that came before a Long Life order)
4. Order 3 (Long Life Order)

Pursuant to the Amendments, Long Life orders will no longer have priority over price setting orders, which may help mitigate the current disincentive of setting improved prices on TSXV.

A blackline of the Amendments against the existing TSXV Rules is attached as **Appendix A** hereto for ease of reference.

Rationale for the Proposed Amendments

The Amendments seek to address the tailgating issue described above by providing Long Life priority benefits to those orders that create new price levels (a "**price setting order**") without the obligation for the order to rest in the book for a minimum 1 second as with Long Life. TSXV is of the view that creating new price levels is at least as beneficial, and accepts at least as much risk, as Long Life orders that remain in the CLOB for 1 second on an established price level.

Expected Date of Implementation

The Amendments are expected to be implemented following receipt of regulatory approval, and are anticipated to be implemented in Q3 2022.

Expected Impact on Market

The Amendments are not expected to have a negative impact on the markets. TSXV expects that the Amendments will eliminate the current disincentive of setting new price levels on the TSXV thereby leading to higher price setting activity on TSXV which in turn should improve price discovery and execution quality. As such, TSXV is of the view that the Amendments will support the maintenance of fair and orderly markets.

Expected Impact of the Amendments on TSXV's Compliance with applicable Securities Law

The Amendments are in compliance with applicable securities laws and do not impact fair access to markets or the maintenance of fair and orderly markets.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Amendments

The Amendments are expected to have a positive impact on the market participants. Members would need to adjust their trading workflows and strategies to benefit fully from the Amendments. No changes are required from participating organizations in order to take advantage of the Amendments. No changes would be required by service vendors. A new value will be created and passed in an existing private tag (Exchange Admin tag) to identify price-setting priority trades.

Do the Amendments Currently Exist in Other Markets or Jurisdictions

TSXV is the only marketplace in Canada with a Long Life order type, and therefore, no other Canadian marketplace has a similar priority allocation for price setting orders. TSXV is unaware of order types similar to Long Life in the U.S. or European markets.

APPENDIX A

BLACKLINE OF AMENDMENTS TO TSXV RULE BOOK

RULE C.200 – TRADING PROCEDURES AND PRACTICES

Priority

C.2.01 – Establishing Priority

(1)   ~~A~~Subject to Rule C.206(3), a Long Life order at a particular price shall be executed prior to an order that is not a Long Life order at that price ("long~~ life priority"), except in the case of an Undisclosed Order, in which~~ ~~case no long-life priority is provided~~ life priority"). In the case of an order that sets the best price on the Exchange (i.e. a price setting order), that order will get the same priority as a Long Life order entered after the order that set such price, subject to Rule C.2.01(3).

Amended (•, 2022)

The following text is provided for reference purposes only:

C.2.01– Establishing Priority

[…]

(3)   Subject to Rule C.2.01(1), Rule C.2.01(2) and Rule C.2.06, an order at a particular price shall be executed prior to any orders at that price entered subsequently, and after all orders entered previously ("time priority"), except as may be provided otherwise.

[…]

C.2.06 – Allocation of Trades

[…]

(3) Subject to Rule C.2.01(1), Rule C.2.01(2), and any conditions imposed on either the tradeable order or the offsetting order that would otherwise prevent the two orders from executing against each other, a tradeable order that is entered in the Book shall be executed on allocation in the following sequence:

(a) to offsetting orders entered in the Book by the same Member that entered the tradeable order according to the time priority of such offsetting orders in the Book, provided that the offsetting order is undisclosed, or in the case where the offsetting order is disclosed, neither the tradeable order nor the offsetting order is an unattributed order; then

(b) to offsetting orders in the Book according to time priority.

[…]