

November 10, 2020

**VIA EMAIL**

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Dear Sirs/Mesdames:

**Re: Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto.**

OMERS Administration Corporation (“OAC”) appreciates the opportunity to comment on the proposed changes to the Toronto Stock Exchange (“TSX”) market-on-close (“MOC”) auction process.

The Ontario Municipal Employees Retirement System (“OMERS”) Primary Plan is a jointly sponsored, defined benefit pension plan, with 1,000 participating employers ranging from large cities to local agencies, and over half a million active, deferred and retired members across Ontario. Our members include union and non-union employees of municipalities, school boards, local boards, transit systems, electrical utilities, emergency services and children’s aid societies across. OMERS actively seeks out opportunities to engage with decision-makers to advocate the advantages of the joint-sponsored defined benefit pension model.

OAC, as the administrator of the OMERS Primary Plan and trustee of the pension fund relating to the Primary Plan, is a statutory corporation without share capital, continued pursuant to the *Ontario Municipal Employees Retirement System Act, 2006*. OAC is a global investor, firmly anchored into the Canadian market and responsible for managing over \$100 billion in net assets across a range of public and private investment strategies, including substantial holdings of Canadian equities.



The importance of the TSX MOC model cannot be overstated. The following text is taken directly from the proposal:

*“The MOC facility derives the official closing price for eligible TSX listed equity securities and is a vital source of liquidity for institutional agents and their clients. Operating as an electronic call market, the MOC facility acts as a multilateral source of liquidity, allowing large volumes to be traded with reduced price impact. The closing price set by the MOC is the industry benchmark for closing prices in Canada, and is utilized for many different purposes, including net asset value calculations by fund managers, portfolio and index rebalancing activities, and benchmarks for index related securities, swaps and options trades.”*

OMERS is supportive of the TSX MOC proposal. We commend the TSX for listening, for pursuing thoughtful reflection and for acting based on the feedback received from its stakeholders. Our comments will focus on the following key themes embedded in the proposed changes: alignment, reactionary liquidity provision, transparency of outcomes and the tradeoff between price volatility and price efficiency.

CHANGE	EXISTING MOC	PROPOSED MOC	RATIONALE
Increase imbalance message content and frequency of dissemination	Single imbalance message at start of MOC Imbalance Period (3:40p.m.).	Imbalance message sent at set time intervals from the start of the MOC Imbalance Period (3:50 p.m.) to the close (4:00 p.m.).	Increased content and frequency will add transparency to MOC and provide clients additional insights into the MOC book.
	4 existing fields: 1. Symbol 2. Reference Price 3. Imbalance Side 4. Imbalance Volume	Added 6 fields in addition to existing: 1. Paired Volume 2. Market Order Imbalance Volume 3. Market Order Imbalance Side 4. Near Indicative Closing Price 5. Far Indicative Closing Price 6. Price Variation Indicator	
MOC Imbalance Period	MOC Imbalance Period starts at 3:40p.m.	MOC Imbalance Period start at 3:50p.m.	Later start time aligns with North American standards.  Increases flexibility by allowing for entry of MOC orders and LOC without restriction on price, size or side.  Increases flexibility by allowing aggressive price amends.
	No MOC orders allowed.	New MOC orders are allowed.  No MOC order cancels or modifications permitted.	
Introduction of MOC Freeze Period	LOC orders need to be on the opposite side, less than size of imbalance and limit price at or within the PME % or 5 ticks of the Last Sale Price.  No LOC order cancels or modifications contributing to imbalance.	New LOC orders permitted with no restrictions.  No LOC order cancels permitted. Modifications to LOC order price only permitted to more aggressive price.	New MOC Freeze Period designed to mitigate volatility and help prevent unexpected price and imbalance movements leading up to the close.  Randomized start time to mitigate speed advantages.
	No MOC Freeze Period.	MOC Freeze Period prior to close with a randomized start time as determined by TSX.  New LOC orders allowed, will reprice to Reference Price before close if more aggressive for purposes of calculating the calculated closing price. At close of the MOC Freeze Period, LOC orders will be reprice to the closing reference price if more aggressive. No cancels or modifications allowed.	

## **Alignment**

The current MOC was designed to provide buy-side investors with a mechanism to better achieve the TSX closing price. The current MOC is a global outlier with a process more difficult to understand for many non-Canadian traders. Most auction mechanisms are at least semi-transparent, if not fully transparent, and typically provide traders with the opportunity to offset supply/demand imbalances as conditions change. Given the uniqueness of the current TSX MOC model, OMERS only participates in the TSX MOC for approximately 7% of trade fills. In comparison, when trading on the London Stock Exchange (“LSE”) OMERS participates in the closing auction for approximately 26% of fills. These numbers are broadly consistent with participation rates provided by the exchanges and dealers for all market participants. OMERS believes changing to the proposed MOC model will increase participation in the closing auction process for both OMERS traders as well as other traders based both in- and outside of Canada.

## **Reactionary Liquidity Provision**

One of the key weaknesses of the current MOC is the absence of a transparent, order gathering phase. The proposed MOC addresses this weakness by providing an explicit order gathering phase, after the initial imbalance is published at 3:50 PM, but before the randomized freeze period begins at 3:56-3:57 PM. This new order gathering phase, or size discovery period, combined with a more frequent order imbalance message, ought to create more opportunities to provide liquidity.

## **Transparency of Outcomes**

In the current MOC, the order imbalance message is published, one time, at 3:40 PM. Subsequent to the initial imbalance message, there is no attempt to advertise or solicit any follow-on activity or contra orders between 3:40-4:00 PM. The current auction mechanism is “blind”; as market conditions change, the order imbalance message is not updated to reflect this new information. The proposed MOC model will provide investors with more frequent imbalance messages and hence more transparency.

Once the order gathering is complete, the proposed MOC model initiates a randomized freeze period between 3:56-3:57 PM. This randomized freeze period is the end of the order gathering phase and the start of the price discovery phase. Any further MOC orders are rejected and any aggressive Limit-on-Close (“LOC”) orders are queued up at the latest reference price and hence do not impact the price of the closing auction. The price discovery needed to clear the auction imbalance occurs in the continuous limit order book and is fully transparent to everyone.

One of the most commonly cited weaknesses of the current MOC is the frequency of BUY/SELL imbalances that end up being offset, often many times over, by multiple traders, and subsequently causes the stock price to move in a counter intuitive direction at the close (i.e. the dreaded imbalance flip). The proposed MOC model should help prevent such outcomes from occurring by continuously updating traders with the

most recent order imbalance information and by fully separating the order gathering phase prior to the freeze period and the price discovery phase after the freeze period.

### **Price volatility vs. Price Efficiency**

When designing a good closing auction, how one defines success is very important. Increasing investor participation into the close and at the close is one metric of success. Reducing price volatility is another metric. While increasing overall market efficiency and price discovery would be a third metric. When studying various MOC models, OMERS found that most MOC models attempt to balance these key metrics, recognizing the inherent tradeoff between a highly efficient market and a highly volatile market.

For example, some MOC models may produce a smoother transition from one equilibrium to another. Often such models provide only partial transparency and hence they reduce volatility by limiting access to information, but this lower volatility comes at the cost of reducing market efficiency. Stated differently, such markets tend to exhibit prices that trend into the close. The current TSX MOC is one example of such a facility, and the closing auction for the New York Stock Exchange ("NYSE") would be another example. At the other extreme, some MOC models produce much larger price volatility, but are also highly transparent and ruthlessly efficient. The LSE MOC would be an example of such an efficient, yet volatile auction model. OMERS believes that the right approach is a balanced approach, one that attempts to balance order transparency and market efficiency with a reasonable level of price volatility. It is the view of OMERS the proposed MOC model strikes an appropriate balance between market efficiency and price volatility.

In conclusion, OMERS is supportive of the efforts of the TSX to modernize the MOC. OMERS is also supportive of the implementation of the proposed MOC model as presented by the TSX. The new model brings Canada closer to the global standard, increases the transparency of outcomes, creates more opportunities for the buy-side to provide more liquidity and strikes a reasonable balance between minimizing volatility and maintaining adequate price discovery and market efficiency.

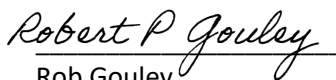
We thank you for the opportunity to provide these comments. We would be happy to elaborate more on any of the points discussed in our letter.

### **OMERS ADMINISTRATION CORPORATION**



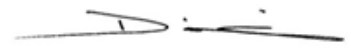
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