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Re: Chi-X Canada ATS Limited – Notice of Proposed Changes and Request for Comment – MOC Orders

BMO Nesbitt Burns Inc. (“BMO”) welcomes the opportunity to provide comments on the proposal put forward by Chi-X Canada to introduce a new market on close order type (MOC order).

We greatly appreciate the efforts of Chi-X Canada to introduce a MOC order on their marketplace and fully agree with Chi-X’s rationale as outlined in their notice dated February 19, 2015, which we have included here for reference:

Rationale and Relevant Supporting Analysis

Although multiple marketplaces now operate in Canada and competition exists for continuous trading, there continue to be specialty trading sessions that operate as individual monopolies. Such monopolies effectively hold customers captive for their services and enable providers to charge disproportionate high fees due to the lack of competitive forces that would otherwise drive prices lower.

The Toronto Stock Exchange’s (TSX) Market-On-Close Facility (MOC) is one such example of this type of monopoly. This facility offers customers the assurance of receiving the closing price for MOC eligible securities. It offers a particular benefit to index funds that are benchmarked to the closing price of each index constituent at the close of each trading day. At this time, given that the TSX closing price is used by several index methodologies for pricing purposes, we believe that by offering an MOC order type that will be competitively priced will offer the benefit of lowering trading costs while also ensuring the appropriate benchmark can be achieved.

We note that the CSA recently made clear in its Notice and Request for Comment to Proposed change to the Order Protection Rule that any proposed regulatory restrictions on trading fees that may be introduced will address active trading fees and not specialty trading sessions. We consequently propose that the introduction of the MOC order type is a commercial solution to lowering trading costs for the Market-On-Close Facility which in turn will pass these savings back to the industry.

In short, we believe the introduction of this new order type will allow investors to achieve the closing price in a more cost effective manner than exists today.

Background

The closing auction in the MOC facility is an important aspect of any healthy functioning market. An increasing number of trades are benchmarked to the closing price and, as a result, it is imperative for participants to be able to achieve the benchmark closing price in a more cost effective manner.

The Chi-X MOC Order type is a first step in encouraging competition and we are fully supportive of their free-market approach to help address concerns we have regarding pricing in a market with only one supplier. We note that Chi-X has been successful in introducing competition in the Australian Stock Exchange's MOC facility in the past year.

In addition, we hope that competition will further increase the pace of innovation in the MOC facility and provide participants with options currently available in other developed markets.

Comparisons

We would like to illustrate the vast divide between the MOC fee models as they exist today in North America (see table 1 for reference).

TMX charges \$0.0030 / share with a \$30 cap. It is important to note that the cap is per fill and not per order (i.e. large orders often get split into multiple smaller fills which effectively multiplies the cap). We used 2014 MOC trade data to calculate that the blended TMX MOC fee (with cap baked in) works out to \$0.0017 / share. We contrast this to the US markets rate of \$0.0008 (typical blended rate charged by 3rd party vendors for US MOC) and note the TMX fee is more than twice as expensive as the US markets.

The divide gets even wider once we factor in the median stock price of Canadian and US stocks in their respective indices and quote the fee in terms of basis points for an apples-to-apples comparison. The Canadian MOC fee works out to 0.75 bps to 1.36 bps which is over six to eleven times the fee for the average US MOC trade.

Table 1 – Comparisons between Canada and US

	Canada	US
Median stock price in index	\$22 in SPTSX Composite	\$65 in SP500
MOC fee	\$0.0030 / share \$30 cap per fill (not order)	NYSE ¹ \$0.0006 to \$0.0095 / share Breaks for larger blocks NASDAQ ² \$0.0008 to \$0.0015 /share Based on volume tier or trade size
Cap adjusted MOC fee	\$0.0017 / share*	Assume blended rate of \$0.0008 / share (typical average rate 3 rd party vendors charge for MOC trades in US)
MOC fee per share in bps	1.36 bps	0.123 bps
Cap adjusted MOC fee per share in bps	0.753 bps	0.123 bps

*calculated from 2014 TSX published MOC trade data

All \$ quote are in the respective country currency. We normalize to bps for a direct comparative number across markets.

We recognize that Canadian markets do not enjoy the same economies of scale and as such the pricing should reflect that. However, we also note that maker/taker pricing levels as well as typical spread between maker/taker is similar across North American markets (and has come down in Canada as a direct result of competition in the continuous market) while the divide remains on the MOC trades.

In addition to the direct comparison south of the border, other developed markets have MOC rates that are far lower than Canada. LSE MOC fees³ are carried over from their continuous market and range from 0.20 – 0.45 bps. ASX MOC fees⁴ (even prior to competition from Chi-X) were 0.28 bps with a \$75 cap (Chi-X dropped the price down to 0.15 bps⁵).

In conclusion, we are fully supportive of Chi-X's effort and commend them for being the first marketplace to offer a viable alternative to TMX's MOC facility. We strongly encourage regulators to help support this initiative and open the MOC facility to further competition.

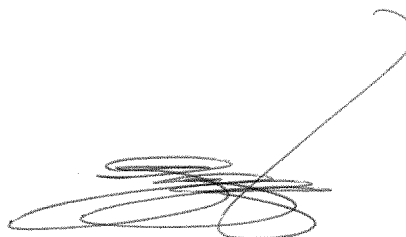
We would also welcome any pricing changes by the TMX on their MOC facility.

Should you have any questions regarding our comments on the Proposal, please feel free to contact us at the coordinates below.

Sincerely,



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¹NYSE : <https://www.nyse.com/markets/nyse/trading-info>

²NASDAQ : <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>

³LSE : <http://www.lseg.com/sites/default/files/content/documents/Trading%20Services%20Price%20List%202015-02-02.pdf>

⁴ASX: https://www.asxonline.com/intradoc-cgi/groups/participant_services/documents/information/asx_027373.pdf

⁵Chi-X Australia: <http://cmsau.chi-x.com/Portals/15/Docs/Market%20Operations%20Notice%200009-14.pdf>