Canadian Forum for Financial Markets
CFFIM
Forum Canadien des Marchés Financiers
FCMFI

RE: CANADIAN SECURITIES EXCHANGE INTRODUCTION OF CSE2 ODD LOT LIQUIDITY ALLOCATING (OLLA) ORDER TYPE

November 24, 2025

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Ugo Mbakogu
Legal Counsel CNSX Markets Inc.
100 King Street West, Suite 7210 Toronto, ON, M5X 1E1
Email: GeneralCousel@thecse.com

Michael Grecoff
Securities Market Specialist
British Columbia Securities Commission 701 West Georgia Street
P.O. Box 10142, Pacific Centre Vancouver, BC V7Y 1L2
Email: MGrecoff@bcsc.bc.ca

Trading and Markets Division
Ontario Securities Commission
20 Queen Street West, 20th Floor Toronto, ON, M5H 3S8
Email: TradingandMarkets@osc.gov.on.ca

Dear Mesdames/Sirs:

RE: CSE INTRODUCTION OF CSE2 ODD LOT LIQUIDITY ALLOCATING (OLLA) ORDER TYPE (THE "PROPOSAL")

The Canadian Forum for Financial Markets (CFFiM)/ Forum Canadien des Marchés Financiers (FCMFi) is dedicated to moving forward proposals to demonstrably grow healthy, competitive financial markets in Canada for the greater good. We are a mission-first, values-driven, purposeful, and reform-minded organization committed to Canada's broader economic interests.

The Proposal has made efforts to ensure that OLLA orders are only permitted to fill at the National Best Bid and Offer ("NBBO"), so that the interests and protections of smaller sized individual retail investors are ensured. These efforts are admirable.

Movement to more continuous odd lot liquidity (for investors) at a lower maintenance cost (for intermediaries) is a proper long-term goal. However, this goal should be achieved with a more uniform, easy to understand (to investors) model, whose long-term purpose and capability is scalable. The interests of the marketplace ecosystem as a whole should also considered as order types are being introduced to promote activity in smaller and smaller sizes.

We offer constructive analysis, as a solutions partner, to stimulate regulatory modernization and inclusive growth needed to meet today's and the next decade's challenges.

EXECUTIVE SUMMARY

The Proposal is a form of dark pegged liquidity and also a form of special terms order interacting with other special terms orders (odd lots).

It challenges what was a What-You See-Is-What-You-Get order book system and seeks to achieve fairness by only trading when the market is two-sided and at the NBBO.

Its unique combination of order handling crosses into the realm of responsibilities traditionally managed by dealers, through a confusing set of conditionality post order entry into the trading engine that fundamentally alters commonly held definitions of market limit prices.

The Proposal reflects this fundamental change in a small corner of the market without cost-benefit analysis, with potential precedents for other larger changes.

A. THE LACK OF A COST-BENEFIT ANALYSIS

The Proposal is a tool which is focused on smaller executions. It requires specialty for a seemingly small issue, unquantified by the CSE. The Proposal currently states that the gap filled by this product relates to CSE2 continuous trading from eight to five, but odd lot orders are currently functional only from nine-thirty to four. CSE2 is at less than ½ of 1% of volume traded.

The economic reality is that the Proposal seeks to promote smaller and smaller executions. Irrespective of diminutive scale, changes need to make the overall marketplace ecosystem better and more competitive.

The Proposal currently lacks a cost benefit analysis that includes consideration of the increase in odd lot fill rates that are expected, consequent estimate of savings and market impact. Such a cost benefit analysis would address whether odd lots are underserved due to lack of demand or due to negative consequences on the overall market.

Basic data which should be publicly disclosed with the Proposal includes:

- The number of shares traded on the CSE daily on average.
- The number of executions via odd lots.
- The fees generated on those odd lot transactions and.
- The number of these odd lot transactions would be expected to happen after market hours.

The below provides a sample analysis for markets introducing new order types:

Assumptions:

- The CSE2 executes 3-5MM shares a day.
- 10% of these (a high watermark in an odd lot centric US market) would result in 300-500K shares a day over the trading day of 6.5 hours trading in odd lots

- Across 2 hours in the morning or after close, no more than 100-150k shares at most trading in odd lots in these facilities daily if they traded at a consistent level as during the trading day.
- Given significantly lower after market liquidity, no more than 30-50K shares a day traded .at 33 shares on average per odd lot (illustrative example), 1000 transactions a day or 250,000 a year would benefit from this facility.

Potential economic benefits include:

- Fills that would otherwise not occur.
- Lower execution cost?
- Lower hard dollar cost for dealers?

Potential economic costs include:

- Additional complexity of market data (for those whose business models seek complete perspectives)
- Market structure complexity - – hidden costs of discouraging participation as its new order types May actually detract from market perceptions as fills do not go off when expected.
- The blurring lines between marketplaces and broker-dealers (discussed below)
- The nudge to an end market that does not serve the commons.

A fulsome cost benefit analysis also includes:

i) Reasons:

  - Odd lot liquidity is necessary, including a definition of liquidity in quantitative and qualitative terms.

  - The Proposal is limited to CSE2 and not expanded to CSE1.8, including disclosure of the pricing of OLLA, and odd lots on CSE2 and related pricing on CSE1.

  - Supporting the integrity of market making operations including the perceived harm if these orders continue into the continuous session, the perceived lack of harm if extended and pre-market sessions and the considerations of scale and 'tradeoffs.'

ii) Review of the risks of further fragmenting liquidity at sub-board lot levels.

iii) Disclosure and analysis of:

  a. Alternatives considered.
  b. Consultations conducted: The extent of their representation in the Canadian market, specifically within CSE and CSE2 segmentsand the nature of their market engagement, for instance, active versus passive trading or proprietary versus market-making operations

B. MARKET CONCERNS

i) GENERALLY

The Proposal 'free rides' off the NBBO, in terms of price and execution latency, by resting in the same order book with regular limit orders but does not pay the cost of this optionality other dark pool orders would, by always filling against offsetting orders.

It is precisely because odd lots cannot fill against round lots at the NBBO, they were once not always expected to respect best price at all times.

By ignoring circumstances where OLLA limit prices and odd lot limit prices can explicitly interact (that is where both sides pre-meditated and explicitly articulated a price they are comfortable with) outside the NBBO, a hidden element of unfairness is introduced as the opportunity cost of a fill is introduced. This has been the practice, and price to pay in order to create a respect of the NBBO by automated odd lot facilities.

The Proposal attempts to create an order fill mechanism that bridges this gap, by creating conditional secondary limits and exceptions, but breaks a fundamental understanding of what constitutes a limit in existing limit order functionality by unilaterally changing a client's limit price as discussed further below.

ii) THE PRIMACY OF CLIENT ORDERS

As a core principle, marketplaces should not change limits on client orders.

Example 2 of the Proposal states:

> "A 40-share odd lot Sell order is entered with a Limit Price of $10.04:
> a. It will not match and trade with OLLA1 since OLLA1 can only match and trade at the best Bid of 10.05, and OLLA1's Buy Limit Price of 10.04 is outside the best Bid.
> b. *The new odd lot Sell order books passively at 10.05 [emphasis added]*, since it cannot match and trade with OLLA1, and OL1 is outside of both the NBBO and the Limit Price of the new order. "

If the OL sell order is offered at 10.04 > it is not logical that it would be booked in any case at 10.05, even if the best bid is 10.05, because the seller is willing to receive 10.04. Even if it does not execute against the round lot at 10.05, or even the 10.04 OLLA (as CSE would like all odd lots to only execute at the Consolidated Best Bid and Offer), the odd lot sell order should logically be booked at 10.04 to align with the meaning of hard limit orders and therefore primary market practice and participants' expectation.

Though the Proposal seeks to introduce a mechanism for odd lot orders and OLLA to interact, that is not done in the above example, which unilaterally changes the limit price of the seller from 10.04 to 10.05, creating confusion for the singular seller who put in the 10.04 limit order instructions. If subsequently, the bid moved to 10.04 and a different sell odd lot order came in at 10.04, it is unclear whether the second order would have price and time -priority on the original sell odd lot order, raising further fairness concerns.

Though the fill at 10.04 may not occur, the repricing of a limit price on a limit order, without client consent, is an overstep. Arguably this is an issue of practice rather than rules. Historically, odd lots were considered special terms. Because odd lots explicitly did not set best price, they were not always required to respect it. Also arguably, a larger opportunity cost is introduced with missed fills. Missing an actual execution when two parties clearly are willing to trade at 10.04 is a mechanism which creates confusion in the marketplace.

As odd lots do not set last price, an alternative is to simply let the matches occur in these extreme scenarios where limit prices are perfectly offset and dealers explain order management to clients. Further alternatives are addressed in Section D, Proposed Solutions.

iii) CONTINUED COMPLICATED ORDER MANAGEMENT BEHAVIOR

The piecemeal addition of an odd lot facility in the secondary, not primary CSE venue, and on off-market hours is unnecessarily complex. It continues the trend of more complexity at the marketplace level; rather than a simplification which is intuitive and connotes fairness to investors.

There should not be a differing methodology for how marketable odd lots are booked after hours at the CSE2 vs. intraday, or the TMX intraday, or the CSE1. Creating a peg that both floats with the NBBO but has its own limit price (which can be below the NBBO) – can by CSE's own examples create confusing outcomes, which while opaque to most investors, can be observed post-trade; and raise issues of fairness.

Additional examples in the Proposal (Example 6, items 1 and 4) illustrate situations where orders meet the size, side, and price criteria but do not result in a match. Additionally, the Proposal places firm priority on OLLA, not odd lot order, further altering perceived ability to match the two order types.

iv) CONTINUED DISINTERMEDIATION OF SELL-SIDE

The lack of full integration or reform of the existing odd lot facility also moves marketplaces further down a path to disintermediate trading desks.

The primary concern with this "order type" functionality is that it continues a trend of transferring order handling mechanisms to the marketplace level, which historically have been managed at the dealer level. There is a fine line between automating the handling of client orders via new order types as opposed to designing their specifications. While the specifics of order parameters (symbol, side, size, price) are still controlled at the dealer level, all of the remaining functions, which were historically not done at the marketplace level are continually being automated away, including for example, among others, pegging, reserving size at the quote, and refreshing orders.

By taking on more and more of a dealers' functionality and responsibilities and automating them away, over time, marketplaces erode the value proposition of their dealer-customers order handling.

Economically both segments, marketplaces and dealers, have incentive to vertically integrate upstream or downstream, respectively. Marketplaces have incentive to move upstream because if they handle more of the order process, they have a higher probability of directing any orders on their exchange, increasing gross volumes, revenues through increased matches, and pricing power. Dealers have incentive to move downstream into acting like a marketplace because by improving fill probability, they can reduce their net trading costs, operating margins, and opportunity costs.

The distinction between the role of marketplaces and the role of dealers is important to maintain, as the economics of secondary trading at the dealer level are used to share the fixed Cost burden of underwriting primary business. That is, integrated costs of primary issuance, need to be amortized over a broader revenue spectrum. The question needs to be asked – "Can the promotion of smaller and smaller executions co-exist with the need for underwriting firms' economic needs?"

In an economic "tragedy of the commons," it is that very primary offering business in the long run which supports the vibrancy of all marketplaces and participants which is under threat as those participants nibble away at the broker-dealer's role. Clear regulation prevents this unintended result. Regulators need to re-establish the distinction between dealers and marketplaces. Continuing to permit this piecemeal transition of traditional dealer functionality to marketplaces, is tacit approval of this transition, without fulsome analysis

This type of functionality is typically sold to the small and mid-sized dealers (as the bank-owned dealers' and US affiliates can invest in these systems), yet ironically, over time, it's the smaller / mid-size firms who get pushed out economically as a result of this disintermediation, due to consequently weakened business power/presence, to the point their ability to cross sell into underwriting is harmed. A similar mechanism can be implemented at the dealer level systems (most of which are now provided by third party vendors) within the EMS/OMS, SOR or market making tools. For senior market securities, a number of dealers already do so.

Rejecting this order type solely on the basis of the distinction outlined above would send a clear signal to the ecosystem regarding the appropriate allocation of functionality.

C. PROPOSED SOLUTIONS

Odd lot orders and OLLA are asymmetric: a marketable OLLA will fill against a resting odd lot order, but a marketable odd lot order will not always fill against a resting OLLA.

The Proposal references other solutions considered, which, as stated previously in this correspondence, should be disclosed. In the interim, the following recommendations are provided to reduce confusion and enhance fill rates while creating more symmetry and fairness:

- OLLA is entered by clients and/or inversely restricts OL market orders to client orders only.
- A distinction between OL (odd lot orders) entered by clients and those entered by market makers. This is to ensure that bulky OLLA have priority over OL1 when they are competing market maker orders and clients aren't harmed.
- Offering OLLA in the continuous market.

In addition, it is recommended that an analysis be conducted and produced of the how these matters are dealt with at comparable markets such as Australia or mid-sized G7 countries in Europe (Borsa Italia, Nordics or Euronext).

CONCLUSION

In summary, the introduction of trading mechanisms, introduces "trade-offs." Transparency regarding what is being traded off by serving odd lot markets with dark liquidity types is needed.

Respectfully submitted,

The Canadian Forum for Financial Markets

100 Wellington Street West | Suite 1910
Po Box 173| Toronto, On | M5k1h6
www.CFFiM-FCMFi.Ca