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ITG Canada (ITG) would like to thank the Ontario Securities Commission (OSC) for this opportunity to comment on the proposed MOC crossing facility at Chi-X.

As a major player in global index event research and trading, we monitor MOC facilities around the world, and have long advocated for positive changes to the existing Canadian facility.

Over the last 5 years MOC related trading has remained stagnant, both in real and relative terms, in the Canadian market. During that same time it has flourished in other developed countries. In the U.S. market, for example, MOC related trading has grown from ~ 1.9% of market share in 2010 to ~ 5% in 2014. Much of this growth can be attributed to the explosion of passive index related trading, partially driven by the continued success of ETP style products. And yet, exchange traded products have been successful in Canada during the same time, but our MOC volumes have barely moved.

We believe the lack of growth in MOC volumes is attributable to two main causes. Firstly, we continue to believe that despite recent improvements to the TSX MOC facility, further changes need to be made to ensure the fairness of the closing auction. More importantly for this letter, we believe that the closing auction in Canada, while valuable from a price discovery perspective, is significantly overpriced relative to its global peers.

While the Chi-X cross will not improve the functionality of the TSX system, it will introduce the necessary competitive pressure to produce more moderate pricing. The TSX, as a result of its joint venture with S&P, enjoys a quasi monopoly on index pricing in Canada, so any commercial endeavour that might pressure that pricing, without negatively impacting the closing auction mechanism should be applauded. We believe that the Chi-X cross meets these goals, and as such are supportive of the product.

The importance of the close cannot be overstated. Not only does the closing mechanism generate the single most important price point of each day's trading – the price used to value trillions of dollars in assets – it is also the single most efficient trading mechanism for funds with low levels of short term alpha. Trading a large block in the close can result in market impact costs that are a fraction of the impact of similar trades done during the continuous trading day, provided the delay costs are not prohibitive. We believe that a mechanism that creates competition for such trades, and results in a more fairly priced mechanism could result in a doubling of volumes traded in the MOC, and lower market impact costs being absorbed by investors. These lower impact costs ultimately result in greater market returns, and increased wealth for the community at large.

As always, we encourage the OSC to use ITG as a resource in such matters, and welcome the opportunity to walk regulators through our analysis of MOC volumes and market impact costs.

Sincerely

Doug Clark
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