

**RULE 11****TRADING OF ALTERNATIVE MARKET SECURITIES****11-101 Application of Rules**

The following rules apply to trading in the Alternative Market 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.

**11-102 Qualification for Alternative Market**

- (1) CNSX 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 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) if 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
  - (c) CNSX Markets, acting reasonably, determines that disqualification is necessary to protect the public interest or the maintenance of a fair and orderly market.

**11-103 Access by Eligible Clients to the Alternative Market**

(1) In this Rule,

**“eligible client”** means

- (a) a client that falls within the definition of “acceptable counterparties” or “acceptable institutions” as defined in the General Notes and Definitions section of the Joint Regulatory Financial Questionnaire and Report;
- (b) a client that is registered as an investment counselor or portfolio manager under the Securities Act of one or more of the provinces of Canada;
- (c) a client that is a foreign broker or dealer (or the equivalent registration) registered with the appropriate regulatory body in the broker’s or dealer’s home jurisdiction and that is an affiliate of a CNSX Dealer acting for its own account, the accounts of other eligible clients or the accounts of its clients;
- (d) a client that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the client and falls into one of the following categories:
  - (i) an insurance company as defined in section 2(13) of the U.S. Securities Act of 1933,
  - (ii) an investment company registered under the U.S. Securities Act of 1933 or any business development company as defined in section 2(a)(48) of the Act,
  - (iii) a small business investment company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the U.S. Small Business Investment Act of 1958,
  - (iv) a plan established and maintained by a U.S. state, its political subdivisions, or any agency or instrumentality of a U.S. state or its political subdivisions, for the benefit of its employees,
  - (v) an employee benefit plan within the meaning of Title I of the U.S. Employee Retirement Income Securities Act of 1974,
  - (vi) a trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in (iv) or (v) above, except trust funds that include as participants individual retirement accounts or U.S. H.R. 10 plans,
  - (vii) a business development company as defined in section 202(a)22 of the Investment Advisors Act of 1940,
  - (viii) an organization described in section 501(c)(3) of the U.S. Internal Revenue Code, corporation (other than a bank as defined in section 3(a)2 of the U.S. Securities Act of 1933 or a savings and loan association or other institution referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933 or a foreign bank or savings and loan association or equivalent institution), partnership or Massachusetts or similar business trust, and

- (ix) an investment advisor registered under the U.S. Investment Advisors Act;
- (e) a client that is a dealer registered pursuant to section 15 of the U.S. Securities Exchange Act of 1934, acting for its own account or the accounts of other eligible clients, that in the aggregate owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer, provided that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer;
- (f) a client that is an investment company registered under the U.S. Investment Company Act, acting for its own account or for the accounts of other eligible clients, that is part of a family of investment companies which own in the aggregate at least \$100 million in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies and, for these purposes, “family of investment companies” means any two or more investment companies registered under the U.S. Investment Company Act, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment advisor (or, in the case of unit investment trusts, the same depositor), provided, for these purposes:
  - (i) each series of a series company (as defined in Rule 18f-2 under the U.S. Investment Company Act) shall be deemed to be a separate investment company, and
  - (ii) investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority owned subsidiaries of the same parent, or if one investment company’s adviser (or depositor) is a majority-owned subsidiary of the other investment company’s adviser (or depositor);
- (g) a client, all of the equity owners of which are eligible clients, acting for its own account or the accounts of other eligible clients;
- (h) a client that is a bank as defined in section 3(a)(2) of the U.S. Securities Act of 1933, or any savings and loan institution or other institution as referenced in section 3(a)(5)(A) of the U.S. Securities Act of 1933, acting for its own account or the accounts of other eligible clients, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25 million;
- (i) a client that is a non-individual with total securities under administration or management exceeding \$10 million, where the client is resident in a jurisdiction that falls within the definition of “Basle Accord Countries” as defined in the General Notes and Definitions section of the Joint Regulatory Financial Questionnaire and Report; and
- (j) a client that enters an order through an order execution account; and an “**order execution account**” is a client account in respect of

**Formatted:** Justified, Indent: Left: 0.98", Hanging: 0.3", Space Before: 10.2 pt, Widow/Orphan control, Adjust space between Latin and Asian text, Adjust space between Asian text and numbers, Tabs: 5.75", Left

which a CNSX Dealer is exempted, in whole or in part, from making a determination on the suitability of trades for the client in accordance with the requirements of a securities regulatory authority or a recognized self-regulatory organization.

- (2) In determining the aggregate amount of securities owned and invested on a discretionary basis by an entity, the following instruments and interests shall be excluded: bank deposit notes and certificates of deposit; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency, interest rate and commodity swaps.
- (3) The aggregate value of securities owned and invested on a discretionary basis by an entity shall be the cost of such securities, except where the entity reports its securities holdings in its financial statements on the basis of their market value and no current information with respect to the cost of those securities has been published and in the latter event, the securities may be valued at market.
- (4) In determining the aggregate amount of securities owned by an entity and invested on a discretionary basis, securities owned by subsidiaries of the entity that are consolidated with the entity in its financial statements prepared in accordance with generally accepted accounting principles may be included if the investments of such subsidiaries are managed under the discretion of the entity, except that, unless the entity is a reporting company under section 13 or 15(d) of the U.S. Securities Exchange Act, securities owned by such subsidiaries may not be included if the entity itself is a majority-owned subsidiary that would be included in the consolidated financial statements of another enterprise.
- (5) A CNSX Dealer may transmit orders received electronically from an eligible client in an Alternative Market security directly to the CNSX System provided that the CNSX Dealer has obtained prior written approval from CNSX
  - (a) that the system of the CNSX Dealer meets the prescribed conditions;
  - (b) 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) for any amendments to the standard form of agreement; and has met such other conditions as prescribed.
- (6) For the purposes of Rule 11-103(5)(a), the system of the CNSX Dealer 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 4-101A(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.
- (7) For the purposes of Rule 11-103(5)(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;
  - (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 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 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 11-103 for review prior to entry to the trading system.

- (8) Training materials regarding CNSX Requirements that the CNSX Dealer proposes to use must be reviewed by CNSX prior to use.
- (9) The CNSX Dealer shall designate a specific person as being responsible for the system.
- (10) Orders executed through the system shall be reviewed for compliance and credit purposes daily by such designated person of the CNSX Dealer.
- (11) 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.
- (12) The CNSX Dealer shall review the eligibility of eligible clients using the system at least annually.
- (13) The CNSX Dealer shall make available for review by CNSX, as required from time to time, copies of the agreements between the CNSX Dealer and its eligible clients.

**11-104 Responsibility of CNSX Dealers**

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 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 with prior written notification of the individual appointed to be responsible for such compliance.

**11-105 Minimum Price Variation**

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

<b>Price per security</b>	<b>Increment</b>
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.