



**CANADIAN SECURITY TRADERS ASSOCIATION, INC.**

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**Re: Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto.**

The Canadian Security Traders Association, Inc. (CSTA), is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 members nationwide and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee (the "Committee"), a group of 20 appointed members from amongst the CSTA. This committee has an approximately equal proportional number of buy-side and sell-side representatives with various areas of market structure expertise, in addition to 2 independent members. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the opinion of the CSTA as a whole. The opinions and statements provided below do not reflect the opinions of *all* CSTA members nor the opinion of all members of the Trading Issues Committee.

The CSTA appreciates the opportunity to comment on the proposed change to the TSX Market-on-Close facility. To begin, we would like to commend the TSX for hosting multiple consultation events, listening to relevant industry stake holders, and incorporating their feedback into this proposal. As proposed, the amendments will in fact "modernize" the Market-On-Close (MOC) facility, addressing a majority of the wish list that industry submitted over the consultation period. The balance between simplicity and complexity in a closing match is a difficult one. Initiatives for ease of use, increased transparency, and improved measures to limit gaming are all at odds with each other, and the TSX has managed them well.

As we have mentioned in previous comment letters and as the TSX has said in the proposal, the Market-on-Close facility serves a critical role in the smooth function of Canadian equity markets. With the TSX's role as the listing market for all senior Canadian equities, the MOC facility directly impacts the determination of the closing prices that are used for end-of-day valuations by most participants, including index providers, fund custodians and pensions. It also serves in the management of end-of-day rebalance and cash-flow activities, which are frequently benchmarked to closing prices. We believe that protecting the integrity of the TSX closing mechanism is very important, and that the TSX MOC facility deserves more scrutiny than most other marketplace facilities in Canada due to its fundamental role.

The committee agrees with all the proposed amendments and corresponding rationales but focus our comments on the following three: transparency, alignment with global markets, and consistency of execution. We believe improvements in these three areas will foster increased participation from all investors in the closing auction and will produce more robust closing prints.

#### **Transparency:**

Transparency has been cited as a primary grievance of the current MOC facility. The lack of information between the 3:40pm imbalance message and the close is the primary problem with the existing facility, as it is very common to experience situations where the price movement of a name be counterintuitive to the side and size of the published imbalance. The changes proposed by the TSX will substantially alleviate this problem. The expanded imbalance message and increased frequency will allow participants to continue to access the state of the auction and hopefully grant investors more confidence to use the facility for larger orders.

#### **Alignment with Global Markets:**

As the proposal highlights, the TSX MOC facility is a global outlier. Its complexity causes issues with many global investors, which likely impedes participation. The proposal aligns the mechanism in some ways to our US counterparts which have MOC facilities that are more widely used. We completely agree that bringing the MOC model inline with global standards will increase use from global participants.

#### **Consistency of Execution:**

The proposed structural changes as related to transparency and amended timeline for participants to enter orders during the imbalance period dramatically increase the consistency of execution. We expect instances of counterintuitive moves will be reduced and a more consistent share of daily volume will be represented just before and at the close.

#### **Some Clarification Needed:**

We would like to get some clarity from the TSX on a few important issues:

- **Order Matching Priority** - The committee would like some clarity on order priority when considering repriced aggressive LOCs vs passive LOCs. Will price-time priority hold? Will different offsetting order types have priority over others? We suspect this is an area where participants can game the system to increase probability of fills. Due to the complexity of the topic, we discussed it at length but were not able to come to consensus on a recommendation. We believe this nuance needs to be given more thought but we are leaning towards a size-time

priority model because we think a larger closing print will help draw in a more diverse pool of investors.

- **Fee structure** - The proposed structural changes, we believe, will shift volume from the continuous trading period towards the auction, as the two sessions operate on different fee schedules. The MOC facility is not available on other trading venues so there will be no price competition or redundancy. Throughout consultation period, the TMX has assured stakeholders that they intend for any changes to the MOC facility to be revenue neutral. As discussed earlier, the TSX MOC is tremendously important to the functioning of Canadian markets with an effective monopoly on trading at the closing price. We think fees are a valid topic of discussion and seek some commitment from the TSX on pricing policy in absence of allowance for legitimate competing matches.

We, again, thank the TSX for their efforts to include all industry participants in developing this proposal. The importance of the MOC facility cannot be overstated, so inclusion of all industry voices is greatly appreciated.

The CSTA TIC is generally supportive of proposed changes to the TSX MOC. The implementation approach proposed, we think, is very reasonable but the TSX needs to ensure that vendor and dealers have sufficient time for implementation. This new model will be a welcome change by the industry as it will bring our facility inline with global standards, increase usage, and reduce volatility.

We thank you for the opportunity to provide these comments.

Respectfully,

“Signed by the CSTA Trading Issues Committee”