

TSX INC.

NOTICE OF RULE AMENDMENTS AND REQUEST FOR COMMENTS

TSX Inc. ("TSX") is publishing this Notice of Proposed Rule Amendments in accordance with the "Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto".

The Proposed Amendments will be effective upon approval by the Ontario Securities Commission (the "OSC") following public notice and comment. Comments should be in writing and delivered by June 2, 2014 to:

Colin Yao
Legal Counsel, Regulatory Affairs (Equity Trading)
Toronto Stock Exchange
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2
Fax: (416) 947-4461
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
Fax: (416) 595-8940
Email: marketregulation@osc.gov.on.ca

Comments will be publicly available unless confidentiality is requested. Upon completion of the review by commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of commission staff's review.

Proposed Amendments

The TSX Rule Book will be amended to remove the board lot volume requirement for Market-on-Close ("MOC") orders and permit MOC Limit orders to be entered, cancelled and modified in the MOC Book on each trading day from 7:00 a.m. until the time the MOC Imbalance is broadcast (the "Proposed Amendments").

Please see the attached Appendix A to for a complete blackline of the Proposed Amendments.

MOC and LOC Order Volumes

The board lot volume restriction will be removed for MOC and LOC orders. MOC and LOC orders will be accepted into the MOC order book with board lot, mixed lot and odd lot volumes.

Pre-Imbalance LOC Orders

The TSX is proposing to accept “Limit-on-Close” orders into the MOC order book prior to the MOC imbalance broadcast under the following conditions:

1. LOC orders will now also be accepted during the following market states: Pre-Open and Post-Open (pre-imbalance LOC orders);
2. The price and volume of pre-imbalance LOC orders will not be restricted (i.e. post-imbalance LOC order entry restrictions will not apply);
3. Pre-imbalance LOC orders may be modified or cancelled prior to the MOC imbalance broadcast;
4. Pre-imbalance LOC orders may not be cancelled or modified after the imbalance has been published;
5. The MOC imbalance calculation will be modified to take into account pre-imbalance LOC orders; and
6. The TSX BBO midpoint price at the time the MOC imbalance was determined will be added to the MOC imbalance message.

MOC Imbalance Determination

The MOC imbalance calculation will be modified to take into account pre-imbalance LOC orders.

In addition to MOC orders, LOC orders that are priced equal to or more aggressive than the TSX BBO mid-point at the time of the calculation will be considered when determining the MOC imbalance. The imbalance side and size will be determined as the difference between the aggregate eligible buy MOC/LOC volume and aggregate eligible sell MOC/LOC volume.

Example - For illustration purposes only – MOC Imbalance calculation with MOC and LOC orders

TSX BBO: (25.02, 25.05)

TSX Mid-point: 25.035

MOC Book							
Imbalance eligible	Order Type	Bid Volume	Bid Price	Offer Price	Offer Volume	Order Type	Imbalance eligible
✓	MOC	500,000	MKT	MKT	400,000	MOC	✓
✓	LOC	50,000	25.10	24.97	50,000	LOC	✓

✓	LOC	50,000	25.08	25.00	50,000	LOC	✓
✗	LOC	50,000	25.02	25.02	50,000	LOC	✓
✗	LOC	500,000	0.01	25.04	50,000	LOC	✗

Buy eligible volume: $500,000 + 50,000 + 50,000 = 600,000$

Sell eligible volume: $400,000 + 50,000 + 50,000 + 50,000 = 550,000$

A 50,000 Buy imbalance will be published.

Buy LOC orders at 25.02 and 0.01 do not contribute to the imbalance due to their limit price not being equal or higher than the mid-point of the TSX BBO.

Sell LOC order at 25.04 does not contribute to the imbalance due to the limit price not being equal or lower than the mid-point of the TSX BBO.

MOC Imbalance Message

In connection with the Proposed Amendments, the TSX BBO midpoint price will be added to the MOC imbalance message.

Registered Traders (RT) Obligations

With the introduction of mixed lot and odd lot MOC and LOC orders, closing trades may result in a central limit order book ("CLOB") board lot order partially trading, leaving a mixed lot or odd lot volume. When this occurs, the registered trader ("RT") assigned to that symbol will auto-fill the odd lot remaining volume of the CLOB order at the closing price. If there is a remaining board lot volume, this shall remain in the order book subject to the order's duration instruction.

Example - For illustration purposes only – RT auto-fill at the Closing Price

TSX BBO: (25.02, 25.05)

CCP= 25.05

Combined MOC and CLOB							
Order #	Order Type	Bid Volume	Bid Price	Offer Price	Offer Volume	Order Type	Order #
1	MOC	500,250	MKT	MKT	400,000	MOC	5
				25.02	100,000	LOC	6
2	CLOB	1,000	25.02	25.05	1,000	CLOB	7

3	CLOB	1,000	25.01	25.06	1,000	CLOB	8
4	CLOB	1,000	25.00	25.07	1,000	CLOB	9

Trade	Comment
1 with 5 for 400,000 @ 25.05	MOC MKT orders received priority in the closing allocation
1 with 6 for 100,000 @ 25.05	LOC order receives next fill due to price priority
1 with 7 for 250 @ 25.05	CLOB sell order receives the next fill due to price priority, leaving a remaining volume which is a mixed lot
RT with 7 for 50 @ 25.05	The RT assigned to the symbol fills 50 shares at the closing price

Resulting Order Book

CLOB							
Order #	Order Type	Bid Volume	Bid Price	Offer Price	Offer Volume	Order Type	Order #
2	CLOB	1,000	25.02	25.05	700	CLOB	7
3	CLOB	1,000	25.01	25.06	1,000	CLOB	8
4	CLOB	1,000	25.00	25.07	1,000	CLOB	9

Expected Date of Implementation

The Proposed Amendments are expected to become effective in November 2014.

Rationale

In response to client requests to re-examine the structure of the MOC facility, TSX hosted a number of forum discussions and individual meetings with Buy Side institutions and Sell Side dealers. Those consulted were market professionals, well versed with both the rules of continuous trading and the closing auction offered on TSX and were also

significant users of the MOC facility. They represented trading interests across Canada and the United States.

We learned that the board lot restriction for closing orders created an inconvenience for MOC users who would like a definitive closing price for a given basket of securities, but where the constituent composition may result in mixed or odd lot orders. In dealing with this restriction today, participants often place board lot volumes into the MOC facility, while placing remaining odd lot quantity into the continuous session just prior to the close, ultimately being filled by the registered trader at prices different than the closing price. These odd lot orders entered just before the close also increase registered trader's overnight risk as there is not enough time to off-load any accumulated positions.

We also discovered that the MOC facility works well for traders who are seeking the closing price but are less price sensitive. It was identified by the MOC users that there are traders with discretion over their orders whose goal is to achieve the closing price but with the additional objective of value preservation. Allowing price limits on orders entered prior to the imbalance dissemination would aid value preservation and enable traders to utilize the MOC facility for orders over which they have discretion.

Therefore we propose to remove the board lot volume restriction for MOC and Limit-on-Close ("LOC") order entries. MOC and LOC orders will be accepted into the MOC book with board lot, mixed lot and odd lot volumes and to allow LOC order entry prior to the imbalance dissemination

Expected Impact

We do not believe the Proposed Amendments will have any material or negative impact on market structure, members, investors, issuers or capital markets. The Proposed Amendments are expected to improve the functionality of the existing MOC facility and to result in a number of benefits for MOC users and potentially the market as a whole. As additional MOC volume will be contributed prior to imbalance publication, an increase in the liquidity in the MOC facilities is expected, which will in turn strengthen the price formation process of the closing auctions. The price derived in an auction is most reflective of market sentiment when the auction achieves maximum participation. We believe the Proposed Amendments may increase MOC participation by removing certain impediments identified by MOC users, and improve liquidity and closing price formation for the securities enabled for the MOC facility.

Expected Impact of Amendments on the Exchange's Compliance with Ontario Securities Law and in particular on requirements for Fair Access and Maintenance of Fair and Orderly Markets

The Proposed Amendments do not impact TSX's compliance with Ontario securities law and in particular on requirements for fair access and maintenance of fair and orderly markets. The changes being proposed do not introduce barriers to access to the MOC facility on TSX but have the potential to increase participation. We believe the Proposed Amendments support the maintenance of fair and orderly markets by strengthening the price formation process of the MOC facility through increased participation.

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

The Proposed Amendments give increased flexibility to participants submitting orders into the closing auction. For participants that wish to use the MOC facility in its current manner there will be no need to modify their existing system. Users who wish to take advantage of the Proposed Amendments may need to relax their order entry validation rules if any were imposed on their MOC order entry systems. Given that TSX currently enforces restrictions on the volume of MOC and LOC orders and the conditions of entry of LOC orders it is possible that participants may not have any self-imposed restrictions, in which case no change would be required to their systems.

Therefore to the extent changes are required we expect them to be minimal. Functionality will be available in the TMX external test environment prior to production so as to give clients ample opportunity to test any changes.

Do the Proposed Amendments Currently Exist in Other Markets or Jurisdictions

Single share trading in the closing auctions operated by NYSE, NYSE ARCA, Nasdaq and BATS enables the full volume, whether board lots or mixed lots, of closing orders to be entered into these closing facilities. Providing the ability to submit LOC orders prior to an imbalance broadcast is also a common feature in the closing auctions operated by those marketplaces.

APPENDIX A
TSX RULE BOOK

(a) 4-902 MARKET-ON-CLOSE

(1) Eligible Securities

MOC Orders may only be entered for MOC Securities.

~~(2) Board Lots~~

~~A MOC Order must be for a board lot or an integral multiple of a board lot of a MOC Security.~~

~~(3)~~(2) MOC Order Entry

- (a) MOC Market Orders and MOC Limit Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the time the MOC Imbalance is broadcast. MOC Market Orders and MOC Limit Orders submitted prior to the imbalance broadcast may not be cancelled or modified after the MOC Imbalance is broadcast.
- (b) The MOC Imbalance is calculated and broadcast on each Trading Day at twenty minutes before the closing time.
- (c) Repealed (April 19, 2010)
- (d) Following the broadcast of the MOC Imbalance, until the closing time on each Trading Day, MOC Limit Orders may be entered in the MOC Book on the contra side of the MOC Imbalance. MOC Limit Orders may be cancelled until the closing time.
- (e) In the event of a delay of the Closing Call for a MOC Security, MOC Limit Orders may be entered in the MOC Book for such security on the contra side of the MOC Imbalance for a period of ten minutes after the closing time. MOC Limit Orders may not be cancelled during this time period.

~~Amended (April 19, 2010)~~

Amended (November 14, 2014)

~~(4)~~(3) Closing Call

- (a) The Closing Call shall occur on each Trading Day at the closing time. The Closing Call in a MOC Security shall be delayed for a period of ten minutes in the event that the price that would be the calculated closing price for the MOC Security exceeds the volatility parameters determined by the Exchange. The Exchange will forthwith broadcast a message identifying the MOC Security that is subject to the delay.

- (b) In the event that the price that would be the calculated closing price for a MOC Security exceeds the closing price acceptance parameters determined by the Exchange at the end of the delay period set out in Rule 4-902(4)(a), the calculated closing price for the MOC Security will be the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security.
- (c) Orders shall execute in the Closing Call in the following sequence:
 - (i) MOC Market Orders shall trade with offsetting MOC Market Orders entered by the same Participating Organization, according to time priority, provided that neither order is an unattributed order; then
 - (ii) MOC Market Orders shall trade with offsetting MOC Market Orders, according to time priority; then
 - (iii) MOC Market Orders shall trade with offsetting limit orders in the Closing Call entered by the same Participating Organization, according to time priority, provided that neither order is an unattributed order; then
 - (iv) MOC Market Orders shall trade with offsetting limit orders in the Closing Call, according to time priority; then
 - (v) limit orders in the Closing Call shall trade with offsetting limit orders in the Closing Call entered by the same Participating Organization, according to time priority, provided that neither order is an unattributed order; then
 - (vi) remaining orders in the Closing Call shall trade according to time priority.
- (d) An order for a MOC Security shall not execute if, at the close:
 - (i) an automatic closing delay has been initiated in the MOC Security because the calculated closing price exceeds the volatility parameters determined by the Exchange; or
 - (ii) the participation of the MOC Security has been otherwise delayed by a Market Surveillance Official.

~~(5)~~(4) Unfilled Orders

- (a) Except as otherwise provided in this Rule, all MOC Orders that are not completely filled in the Closing Call shall expire at the end of the Closing Call and will be removed from the Book and the MOC Book.
- (b) In the event that the closing price acceptance parameters are exceeded for a MOC security, MOC Market Orders shall trade with offsetting MOC

Orders and any limit orders at the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security. All remaining MOC Orders will be removed from the Book and the MOC Book.

- (c) All other orders, that are not marked as MOC, that are not completely filled in the Closing Call shall be eligible for trading in the Special Trading Session.

~~(6)~~(5) Application of Exchange Requirements

Except as otherwise provided in this Rule, all Exchange Requirements shall apply to the entry and execution of MOC Orders.