

REQUEST FOR COMMENTS
ELIMINATION OF THE INDICATIVE CALCULATED CLOSING PRICE FEATURE ON
THE MARKET ON CLOSE FACILITY

The Board of Directors of TSX Inc. (“TSX”) has approved amendments (“Amendments”) to the Rules of the Toronto Stock Exchange (“TSX Rules”). The Amendments eliminate the indicative calculated closing price feature on TSX’s Market On Close (“MOC”) facility.

The Amendments will be effective upon approval by the Ontario Securities Commission (“Commission”) following public notice and comment. Comments on the proposed Amendments should be in writing and delivered within 30 days of the date of this notice to:

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A copy should also be provided to:

Susan Greenglass
Manager, Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
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Terms not defined in this Request for Comments are defined in the TSX Rules.

1.0 Background

- 1.1 The MOC facility is an electronic call market that establishes the closing price for certain Toronto Stock Exchange listed stocks, primarily symbols of the S&P/TSX Composite Index. At the close, the MOC facility matches orders, from the MOC book and the central limit order book at a price that assumes the maximum quantity filled, allocating fills according to price and time priority.
- 1.2 The MOC facility accepts fully-confidential market MOC orders from before the open and throughout the day (between 7:00 am to 3:40 pm), maintaining them in a time priority (“MOC Pre-open”). After the MOC Pre-open, the MOC imbalance is broadcasted once to the marketplace. The broadcasted MOC imbalance message includes, if there is an imbalance: symbols, side and size. After the MOC Pre-open, if there is an imbalance for a symbol, the blind offset session is open from 3:40 pm to 4:00 pm during which limit orders seeking a part of the imbalance are entered into the MOC book. These limit orders are not displayed.

- 1.3 Prior to the close of the blind offset session, at 3:50 pm, the indicative calculated closing price ("ICCP") is published. The ICCP indicates what the closing price for a MOC eligible security would be if, at the time of calculation, the regular trading session had ended.
- 1.4 At 4:00 pm the calculated closing price ("CCP") is determined by combining the orders in the MOC book with those in the central limit order book. The CCP is validated against the volatility parameters determined by the TSX. If there is no violation of such parameters, then the symbol will close at the CCP, or otherwise a price movement extension ("PME") period between 4:00 pm and 4:10 pm will be initiated for that symbol. The PME period is designed to solicit further liquidity and prices to offset the imbalances. During such period, limit orders, on the contra-side of the imbalance may be entered into the MOC book, such orders are not displayed. At 4:10 pm the CCP is recalculated and validated against the closing price acceptance ("CPA") parameters, which is a price control parameter that is used to either accept or reject the CCP that is derived from the PME. If there is a violation of the CPA parameter, the symbol will close at the price that matches the most orders within the CPA parameter.
- 1.5 Cancels of book orders at the CCP are allowed between 4:10 pm and 4:15 pm, and extended hours trading conducted at the CCP only, begins at 4:15 pm and ends at 5:00 pm.

2.0 Amendments – Elimination of ICCP

- 2.1 On June 13, 2006, TSX commenced publishing the ICCP to the trading community. At the time TSX believed that the ICCP would serve as an additional safeguard against unexpected closing results by providing market participants with an early warning regarding potential large price movements at close, which would prompt market participants to offer additional liquidity. Also, the ICCP was intended to provide investors with continuous market orders additional information about the potential close rather than receive an unexpected surprise at the close.
- 2.2 Since the introduction of the ICCP, we have received feedback from numerous MOC participants that the ICCP is not an effective indicator of the actual closing price and therefore, is largely ignored. Also, numerous participants have stated that the effectiveness of the ICCP is limited because significant offsetting orders are purposely deferred during the blind offset session until after the ICCP is published, which would otherwise affect the ICCP. Numerous MOC participants have provided feedback that notwithstanding the deferral of large offsetting orders, the price at 3:50 pm is generally not an accurate indication of the 4:00 pm closing price since continuous supply and demand and prices fluctuate over the ten minute period between the ICCP calculation and the actual closing.
- 2.3 Numerous MOC participants have stated that they routinely hold back their large MOC offsetting orders until after the ICCP is published. This is undertaken to prevent others from knowing and reacting to the ICCP price that would otherwise be determined by such large offsetting orders. Essentially, this suggests that the ICCP has reduced the time period for traders that enter large MOC offsetting orders from a twenty minute session to a ten minute session. This undesired effect of compressing the amount of time traders have to enter their large offsetting orders increases the likelihood of missed order entry opportunities and price volatility, as well as, producing an inaccurate ICCP which further undermines its effectiveness. Some participants have also raised

concerns that order sizes and limit prices of icebergs are revealed to the market since the ICCP includes icebergs in the calculation but excludes large MOC offsetting orders that have been held back.

3.0 Proposed Amendments

3.1 The proposed Amendments are set out in Appendix A hereto.

4.0 Public Interest Assessment

4.1 TSX has had feedback and discussions regarding the elimination of the ICCP with a broad group of MOC participants. The majority of the MOC participant feedback is supportive of the elimination of the ICCP. Feedback to date suggests that ICCP at best offers little or no value and at worst restricts MOC order entry and efficient price discovery. For these reasons and the reasons described above, the TSX believes that the elimination of the ICCP within the MOC facility is not contrary to the public interest.

4.2 We submit that in accordance with the Protocol for Commission Oversight of Toronto Stock Exchange Rule Proposals, the Amendments will be considered “public interest” in nature. The Amendments would, therefore, only become effective following public notice, a comment period and the approval of the Commission.

5.0 Questions

5.1 Questions concerning this notice should be directed to Alex Taylor, Product Manager, TSX Markets at (416) 947-4489 or Amer Chaudhry, Legal Counsel, TSX Group Inc. at (416) 947-4501.

APPENDIX A
ICCP Provisions

The TSX Rules are hereby amended as follows:

1. The definition of “Indicative calculated closing price” as set out in Rule 1-101 is repealed.
2. Rule 4-902(3)(c) is repealed.