



November 20, 2020

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RE: Notice of Proposed Amendments and Request for Comments – MOC Modernization Proposal

Virtu ITG Canada Corp (“Virtu” or “we”) respectfully submits this letter in response to the proposal currently set forth by TSX Inc. to amend and modernize the Market-On-Close (“MOC”) facility. Virtu is an advocate for transparency and market efficiency, and we welcome the TSX proposal with the belief that it will lead to improvements for the Canadian capital markets.

We submit that the existing Canadian closing auction remains a global outlier in functionality and usage. Our research indicates that on average, only 5% of volume trades in the close for the S&P/TSX Composite, compared to the U.S. where the close accounts for over 10% of volume, and in Europe where the close is above 20%.

Since the inception of the TSX MOC facility in 2004, there has been very little in the way of updates or improvements in the MOC facility. The original TSX MOC facility was developed in an era before the widespread adoption of electronic trading. In its current form, the TSX MOC facility is extremely restrictive and offers very little transparency to market participants.

We believe that the changes put forth by TSX will enhance transparency and flexibility leading to improved price discovery and a more efficient closing auction.

Imbalance Period

We welcome the redesigned imbalance period which will start 10 minutes later than the current model and will contain improved imbalance messaging. The current 3:40PM cutoff is too restrictive for today’s fast paced market. Committing an order without the ability to amend or cancel for 20 minutes is an extremely lengthy period of time, particularly during times of high volatility. The current single 3:40pm imbalance publication and lack of transparency thereafter further contributes the problem. The proposed increased frequency of imbalance messages and the inclusion of the long sought after paired shares metric will provide much needed transparency.



Freeze Period

We believe that the introduction of the freeze period will mitigate volatility and large price moves into the close. Although imbalance flips during the freeze period can still occur in rare circumstances when the continuous limit order book (“CLOB”) bid/offer moves into range of a previously submitted LOC, by limiting the type of orders that can be submitted during the freeze period to only passive LOCs we believe that the frequency of imbalance flips will be minimal.

The introduction of a randomized start time for the freeze period will discourage all participants from waiting until the last possible moment to submit their close orders. Instead, the feature encourages participants to submit their remaining close orders prior to the start of the 3:56-3:57PM randomization period, while incentivizing discretionary liquidity providers to react to any updated imbalances. Ultimately, we believe that this will increase liquidity in the closing auction which will benefit all participants.

Launch Date

The TSX is targeting May 2021 for the implementation of the revamped MOC facility. We advise against a May launch date given the proximity to the semi-annual MSCI rebalance which is scheduled to take place on May 27. Implementing a completely redesigned MOC facility near a major index rebalance when billions of dollars are executed in the close introduces significant risk.

We advocate for allowing users ample time to test and familiarize themselves with the new MOC facility. As such, we support a July or August launch date when there are no major index rebalances scheduled to take place.

Conclusion

Virtu appreciates the opportunity to submit this letter commenting on the TSX Inc’s MOC Modernization Proposal. We are supportive of the proposal, which we believe is a significant improvement to the existing model. The increased transparency and flexibility will lead to improved price discovery and a more efficient closing auction.

Given the magnitude of the changes and the significance of the closing auction, we encourage the TSX to continue to promote discussion and solicit feedback once the new facility is launched. We look forward to collecting data and sharing our findings.

Please contact the undersigned if you have any questions on this submission or require further information.

Respectfully submitted,

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