

Request for Comments
Amendments to the TSX Venture Exchange Rule Book
to Introduce the Market on Close Facility and the Extended Trading Session on
the TSX Venture Exchange

The Board of Directors of TSX Venture Exchange Inc. has approved amendments (Amendments) to the TSX Venture Exchange Rule Book (Rule Book). The Amendments, shown as blacklined text, are attached at Schedule A. Discussion of the Amendments is provided in Parts I to IX below.

The Amendments will be effective upon approval by the Alberta and British Columbia Securities Commissions (collectively, Commissions) following public notice and comment. Comments on the proposed amendments should be in writing and delivered by July 11, 2011 to:

Amer Chaudhry
Legal Counsel
TMX Group Inc.
The Exchange Tower
130 King Street West, 3rd Floor
Toronto, ON M5X 1J2
Fax: (416) 947-4461
e-mail: amer.chaudhry@tsx.com

A copy should also be provided to:

Michael Brady
Legal Counsel, Capital Markets Regulation Division
British Columbia Securities Commission
701 West Georgia Street, 5th Floor
Vancouver, BC V7Y 1L2
Fax: (604) 899-6658
e-mail: mwang@bcsc.bc.ca

Terms not defined in this Request for Comments are defined in the Rule Book.

I. Proposed Change

The Amendments make changes that will allow TSX Venture Exchange (Venture) to provide an automated market-on-close (MOC) facility and a special/extended trading session (Special Trading Session) to Members and Participating Organizations of Venture.

II. Background

MOC Facility

The MOC facility was introduced on Toronto Stock Exchange (TSX) in 2004 and has since been widely adopted as an efficient and effective mechanism to establish the closing price, mitigate volatility around the close, and encourage increased liquidity for index related securities. The TSX MOC facility is used by most indexers, and is relied upon by the industry to facilitate index and portfolio rebalancing activities.

The facility is an electronic call market that establishes the closing price for certain TSX listed stocks, primarily symbols which are index and listed exchange traded funds (ETF) constituents. 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.

Venture intends to provide a MOC facility that operates and functions materially the same as the facility provided on TSX. The MOC facility on Venture may employ unique price volatility parameters (Closing Price Acceptance parameter, Price Movement Extension parameter) to address, if needed, the trading and liquidity characteristics of the proposed MOC eligible symbols on Venture. A more detailed description of the proposed Venture MOC facility is provided below.

MOC Securities: All stocks included in the S&P/TSX Venture 30 Index will initially be added to the MOC facility for Venture. Additional symbols may be added when new indexes are created or through customer request as is the current practice for the TSX MOC facility.

Participants: All Participating Organizations and Members (collectively referred to as "POs") and eligible clients ordinarily permitted to access the trading system will be permitted to enter MOC orders as described below. MOC orders may be entered in the MOC book via existing vendor trade station terminals.

Minimum Order Size: A MOC order may only be entered in multiples of board lots.

Order Type Restrictions: MOC orders will be restricted to orders for regular settlement. Jitney orders and short sales may be entered but must be marked appropriately. MOC orders may be entered using the voluntary attribution feature.

Time: MOC Market orders can be entered into the MOC book from 7:00 a.m. to 3:40 p.m. Imbalance offsetting MOC limit orders can be entered into the MOC book (if the symbol has an imbalance) between 3:40 p.m. and 4:00 p.m. and potentially 4:00 p.m. to 4:10 p.m. (if the price movement extension is invoked).

MOC Book: The MOC book will run in parallel with the central limit order book. MOC orders may be entered in the MOC book from 7:00 a.m. to 3:40 p.m. Only market priced MOC orders may be entered during this period and orders will be recorded in time priority. Orders in the MOC book may be cancelled until 3:40 p.m. Orders in the MOC book will not be publicly disseminated.

MOC Imbalance Broadcast: At 3:40 p.m. a MOC imbalance broadcast is disseminated to the trading community, which provides an opportunity to offset the imbalance. MOC orders in the MOC book as at 3:40 p.m. will be used to calculate the MOC imbalance (MOC Imbalance). Between 3:40 and 4:00 p.m. the MOC book will be open to order entry of limit priced MOC orders but only on the contra side of the MOC Imbalance.

Between 3:40 p.m. and 4:00 p.m. only Trading Services may cancel a MOC order in the MOC book. Offsetting limit orders entered in the MOC book after 3:40 p.m. may be cancelled by the trader up to 4:00 p.m.

Between 7:00 a.m. and 4:00 p.m., there is no interaction between the MOC book and the central limit order book.

Calculated Closing Price and Price Movement Extension: At 4:00 p.m. 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 Venture. 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 p.m. and 4:10 p.m. will be initiated for that symbol.

The PME period is designed to solicit further liquidity to offset any remaining imbalances in the MOC Book. During the PME, limit orders on the contra-side of the imbalance may be entered into the MOC book, and such orders are not displayed. At 4:10 p.m. 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.

Closing Call Allocation: The closing call allocation is the priority in which MOC orders and orders residing in the central limit order book are matched at the closing price

Orders will be executed in the closing call based on the following allocation:

- (i) MOC market orders shall trade with offsetting MOC market orders entered by the same PO, according to time priority, provided that neither order is an unattributed order; then
- (ii) MOC market orders shall trade with offsetting MOC market orders, according to time priority; then
- (iii) MOC market orders shall trade with offsetting limit orders in the closing call entered by the same PO, according to time priority, provided that neither order is an unattributed order; then
- (iv) MOC market orders shall trade with offsetting limit orders in the closing call, according to time priority; then
- (v) limit orders in the closing call shall trade with offsetting limit orders in the closing call entered by the same PO, according to time priority, provided that neither order is an unattributed order; then
- (vi) remaining orders in the closing call shall trade according to time priority.

Special Trading Session

The TSX provides a Special Trading Session, which includes an extended session that operates from 4:15p.m. to 5:00p.m. EST and enables trades and the submission of crosses at the last sale price. The extended session allows POs to re-balance their portfolios by trading listed securities at the last sale price. Venture intends to provide a Special Trading Session that will be the same as the session provided on TSX.

The Special Trading Session on Venture will also begin at 4:15 p.m. and continues until 5:00 p.m. All MOC orders that do not trade at the end of the closing call will be terminated.

Trades in the Special Trading Session will be at the last sale price for each security. The last sale price for MOC securities will be the final CCP and the last sale price for other securities will be the price of the last sale on Venture during the regular session.

III. Rationale for Amendments

MOC Facility

The MOC facility has been a value added service for TSX which has provided equal access and opportunity in setting the closing price, increased price discovery efficiency, and has reduced the volatility of the closing price for symbols eligible for the MOC facility.

Initially the MOC facility was introduced on TSX for the constituents of the S&P/TSX Composite Index for the benefits noted above. With the increase in the number of indices and the increase in the number of ETFs, there has been steady growth in the symbols added to the MOC facility.

Venture has enjoyed favourable volume and liquidity growth in recent years, and notably within the last six months. This trend of increasing activity has supported the recent introduction of new index and ETF products whose constituents are listed on Venture. Most recently, Standard and Poor's has launched the S&P/TSX Venture 30 Index. Following this new index was the announcement of an ETF based on the S&P/TSX Venture 30. With the introduction of these new products, numerous requests have been received from participants to expand the MOC facility to Venture for these and potentially additional Venture listed index constituents.

Special Trading Session

The introduction of a new Venture index and related products, and the pending introduction of MOC on Venture, will require participants to perform index and portfolio rebalancing activities at the closing price, once the closing price has been established through MOC. A Special Trading Session such as an extended trading session will provide participants a mechanism to undertake such needed activities, in addition to any post-close risk management related trades such as flattening a position.

IV. Impact

The introduction of a MOC facility and Special Trading Session will have a positive impact to the market. Venture securities with growing liquidity, a broader trading participant base, and wider investor base will benefit from the value offered by the MOC facility. The MOC facility provides a fair benchmark for the fund management industry, and minimizes opportunities for manipulation of closing prices. Also, with the growing usage of Venture indices and related products, indexers are looking for a mechanism to minimize tracking error caused by deviations from the closing price. Derivative traders also require reliable and benchmark closing prices for index related securities for basis, swaps, and options trades. Introducing MOC and a Special Trading Session on Venture will enable indexers and other traders to achieve the appropriate closing price and mitigate risk.

V. Description of the Amendments

Subject to certain conforming changes, Venture's Proposed Amendments for MOC and Special Trading Session are materially the same as TSX's MOC and Special Trading Session rules. Provided below is a summary of the Proposed Amendments. A blacklined text of the applicable Amendments is provided in Schedule "A".

Venture Rule A.1.01 - Definitions

The Amendments add a number of required definitions specific to the MOC facility and the Special Trading Session (i.e. extended hours session).

Venture Rule C.2.54 - Special Trading Session

A new subsection was added for the Special Trading Session. Under this rule all symbols are eligible for the Special Trading Session, provided MOC securities must have their closing call completed prior to the session. During this session transactions must occur at the last sale price of the security following the normal rules of priority and allocation.

Venture Rule C.2.55 - Market-on-Close

A new subsection was added for the MOC facility. The updates include symbol eligibility and volume restrictions for MOC orders, MOC order entry, closing call allocation and the handling of unfilled MOC orders.

VI. Consultation and Review

There is strong demand for the MOC facility and Special Trading Session on Venture from potential users. Since the announcement of the new index and ETF products, numerous MOC users have contacted TMX to request that the Venture constituents be added to MOC. Feedback was subsequently solicited from a broader group of industry stakeholders regarding the addition of both the MOC facility and an extended session to Venture. Specifically, the results of a survey soliciting feedback from participants on these changes, which included the top 20 users of the MOC facility and those predominately using the MOC facility for index and portfolio management functions, indicated strong support for the proposed amendments (MOC and Special Trading Session), many of whom felt it a necessity. Feedback to date suggests that not enabling these MOC and Special Trading Session features would add risk to their processes and negatively impact the ability to effectively perform index rebalancing at the closing price.

VII. Alternatives

No alternatives were considered.

VIII. Comparable Rules

As mentioned above, the proposed MOC and Special Trading Session rules for Venture are similar to the MOC and Special Trading Session rules on TSX. Furthermore, in Canada, MOC and Special Trading Session features are also provided by Alpha, and in the United States, a number of marketplaces provide similar offerings, including NYSE and Nasdaq.

IX. Questions

Questions concerning this notice should be directed to Amer Chaudhry, Legal Counsel, TMX Group Inc. at amer.chaudhry@tsx.com.

Schedule A

RULE A. 1.00 – INTERPRETATION

A1.01 – Definitions

In these rules unless the context otherwise requires:

"Book" means the electronic file of committed orders for a listed security but does not include the MOC Book.

Amended ●, 2011

Added January 19, 2009

"calculated closing price" means the closing price for MOC Securities calculated in the manner determined by the Exchange.

Added ●, 2011

"Closing Call" means the execution of orders on the combination of the Book and the MOC Book to derive the calculated closing price.

Added ●, 2011

"IIROC" means the Investment Industry Regulatory Organization of Canada.

Added ●, 2011

"Last Sale Price" means:

- (1) in respect of a MOC Security, the calculated closing price; and
- (2) in respect of any other listed security, the last board lot sale price of the security on the Exchange in the Regular Session.

Added ●, 2011

"Market Surveillance Official" means:

- (1) a Market Integrity Official where the administration of any rule or policy is undertaken by IIROC on behalf of the Exchange; and
- (2) an employee of the Exchange designated by the Exchange to perform such functions and exercise such power.

Added ●, 2011

"MOC Book" means the electronic file that holds MOC Orders.

Added ●, 2011

“MOC Imbalance” means the difference between MOC Market Orders to buy and MOC Market Orders to sell MOC Securities, calculated in the manner determined by the Exchange.

Added ●, 2011

“MOC Limit Order” means an order for the purchase or sale of a MOC Security entered in the MOC Book on a Trading Day for the purpose of executing at the Last Sale Price of the security on that Trading Day, provided that the Last Sale Price does not exceed a specified maximum price or fall below a specified minimum price, but does not include a Special Trading Session order.

Added ●, 2011

“MOC Market Order” means an order for the purchase or sale of a MOC Security entered in the MOC Book on a Trading Day for the purpose of executing at the Last Sale Price of the security on that Trading Day, but does not include a Special Trading Session order.

Added ●, 2011

“MOC Order” includes a MOC Market Order and a MOC Limit Order.

Added ●, 2011

“MOC Securities” means securities in respect of which MOC Orders may be entered as designated by the Exchange from time to time.

Added ●, 2011

“Regular Session” means a Session other than a Special Trading Session.

Added ●, 2011

“Special Trading Session” means a Session during which trading in a listed security is limited to the execution of transactions at a single price.

Added ●, 2011

“Special Trading Session order” means an order to buy or sell a security in the Special Trading Session.

Added ●, 2011

C.2.06 – Allocation of Trades

- (1) An order that is entered for execution on the Exchange may execute without interference from any order in the Book if the order is:
 - (a) part of an internal cross;
 - (b) an unattributed order that is part of an intentional cross; ~~or~~
 - (c) part of a Designated Trade; or
 - (d) part of an intentional cross entered by a Member in order to fill a client’s Special Trading Session order.

Amended ●, 2011

C.2.54 – Special Trading Session

- (1) All listed securities shall be eligible for trading during the Special Trading Session, provided that a MOC Security shall not be eligible for trading until the completion of the Closing Call in respect of that MOC Security.
- (2) Except as otherwise provided, all transactions in the Special Trading Session shall be at the Last Sale Price for each security.
- (3) Except as otherwise provided, the normal rules of priority and allocation and all other Exchange Requirements shall apply to the Special Trading Session.

Rule C.2.54 added ●, 2011

C.2.55 - Market-On-Close

(1) Eligible Securities

MOC Orders may only be entered for MOC Securities.

(2) Board Lots

A MOC Order must be for a board lot or an integral multiple of a board lot of a MOC Security.

(3) MOC Order Entry

- (a) MOC Market Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the time the MOC Imbalance is broadcast. MOC Market Orders may not be cancelled or modified after the MOC Imbalance is broadcast.
- (b) The MOC Imbalance is calculated and broadcast on each Trading Day at twenty minutes before the closing time.
- (c) Following the broadcast of the MOC Imbalance, until the closing time on each Trading Day, MOC Limit Orders may be entered in the MOC Book on the contra side of the MOC Imbalance. MOC Limit Orders may be cancelled until the closing time.
- (d) In the event of a delay of the Closing Call for a MOC Security, MOC Limit Orders may be entered in the MOC Book for such security on the contra side of the MOC Imbalance for a period of ten minutes after the closing time. MOC Limit Orders may not be cancelled during this time period.

(4) Closing Call

- (a) The Closing Call shall occur on each Trading Day at the closing time. The Closing Call in a MOC Security shall be delayed for a period of ten minutes in the event that the price that would be the calculated closing price for the MOC Security exceeds the volatility parameters determined by the Exchange. The Exchange will forthwith broadcast a message identifying the MOC Security that is subject to the delay.
- (b) In the event that the price that would be the calculated closing price for a MOC Security exceeds the closing price acceptance parameters determined by the Exchange at the end of the delay period set out in Rule C.2.54(4)(a), the calculated closing price for the MOC Security will be the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security.
- (c) Orders shall execute in the Closing Call in the following sequence:

- (i) MOC Market Orders shall trade with offsetting MOC Market Orders entered by the same Member, according to time priority, provided that neither order is an unattributed order; then
 - (ii) MOC Market Orders shall trade with offsetting MOC Market Orders, according to time priority; then
 - (iii) MOC Market Orders shall trade with offsetting limit orders in the Closing Call entered by the same Member, according to time priority, provided that neither order is an unattributed order; then
 - (iv) MOC Market Orders shall trade with offsetting limit orders in the Closing Call, according to time priority; then
 - (v) limit orders in the Closing Call shall trade with offsetting limit orders in the Closing Call entered by the same Member, according to time priority, provided that neither order is an unattributed order; then
 - (vi) remaining orders in the Closing Call shall trade according to time priority.
 - (d) An order for a MOC Security shall not execute if, at the close:
 - (i) an automatic closing delay has been initiated in the MOC Security because the calculated closing price exceeds the volatility parameters determined by the Exchange; or
 - (ii) the participation of the MOC Security has been otherwise delayed by a Market Surveillance Official.
- (5) Unfilled Orders
- (a) Except as otherwise provided in this Rule, all MOC Orders that are not completely filled in the Closing Call shall expire at the end of the Closing Call and will be removed from the Book and the MOC Book.
 - (b) In the event that the closing price acceptance parameters are exceeded for a MOC security, MOC Market Orders shall trade with offsetting MOC Orders and any limit orders at the price at which most shares will trade, leaving the least imbalance, where the price does not exceed the closing price acceptance parameters determined by the Exchange for such security. All remaining MOC Orders will be removed from the Book and the MOC Book.
 - (c) All other orders, that are not marked as MOC, that are not completely filled in the Closing Call shall be eligible for trading in the Special Trading Session.
- (6) Application of Exchange Requirements
- Except as otherwise provided in this Rule, all Exchange Requirements shall apply to the entry and execution of MOC Orders.
- Rule C.2.55 added •, 2011**