13.1.4 Summary of Comments Received - TSX Market-On-Close Proposed Rule Amendments

TSX MARKET ON CLOSE ("MOC") PROPOSED RULE AMENDMENTS – SUMMARY OF COMMENTS RECEIVED

Comments Received from:

1. Scotia Capital ("Scotia")
2. TD Newcrest ("TD")
3. BMO Nesbitt Burns ("BMO")
4. BC Investment Management Corporation ("BCIMC")
5. Market Regulation Services Inc. ("RS")
6. Etrade Canada ("Etrade")

Category	Commentator	Comment	TSX Response
Reduce Volatility Parameters	Scotia, TD, BMO, BCIMC,RS, Etrade	All commentators were supportive of this proposed change. One commentator conditionally agreed to the proposed change as long as the proposed revision of the "failed" MOC process is implemented as well. One commentator went further to say "we caution that this solution may need to be revisited as the MOC universe is broadened to include less liquid issues. Because investor confidence in the MOC process will be eroded by a proliferation of "failed" MOC sessions, it may be necessary to make adjustments to the parameters used. For example, it may prove appropriate to introduce tiered parameters to manage a more heterogeneous group of MOC securities. We suggest that the proposed solution be reviewed after six to twelve months and adjusted if necessary."	Comments acknowledged. TSX will continue to monitor the incidences of "failed" MOC securities. We agree that it is possible volatility parameters may need to be adjusted for certain securities. If warranted, TSX is not opposed to adjusting volatility parameters for certain groups of, or individual, securities, where the change will result in a better closing procedure for those securities.
Increase Price Movement Extension Period	Scotia, TD, BMO, BCIMC,RS, Etrade	All commentators were supportive of this proposed change. The majority of commentators indicated that the 10 minute window would provide adequate time to market participants in their efforts to source liquidity, yet still leave sufficient time for an extended trading session. One commentator raised a concern as to the effect of a delayed closing when a security potentially can trade in other markets	Comments acknowledged. TSX is of the opinion that a single transition time between trading sessions is consistent with current market practices. It provides market participants with defined trading parameters through out the day. The commentator's concern about trading in other markets or news events is valid, however, this was the case prior to MOC and is still the case with non-MOC securities. TSX does not believe the extended PME will have a negative effect on the marketplace.

Revise Failed MOC Procedures	Scotia, TD, BMO, BCIMC,RS, Etrade	All commentators were supportive of this proposed change. Two commentators indicated that this change should be implemented in conjunction with the proposed reduction in volatility parameters.	Comments acknowledged.

Broadcast ICCP at 3:50pm	Scotia	Scotia does not support the indicative calculated closing price or the phase-in approach to rolling out new eligible securities. Scotia believes that the ICCP opens the door to stock price misrepresentation and increased volatility towards the close. Scotia believes that the 20-minute window (after the MOC imbalance is broadcast) allows ample time for dissemination to all market participants, thereby reducing the amount of reactionary capital at the close. According to Scotia, the change to an ICCP at 3:50 raises two main questions: "If the ICCP is not disseminated until 3:50 what incentive is there for liquidity providers to offset the imbalances early? Will they not wait until after 3:50 to deploy capital, thereby only increasing the volatility closer to the close?" "Is the ICCP a true estimate of the closing price or could offsetting orders be cancelled during the last 10 minutes of trading, thereby completely changing the ICCP? How would other market participants be made aware that these significant offsetting orders were cancelled?" Scotia provided additional comments as follows, "As a supplier of reactionary liquidity, we may want to wait until we see the ICCP at 3:50 before entering our orders into the offsetting MOC book. Should we see a significant ICCP at that time, we would then begin deploying our capital to take advantage of those parameters. This may have the impact of moving the volatility spike from 3:40 to 3:50 (10 minutes closer to the close), or creating a new volatility spike at 3:50 in addition to the 3:40 spike (thereby increasing volatility again prior to the close). We do not feel that this additional spike is necessary or healthy for our marketplace. Moreover, what happens to the ICCP if we enter a significant offsetting order at 3:41 but then cancel the order at 3:51 due to market conditions or we simply change our mind? Would the ICCP then be totally misrepresentative of the closing price – especially if other market participants do not see a large	The current MOC system spreads the end of day volatility surrounding the close over a 20 minute period rather than the last minute of trading. The introduction of an ICCP is intended to alert market participants of unusual price movements going into the close and allow the market to efficiently manage the price movement. Scotia raises an interesting point as to the disincentive to enter offsetting MOC orders prior to knowledge of the ICCP. Market participants may delay responding to a MOC imbalance until the ICCP is known, therefore narrowing the time in which volatility is managed. However, those participants that respond to the initial MOC imbalance broadcast will have priority in the MOC book. This lends itself to an effective strategy of layering the MOC book at various price points on receipt of the 3:40pm imbalance message and then eliminating orders that are not reflective of the 3:50pm ICCP broadcast, thereby maintaining priority. Scotia's comments about opening the door to stock price misrepresentation and increased volatility towards the close would be more worrisome if the ICCP were broadcast multiple times and with great frequency.

		move in the ICCP and cancel their offsetting orders as well? As result, we feel that the current MOC facility provides more time for reactionary capital to enter the marketplace (wit h no incentive to wait an additional 10 minutes) therefore reducing volatility at the close; in addition, by not introducing a price parameter into MOC facility, the TSX would avoid any potential misrepresentation or manipulation of that price to the marketplace."	
ICCP	TD	TD supports the publication of the ICCP at 3:50pm, and that the ICCP will prevent situations like trading in Molsons (MOL.A) on December 7th. (After the TSX published a 10,300 sell imbalance at 3:40pm MOL.A traded down over 6% between the last sale at 4:00pm and the close at 4:05pm.) TD believes the ICCP will attract the attention of liquidity providers to situations whereby an innocuous MOC imbalance may result in a severe price dislocation as simply a result of lack of orders in the TSX continuous order book. TD believes that regulatory scrutiny should be enough to discourage any gaming related to an ICCP. RS currently monitors MOC trading to ensure that market participants are not entering aggressively priced offsetting limit orders after 3:40pm that effectively cancel a previously entered MOC order by the same participant. If an MOC order is entered in error and not noticed until after 3:40pm, the offending participant must contact RS to determine what their alternatives are in the marketplace to offset (effectively cancelling) the MOC order entered in error. TD wants RS to monitor cancellation of offsetting limit orders in either the continuous or MOC book following the broadcast of the ICCP, which should minimize gaming.	TSX agrees that the ICCP will attract the attention of liquidity providers in certain situations. In a way, TSX already provides an ICCP under special circumstances. That is, at 4:00pm, if the CCP has exceeded the PME volatility parameter, a broadcast message is sent to the trading community displaying an indicative CCP and the VWAP reference price. This provides participants with a frame of reference in responding to an irregular price movement. TSX also wants the MOC process to minimize gaming. We have advised RS of TD's request.
ICCP	BMO	BMO is in favour of the publication of an ICCP. BMO agrees that disclosure of the ICCP should help to avoid unexpected surprises at the close that could have been avoided by the addition of liquidity to the MOC market before the close.	Comment acknowledged.

		BMO advises that publication of the ICCP only once during the trading session may not prove to be the optimal solution, particularly as the universe of MOC stocks is broadened to include less liquid issues. BMO proposes that a review be undertaken six to twelve months after the ICCP is introduced, to determine if the ICCP should be published earlier and more than once.	TSX will monitor the MOC procedure after the introduction of the ICCP to, among other things, determine whether an earlier or a more frequent publication of the ICCP would be beneficial to the marketplace.
ICCP	BCIMC	An ICCP would be extremely helpful as an early warning system on potentially large price movements. Most large buy/sell imbalances are noticed, but small imbalances that have a large price change are not necessarily noticed. A ten minute window is ample time to react and potentially serve as a source of liquidity.	Comment acknowledged.
ICCP	RS	RS suggests that it may be appropriate to specifically study the effect of disclosure of the ICCP on market integrity in the Regular Session during the period immediately following the implementation of the proposed amendments.	Immediately after the implementation of the ICCP, TSX will study the impact of the ICCP. Specifically, at the request of RS, TSX will compare by security, the closing price against both the ICCP and the quote at 3:50 pm. TSX will conduct this study for a number of months and will report to RS on any apparent trending.
Eligible Securities	Scotia	A phased-in approach to adding eligible securities to the MOC Book creates confusion by market participants as to which securities are eligible on which date. All S&P/TSX Composite Index constituents must be added to the MOC book simultaneously rather than phased-in. By phasing-in securities, market participants (especially foreign participants) may not be fully aware which securities are eligible on various dates, thereby increasing confusion surrounding our MOC facility. Many Scotia clients found the phased-in approach of the new symbol extensions to be confusing and increased overall technology costs as updates had to happen twice a week for several weeks.	Comment acknowledged. However, the rollout of securities to the S&P/TSX Composite Index involves 180-200 securities. This is a large number of securities to process in a single evening. Each symbol must be manually enabled for MOC eligibility by TSX Trading Services. MOC eligibility is then picked up by the trading engine in the overnight batch for next day. A finalized deployment schedule is being developed and will be communicated when available.

Eligible Securities	TD	TD supports the proposal to phase-in the existing S&P/TSX Composite Members into the MOC facility. The phase-in should be done in a staged fashion, similar to how the existing MOC facility was rolled out for the S&P/TSX 60 stocks. Income Trusts that will be included in the S&P/TSX Composite Index (as per the recent announcement by S&P) should also be added to the MOC facility prior to being added to the Composite Index. TD also supports including constituents of international indices and maintaining flexibility for other special requests from time to time.	Comment acknowledged. As per current practice with the S&P/TSX 60 Index, TSX will make symbols MOC eligible in response to notices from S&P.
Eligible Securities	RS	RS agrees that any securities to be added to the MOC Book must be liquid in the context of prevailing market conditions. In RS's recent proposed amendments to UMIR respecting restrictions and prohibitions on trading during certain securities transactions, including distributions, amalgamations, issuer bids and takeover bids and the corresponding proposed OSC Rule 48-501, RS and the OSC have utilized a definition of a "highly-liquid security". To qualify, the security must have traded for a particular period, in total, on one or more marketplaces as reported on a consolidated market display (i) an average of at least 100 times per trading day, and (ii) with an average trading value of at least $1,000,000 per trading day. In the alternative, the security may be subject to Regulation M of the United States Securities and Exchange Commission and is considered to be an "actively-traded security" under that regulation. As part of its commitment to assist market participants, RS has agreed to maintain and make publicly available a list of securities which meet the trade value and transaction tests under the definition of "highly-liquid" securities. RS suggests that TSX consider the adoption of the "highly-liquid security" standard. This would provide a consistent test across various regulatory and marketplace requirements.	Comment acknowledged. As stated by RS, the TSX's inclusion criteria for symbols outside the S&P/TSX 60 INDEX and Composite indices are very similar to their proposed definition of a highly-liquid security. TSX will use the RS/OSC definition of a "highly liquid security".

General Question	BCIMC	BCIMC asks if an analysis has been done by TSX about whether the MOC facility has served to dampen closing volatility compared to the old system and whether more stocks should be added to the MOC system if volatility has not been reduced.	TSX is currently engaged in a study of the effects of MOC on end of day volatility for the S&P/TSX 60 INDEX.
General Question	BCIMC	BCIMC asks if an analysis has been done by TSX about: (i) intraday volatility of stocks outside of the S&P/TSX 60 Index but in the Composite index; and (ii) income trust volatility, and if so, whether the 5% and 10% volatility bands are acceptable.	TSX has performed analysis on certain securities in the S&P/TSX Composite Index. Our analysis shows that 5% and 10% parameters will be effective. We believe that these parameters will be particularly effective in conjunction with the introduction of the extended PME and introduction of the ICCP. We have not done analysis on income trusts.
General Question	BCIMC	BCIMC asks about the situation where a stock that trades at $2 and a moves to $2.25 or $1.75. This is outside the volatility band but is not a large dollar value change.	A $.25 swing in a $2.00 stock is considerable (12.5%) and should have attention drawn to it in order to allow market participants to react appropriately. The dollar value of the price movement is amplified by the volume of MOC orders that will trade at that price. A similar example can be seen if we inflate the numbers, i.e. a $2.50 swing on a $20.00 stock would and should equal attract attention.
General Comment - Offsetting MOC Orders	RS	RS understands that Participants and Access Persons may be entering Limit MOC Orders for the purposes of correcting erroneous Market MOC Orders or moderating the size and price risks that they have incurred by entering Market MOC Orders during the Regular Session. Market MOC Orders that are in the MOC Book at 3:40 are used to calculate the imbalance. As such, there is a market integrity risk in allowing Participants and Access Persons to enter off-setting Limit MOC Orders to in effect cancel Market MOC Orders that contributed to imbalance calculation. These orders may render the imbalance broadcast meaningless and may amount to wash trading or other manipulative or deceptive activities under UMIR.	If RS decides that an order should be cancelled, RS must contact TSX Trading Services to cancel the order. If RS requires a MOC imbalance to be recalculated because of either a cancelled order, or an off-setting MOC Limit Order, TSX Trading Services must be notified and it TSX will then manually recalculate the MOC imbalance and will send it out via a STAMP message to all traders and also to data vendors for distribution. The general message will be supplemented with a press release in order to reach more participants.

		Currently, as stated in Market Integrity Notice 2004-021, RS is addressing off-setting orders intended to correct erroneous Market MOC Orders by requiring that they be entered only with the consent of RS. Under these circumstances, RS will issue a public notice to the effect that the broadcast imbalance should be adjusted. We would suggest that the consideration be given by the TSX to the appropriate means of allowing Participants and Access Person to correct erroneous Market MOC Orders or to moderate size and price risks after 3:40 p.m. To support market integrity, RS wants to ensure that information disclosed to the market participants is accurate and timely. The mechanism by which RS will ensure market integrity in the MOC Facility would be revised if the MOC Facility provided updated information on the impact of off-setting orders or the cancellation of orders.	