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Dear Ms. Tikhomirova:

RE: Proposed New Definitions to TSX Rules: “TSX Ask”, “TSX Bid” and “TSX Closing Price”

The Investment Industry Association of Canada (“IIAC”) appreciates this opportunity to comment on the TSX’s proposal to add to its Rulebook the new definitions: TSX Last Ask Price (“TSX Ask”), TSX Last Bid Price (“TSX Bid”), and TSX Closing Price (“TSX Closing Price”), (together, the “Proposal”). The IIAC is supportive of the Proposal’s objectives – namely to introduce an improved methodology for determining closing price and closing bid/ask for thinly traded securities. Specifically, the Proposal will move the industry closer to addressing long-standing valuation/reporting issues experienced by market participants in relation to these securities. However, for the Proposal to be most impactful we believe: i) it is necessary for the TMX to revisit its approach for non-ETF securities to better mirror that of ETFs and ii) stakeholders ultimately be permitted to use these TSX calculated prices/quotations beyond indicative valuations and incorporated into other official uses – something which will require support from securities regulators.

Background

For thinly traded securities, including some ETFs, the closing prices sometimes do not align with their ‘value’ as represented by end of day quotations (“bids” and “asks”). Currently, market convention for a closing price is to use the price of the last board lot trade on the listing exchange. If there is a trade near the close of business, the closing price will typically be in proximity to the closing bid and ask quotation. However, if there is no investor activity, the closing price could be stale by hours or days and therefore far removed from the end of day bid/ask. The situation is sometimes further compounded given reliance

on values witnessed during the extended trading session where ‘quote-fade’ is typical for thinly traded securities. This has a variety of adverse implications for dealers, investors, and other market participants.

The Proposal looks to address this anomaly by introducing the new definitions of “TSX Ask”, “TSX Bid” and “TSX Closing Price” into a revised framework summarized as follows:

TSX Closing Price:

- For non-ETFs:
 - in respect of a Market on Close (MOC) eligible securities, the calculated MOC closing price.
 - in respect of any other security, the last board lot sale price of the security on TSX in the regular session.
- For ETFs:
 - If a board lot trades in the last 10 minutes, the price of the most recent board lot trade
 - Otherwise, the 10-minute Time-Weighted Average Price (“TWAP”) of the bid-ask midpoint

TSX Bid & TSX Ask:

- For non-ETFs, the last observed bid-ask *during the regular trading session*
- For ETFs:
 - the 10-minute TWAP of the TSX bid & ask respectively.
 - If there is no TSX best bid or offer during the last 10 minutes, then the last bid & ask observed on the current trading day

IIAC Comments

The Proposal essentially introduces two separate methodologies, one for ETFs and one for non-ETFs - covering both Closing Price and end of day Bid-Ask.

With respect to the **ETF methodologies**, we believe that the Proposals will produce closing prices and quotations that better reflect the fund’s market value at the end of the day and provide an improved reference point for portfolio valuations than a possibly stale last sale price. The Proposal is also very much aligned with changes recently adopted by the NEO exchange for their ETF listings which should help with market acceptance and industry adoption¹.

With respect to the **non-ETF methodologies**, the TSX Closing Price is unchanged from current market practice (the calculated MOC closing price, or the last board lot sale price of the security on TSX in the regular session). The Proposal, therefore, will not address the current closing price anomaly for thinly traded non-ETF securities. We fail to understand the TSX’s rationale for not mirroring the closing price methodology proposed for ETFs given the same issues plague all thinly traded instruments. Furthermore, some thinly traded securities MAY be holdings of ETFs so there is added value in being consistent with the two approaches.

¹ The one notable difference is that TMX will be using a 10-minute TWAP compared to a 15-minute TWAP used by NEO. We encourage the two marketplaces to ultimately adopt the same TWAP period.

Regarding the TSX Bid and TSX Ask for non-ETFs, the Proposal's use of the final bid-ask only *during the regular trading session* should help counter the widening spreads witnessed today towards the end of the trading session and into the extended session when orders in the TSX book are frequently cancelled.

Finally, to the extent to which other visible marketplaces make TSX securities available for trading, we believe quotation and trade information from these venues provide valuable market intelligence to investors and should also be captured in the TSX Proposal. For example, the Proposal can be improved through a market-wide approach that utilizes the National Best Bid and Offer (NBBO) rather than just the TSX best bid and offer. We recognize, however, that such a change to the Proposal would require broader market coordination.

Closing

We commend the TSX for undertaking this initiative to produce closing prices and quotations that better reflect the value of securities that are thinly traded. While the Proposals introduce significant improvements to ETF listings, the TSX's approach for non-ETFs needs to be revisited. Specifically, it is unclear why the TSX believes the TWAP methodology is not applicable to non-ETFs? We believe it would be much easier for investors to understand if the TSX's approach between ETFs and non-ETFs were the same. The Proposal also does not consider situations where the last board lot may have traded on a different venue than that of the TSX.

If properly calibrated, the Proposal has the potential to introduce several benefits to Canadian market participants, including:

- Daily valuations that are explicitly tied to the accepted market close at 4pm and not some other random time of day
- More representative valuations on client statements, performance reports and dealer balance sheets
- More consistent margin determinations
- Enhanced market data feeds that can be better relied on by downstream users
- Greater confidence in market prices/quotations overall

It is important to note, however, that some of the above benefits will require rule changes at IIROC and/or the CSA for them to be realized. It is imperative, therefore, that regulatory support for this initiative is attained. The IIAC is collaborating with its members, and other stakeholders, in this regard.

Sincerely,

Jack Rando

Jack Rando
Managing Director