

13.2 Marketplaces

13.2.1 Canadian Securities Exchange – Variation of Recognition Order – Notice

CANADIAN SECURITIES EXCHANGE
VARIATION OF RECOGNITION ORDER
NOTICE

1. INTRODUCTION

The Canadian Securities Exchange (CSE or the Exchange) is a recognized exchange pursuant to section 21 of the *Securities Act* (Ontario) (the Act). OSC staff (Staff or we) are publishing this notice to give an update on a number of initiatives aimed at strengthening listings requirements. These initiatives include a variation to the CSE's recognition order (Recognition Order), which is also published today.

2. BACKGROUND

The CSE was recognized as an exchange in 2004. It has a unique model for listing issuers in Canada, as it is restricted to listing only reporting issuers and it is intended that the Exchange relies on the review by a Canadian securities regulatory authority of documents associated with initial public offerings and ongoing disclosure. This restriction is reflected in its Recognition Order, which states that only reporting issuers may be listed on the Exchange. The CSE's Recognition Order also has other requirements relating to CSE's listing function, including:

- a requirement that it maintain its ability to regulate and discipline issuers;
- a requirement that the CSE carry out appropriate review procedures to monitor and enforce issuer compliance with its rules; and
- certain reporting requirements pertaining to listing activities.

The CSE also has policies setting out listing requirements, which include:

- Policy 2 – *Qualification for Listing*, which sets out the minimum standards for listing on the Exchange; and
- Policy 8 – *Fundamental Changes*, which covers fundamental changes to a listed issuer's business, such that the issuer effectively changes to a different issuer.

3. DISCUSSION

Recently, there has been an increase in the number of issuers listed on the CSE, with a relatively small percentage arising by way of an initial public offering. Where an issuer seeks to list on the CSE without concurrently filing a prospectus with a securities regulatory authority, the CSE will not have the benefit of the issuer having been concurrently reviewed by another regulator. To address this issue within the regulatory framework for the CSE's listing function, a number of steps have been taken, including the following:

- On January 23, 2015, the CSE published Notice 2015-003 *Regulatory Guidance on Plans or Arrangement and Capital Structure*, where it set out its expectations for issuers that become reporting issuers through a statutory plan of arrangement;
- The Commission has amended the CSE's Recognition Order to (i) specifically reference the CSE's public interest mandate, (ii) reinforce that the CSE's rules will not be contrary to the public interest and they address risks associated with the listing and continued listing of issuers, (iii) require the CSE to ensure that it takes into consideration the public interest and risks associated with the listing and continued listing of issuers when it carries out its listing function, and (iv) establish additional reporting requirements; and
- Concurrent with this staff notice, the CSE is publishing for comment proposed amendments to enhance its initial listing requirements and add restrictions on listed issuers undergoing fundamental changes in their business.

4. CONCLUSION

Staff are of the view that the amendments to the CSE's Recognition Order, together with the upcoming amendments to the CSE's requirements applicable to listed issuers, are important steps in establishing a regulatory framework that addresses risks associated with the increasing number of issuers that access the Exchange through listing avenues other than initial public offerings. We will continue to monitor additional enhancements that CSE will make to its listing standards to ensure they align with how the Exchange has grown over the past several years and may continue to grow in the future.