



CANADIAN SECURITY TRADERS ASSOCIATION, INC.
P.O. Box 3, 31 Adelaide Street East
Toronto, Ontario M5C 2H8

March 23rd, 2015

Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
20 Queen Street West
Toronto, ON M5H 3S8
marketregulation@osc.gov.ca

and

Matt Thompson
Chief Compliance Officer
Chi-X Canada ATS Limited
130 King St., W, Suite 2105
Toronto, ON M5X 1E3
Matthew.thompson@chi-x.com

Re: Chi-X Canada ATS Ltd Notice of Proposed Changes and Request for Comment

The Canadian Security Traders Association, Inc. is a professional trade organization that works to improve the ethics, business standards and working environment for members who are engaged in the buying, selling and trading of securities (mainly equities). The CSTA represents over 850 members nationwide, and is led by Governors from each of three distinct regions (Toronto, Montreal and Vancouver). The organization was founded in 2000 to serve as a national voice for our affiliate organizations. The CSTA is also affiliated with the Security Traders Association (STA) in the United States of America, which has approximately 4,200 members globally, making it the largest organization of its kind in the world.

This letter was prepared by the CSTA Trading Issues Committee (the "Committee" or "we"), a group of 21 appointed members from amongst the CSTA. This committee has an approximately equal proportion of buy-side and sell-side representatives with various areas of market structure expertise, in addition to one independent member. It is important to note that there was no survey sent to our members to determine popular opinion; the Committee was assigned the responsibility of presenting the views of the CSTA as a whole. The views and statements provided below do not necessarily reflect those of all CSTA members or of all members of the Trading Issues Committee.

We appreciate the opportunity to comment on the proposal by Chi-X Canada to introduce a new market on close order type (the "Proposal").

The TSX Market-on-Close ("MOC") facility serves a very important role for the Canadian investment community. Since the TSX is currently the listing market for all senior Canadian equities, the TSX MOC facility directly impacts the determination of the closing prices that are used for end-of-day valuations by most participants, including index providers, fund custodians and pensions. It also serves in the management of end-of-day rebalance and cash flow activities, which are frequently benchmarked to closing prices. We believe that a thorough review is warranted for proposed facilities or order types which have the potential to affect the integrity of the TSX MOC facility.

Historically, Alpha has been the only marketplace that has provided direct competition to the TSX MOC facility. We were generally not supportive of the Alpha closing facility since it directly bifurcated order flow that was destined to trade at the close, making the price discovery process of the existing facility less efficient. Since the participants that sent MOC orders to Alpha could receive prices that were very different from the official TSX Close, the interest in the competing close facility was limited, and thus it discontinued its operation soon after its launch.

As proposed, we believe that the Chi-X market on close order type will not have any adverse effects to the price discovery process of the TSX MOC facility. If all participants were to send their MOC destined order flow using the Chi-X MOC order, only orders that have matched with another counterparty would not be sent to the TSX MOC. By definition, only unmatched orders that create an imbalance are those that can have any impact on the close price. Since any unmatched orders will be sent to the TSX MOC facility by Chi-X, the price discovery process would not be compromised and the integrity of the existing closing mechanism would be maintained.

The main reason that participants would want to use the Chi-X market on close order type instead of the TSX MOC order type is based on their respective fee structures. The TSX MOC order type is considered a premium order type and is priced a 30 mils per side (max \$30 trade, per side). While the TSX MOC price is two to three times higher than markets in the U.S. (NYSE & NASDAQ), there is no reason for the TSX to modify its pricing since it has a monopoly for the MOC in all of its listed securities. While Chi-X has not published their pricing structure as of yet, we assume that it will be priced to provide enough economic incentive for dealers to want to modify their current routing practices. If the pricing structure proposed by Chi-X does not warrant the additional development spend by dealers, the order type will simply not be used.

We are supportive of the proposed order type primarily since it could decrease costs for dealers without affecting the price discovery process when determining the TSX's official closing price and without requiring any development for those participants that choose not to use the proposed order type. That being said, no matter how attractive the economics, dealers may still choose to use the TSX MOC order type since Chi-X Canada would have no liability if ever their MOC order failed to send unmatched MOC order to the TSX MOC facility before the imbalances were published.

We appreciate Chi-X Canada's attempt at decreasing the costs borne by dealers when transacting in at the close price. We applaud their approach at competition since the success of the proposed order type is purely dependent on its deemed worth and does not harm the

integrity of the existing MOC facility, nor does it impose any mandatory development costs to the Street.

We appreciate the opportunity to comment on this matter.

Respectfully,

“Signed by the CSTA Trading Issues Committee”

c.c. to:

Ontario Securities Commission:

Mr. Howard Wetston, Chair and CEO
Ms. Maureen Jensen, Executive Director & CAO
Ms. Susan Greenglass, Director, Market Regulation
Ms. Tracey Stern, Manager, Market Regulation

Alberta Securities Commission:

Ms. Lynn Tsutsumi, Director, Market Regulation

Autorité des marchés financiers:

Me Anne-Marie Beaudoin, Secrétaire générale

British Columbia Securities Commission:

Ms. Sandra Jakab, Director, Capital Markets Regulation

IIROC:

Mr. Andrew Kriegler, President and CEO
Ms. Wendy Rudd, SVP, Market Regulation and Policy
Ms. Deanna Dobrowsky, Vice President, Market Regulation Policy
Ms. Victoria Pinnington, Vice President, Trading Review & Analysis