

TSX VENTURE EXCHANGE INC.

NOTICE OF PROPOSED AMENDMENTS AND REQUEST FOR COMMENTS

TSX Venture Exchange Inc. (“TSXV”) is publishing this Notice of Proposed Amendments. The Proposed Amendments will be effective upon approval by the British Columbia Securities Commission and Alberta Securities Commissions (the “Commissions”) following public notice and comment.

Market participants are invited to provide comments on the proposed changes. Comments should be in writing and delivered by December 3, 2018 to:

Anastassia Tikhomirova
Legal Counsel
TMX Group
300 – 100 Adelaide Street West
Toronto, Ontario M5H 1S3
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Doug MacKay
Market Structure Specialist
Capital Markets Regulation Division
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, British Columbia V7Y 1L2
Email: dmackay@bcsc.bc.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by the Commissions, and in the absence of any regulatory concerns, a notice will be published to confirm completion of the Commissions’ review and the Commissions’ approval.

Background to the Proposed Amendments

The Market on Close (“MOC”) facility is an electronic call market that establishes the official closing price for eligible listed securities on TSXV. The MOC facility provides equal access and opportunity in setting the closing price, increased price efficiency, and reduced volatility of the closing price for symbols eligible for the MOC facility.

Official closing prices are determined through a closing auction. The auction determines the closing price through a process that integrates MOC orders priced at ‘market’ and eligible limit on close orders. Regular limit orders that have been placed in the central limit order book and remain open at 4:00 p.m. are also eligible to be drawn into the MOC facility in order to satisfy any MOC closing imbalance.

While TSXV believes the closing auction provides stability in determining a closing price, further price volatility can be prevented by the introduction of a Closing Offset (“CO”) order type to the MOC facility and the inclusion of resting dark limit orders into the closing price allocation, positively increasing participation and the efficiency of the close.

Proposed Amendments

TSXV is proposing the following amendments to the TSXV Rule Book to introduce enhancements to the MOC facility operated by the TSXV (the “Proposed Amendments”):

1. Create a new CO order type that:
 - Can be entered from 7:00 a.m. to 4:00 p.m., and only on symbols that are MOC eligible;
 - Can be entered on either side of the book to offset a MOC Imbalance in either direction;
 - Must contain a limit price;
 - Will not contribute to the published MOC Imbalance at 3:40 p.m.;
 - CO orders may continue to be entered in the MOC Book on either side of the published MOC Imbalance with no restrictions on order volumes;
 - Will only trade if offsetting an imbalance, and will only trade in the MOC closing allocation;
 - At 4:00 p.m., CO orders that are priced more aggressively than the same side TSXV Best-Bid-and-Offer (“TBBO”) will be repriced to the TBBO; and
 - Will match last in the allocation, with matching between COs following Broker/time priority, at each price level;

2. Allow non-pegged dark limit orders resting in the central limit order book (“CLOB”) to participate in the closing auction:
 - At 4:00 p.m., dark limit orders resting in the CLOB that are priced more aggressively than the same side TBBO will be repriced to the TBBO;
 - Dark limit orders will not contribute to the published MOC Imbalance at 3:40 p.m.;
 - No restrictions will be enforced on order volumes or side of book entered; and
 - Dark orders will follow in priority after visible CLOB orders executed in the MOC, and will match against each other according to Broker/time priority. (Dark orders will trade before CO orders at each price level).

Please see the attached Appendix A for a complete blackline of the Proposed Amendments to TSXV Rule C.2.55 and ancillary changes to TSXV Rule A1.01.

Rationale

The proposed changes were developed based on feedback received during a recent MOC forum and in consultation with the MOC user community to address certain functionality enhancements to the closing auctions. Similar to the ‘closing offset’ and ‘imbalance only’ order types available in the NYSE and NASDAQ closing auctions, the CO order will provide participants with an option to provide additional liquidity in the close by enabling them to participate against any imbalance.

Likewise, enabling dark limit orders to participate in the closing auctions will provide participants additional opportunity to trade in the close and will help to dampen price volatility.

Expected Date of Implementation

The proposed changes are expected to become effective in the second quarter of 2019.

Expected Impact

The changes being introduced to the MOC facility have the potential to positively increase participation and to reduce volatility of the closing price for MOC eligible symbols.

The introduction of the CO order provides an additional source of liquidity to offset an imbalance going into the closing auction, and thus should increase the efficiency of the closing process. The inclusion of CO orders would never add to, or result in a flipped imbalance. Rather, if the aggregate number of shares comprising outstanding CO orders was larger than the number of shares required to offset the imbalance, only the amount of shares necessary to fulfill any actual imbalance would be executed. CO orders will be allocated last in priority at all price levels, as they are meant to supplement the existing orders on the book by providing additional liquidity in the event of an imbalance in the closing allocation. In the event of a flipped imbalance, CO orders will be valuable to satisfy that imbalance at the calculated closing price, (subject to their stated limit), without having to go through multiple price levels.

The inclusion of resting dark limit orders from the CLOB into the closing allocation will provide MOC participants with an additional opportunity to trade in the close and will help dampen price volatility by aggregating more liquidity into the closing auction.

Expected Impact of Proposed Amendments on the Exchange's Compliance with Ontario Securities Law

The Proposed Amendments and changes to marketplace functionality will not impact TSXV's compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. TSXV also believes the Proposed Amendments support the maintenance of fair and orderly markets by strengthening the price formation process of the MOC facility.

Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments

There is one optional order entry message protocol change (and no additional feed message protocol changes) planned for the Proposed Amendments. We expect any required changes to be minimal and likely limited to feed vendors implementing the new functionality.

Functionality will be available in the TMX external test environment prior to production so as to give clients ample opportunity to test any changes.

Do the Amendments Currently Exist in Other Markets or Jurisdictions

Order types similar to the CO (e.g. Imbalance Only) are currently available in the closing actions operated by other markets such as NYSE and NASDAQ.

APPENDIX A

AMENDMENTS TO THE TSXV RULE BOOK

Rule A1.01 – Definitions

[...]

“MOC Closing Offset Order” means a MOC Limit Order that only trades on the side of the MOC Book that is offsetting the imbalance, and never at a price within the market’s best bid and offer.

Amended [●], 2018

“MOC Order” ~~includes~~ means a MOC Limit Order ~~and~~ a MOC Limit Order or a MOC Closing Offset Order.

Added ~~December 12, 2011~~ [●], 2019

[...]

Rule C.2.55 – Market-On-Close

[...]

(2) MOC Order Entry

- (a) MOC Market Orders and MOC Limit Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the time the first MOC Imbalance is broadcast. MOC Closing Offset Orders may be entered, cancelled and modified in the MOC Book on each Trading Day from 7:00 a.m. until the Closing Call. MOC Market Orders and MOC Limit Orders that are included in any MOC Imbalance broadcast may not be cancelled or modified after that MOC Imbalance is broadcast.
- (b) The MOC Imbalance is calculated and broadcast on each Trading Day at twenty minutes before the closing time and again in the event of a delay of the Closing Call as specified by the Exchange.
- (c) Following the broadcast of a MOC Imbalance, MOC Limit Orders may be entered in the MOC Book on the contra side of the MOC Imbalance. MOC Limit Orders not included as part of that MOC Imbalance broadcast may be cancelled subject to established time constraints as specified by the Exchange.
- (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 subsequent MOC Imbalance for a set period of time specified by the Exchange. Pursuant to paragraph (c), MOC Limit Orders entered during the delay may be cancelled during this time period. MOC Closing Offset Orders may continue to be entered in the MOC Book on either side of the MOC Imbalance.

Amended November 14, ~~2014 and~~ 2014, November 21, 2016 and [●], 2019

(3) Closing Call

[...]

(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 Participating Organization. [Limit orders are prioritized by MOC Limit Orders and displayed limit orders, then dark limit orders, then MOC Closing Offset Orders.](#) Within those categories they are then matched, 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.

[Amended \[●\], 2019](#)

[...]

(4) Unfilled Orders

[...]

- (a) In the event that the closing price acceptance parameters are exceeded for a MOC ~~security~~[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.
- (b) All other orders that are not marked as [MOC Market On Close](#), that are not completely filled in the Closing Call shall be eligible for trading in the Special Trading Session.

[Amended \[●\], 2019](#)