

CHI-X CANADA ATS

NOTICE OF COMMISSION APPROVAL OF PROPOSED CHANGES

On April 21, 2015, the Commission approved changes proposed by Chi-X Canada ATS, which would introduce a market on close order type (MOC Order).

A notice requesting feedback on the proposed changes was published on the OSC website and in the OSC Bulletin on February 19, 2015 at (2015), 38 OSCB 1832. Six comment letters were received. A summary of the comments submitted, together with Chi-X's responses, is attached at **Appendix A**.

Chi-X Canada ATS is expected to publish a notice indicating the intended implementation date of the approved changes.

Appendix A

SUMMARY OF COMMENTS – NOTICE OF PROPOSED CHANGES AND REQUEST FOR COMMENT – MOC ORDERS

Commenters

We received six comment letters in response to Chi-X Canada's published proposal to introduce a new MOC order type. Commenters reflected views from five dealers and one professional trade association; National Bank Financial, ITG Canada Corp., TD Securities Inc., BMO Capital Markets, RBC Capital Markets and the Canadian Securities Traders Association.

Summary

All commenters were strongly supportive of the proposed MOC order type. The importance of a properly functioning TSX Market-On-Close price discovery mechanism was cited as integral to the Canadian capital markets. Recognizing this, support was expressed for the Chi-X Canada MOC order for the following reasons:

- it will not threaten the integrity of the price formation process;
- hope that it will place competitive pressure for the TSX to enhance its functionality in order to address fairness issues with existing functionality today;
- it will break TSX's monopoly on this facility by offering competitive fees which in turn will decrease the cost borne by dealers transacting at the closing price

Commenters outlined that Alpha ATS was the only marketplace that has provided direct competition to the TSX MOC facility. However, as implemented, this facility fragmented the market-on-close process and led to the risk that some users would receive inferior priced closing orders than the TSX.

The importance of introducing competitive pressures for the TSX MOC facility was highly emphasized given the lack of growth of market-on-close volumes in Canada whereas in the United States market-on-close market share has flourished from 1.7% to 5% over four years. Explanation was suggested to be attributed to the fact that pricing for MOC orders is two times higher in Canada on a relative basis but over six to eleven times higher when comparing cost in basis points.

As a result of the benefits cited, commenters expressed their belief that the Chi-X Canada MOC order is the first credible competitive mechanism for directly addressing the high level of fees charged by the TMX. Chi-X Canada looks forward to bringing benefits to the industry and lowering costs for the dealer community.