

MORE MEANINGFUL PRICES FOR ALL

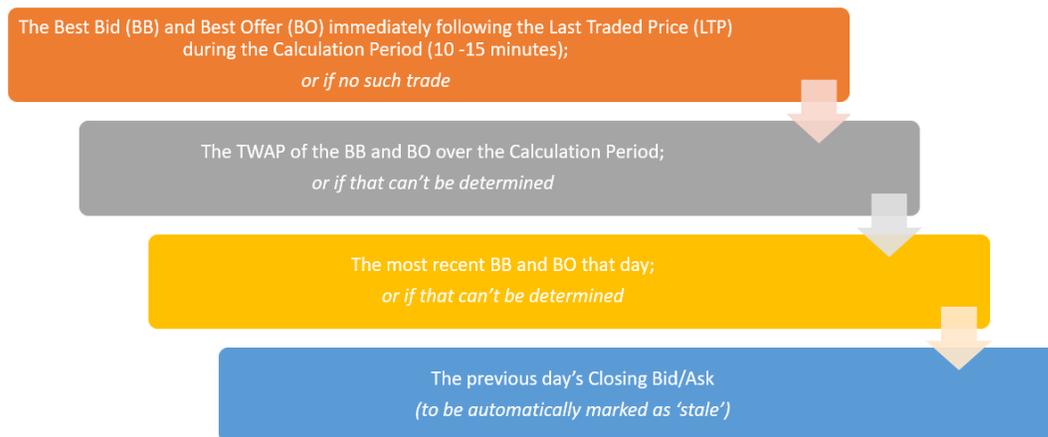
IMPROVING END-OF-DAY VALUATIONS FOR THINLY TRADED CANADIAN EQUITIES

CONSULTATIVE SUMMARY

Background

In November 2021 the Investment Industry Association of Canada (“IIAC”) published ‘[More Meaningful Prices for All: Improving End-of-Day Valuations for Thinly Traded Canadian Equities](#)’ (The “Consultation Paper”). The Consultation Paper outlined shortcomings in the way closing prices and end-of-day quotations for thinly traded equity securities, including ETFs, are currently determined in Canada. Further, it identified the adverse impacts to investors, and other market participants, the industry efforts underway to address them and remaining outstanding issues.

Based on its market consultation and review, the IIAC recommends that, in the absence of a trade, a time-weighted methodology be used to determine *closing* price. Similarly, for end-of-day quotes the IIAC proposes the “waterfall” below:



The IIAC also acknowledges the need for the Canadian Securities Administrators (“CSA”) and Self-Regulatory Organizations (“SROs) to recognize the current challenges and support industry solutions.

Summary of Comments Received

The IIAC Consultation Paper prompted feedback from 11 commentors. This group was comprised of 3 marketplaces, 2 investment dealers and 6 asset management firms.

All commentors were generally in agreement with the concerns raised by IIAC and expressed a need to work towards an industry solution.

Some of the most common criticisms cited by commentors regarding current end-of-day valuation practices were:

1. For thinly traded securities, reliance on the last board lot traded on the listing exchange or on orders that remain in the book after the 4pm session ends often leads to unrepresentative or “stale” prices.
2. The above results in client and advisor confusion with several commentors noting having to devote resources to address queries and complaints from these stakeholders.
3. Some of the commentors that are issuers of ETFs indicated the current situation portrays their organization unfavourably despite their lack of control over the situation. Specifically, when the ETF’s closing price diverges considerably from its NAV, due to the current end-of-day valuation practices, this creates the misconception of a high tracking error by the ETF or allows investors to wrongly assume the ETF is trading at premium or discount.
4. Start-up companies and issuers of new ETFs are most disadvantaged from the current practices because their securities are typically infrequently traded at inception. This can impair capital formation in Canada.
5. Both dealers that commented referenced client statements, their independent price verification (IPV) processes, and capital calculations as areas adversely impacted by the current end-of-day pricing practices.
6. The current regulatory framework needs to be revisited to ensure industry solutions to address current end-of-day pricing practices can be broadly adopted.

Eight commentors explicitly supported a time-weighted methodology identical or comparable to that proposed in the IIAC Consultation Paper. No commentor expressed an objection to the use of a time weighted methodology.

Commentors who explicitly supported the time-weighted methodology further believe it should encompass all thinly traded equity securities (ie. ETFs and non-ETFs). Additionally, most indicated they saw value in applying the methodology to closing prices and end-of-day quotes.

Several commentors acknowledged the work of NEO and TSX in helping address the issues currently but also encouraged them to better align their TWAP methodologies and extend their current solutions beyond ETFs to encompass other thinly traded equities.

Several commentors noted that ignoring quotes or trades on venues other than the listing exchange was problematic given current market structure in Canada. Two commentors specifically expressed the need for the industry solution to adopt a National Best Bid Offer (“NBBO”) approach.

Most commentors generally viewed regulated marketplaces as best placed for calculating and publishing closing prices and end-of-day quotes using an industry agreed to framework. Two commentors further noted the importance of making this information fairly accessible to market data vendors . One

commentor recommended that market data vendors be consulted to ensure any resulting new data feeds from marketplaces can be easily ingested by data vendors.

Should a new approach be adopted for end-of-day prices, multiple commentors highlighted the importance of raising awareness of this new approach among market participants, investors, and their advisors so there is an understanding of the impact.

Conclusions & Next Steps

The industry feedback received affirms the concerns flagged in the IIAC Consultation Paper. For thinly traded equities, there is a strong interest to derive more reliable end-of-day valuations in place of the stale prices relied on today.

NEO and TMX have both undertaken separate efforts to partly address this issue. The IIAC will continue to seek their collaboration to develop an agreed to valuation approach that can ultimately be accepted by their principal regulators and that market participants can then universally rely on. The end valuation approach should resemble that proposed in the IIAC Consultation Paper. Namely, in the absence of a recent trade, a reliance on consolidated exchange data and a time weighted methodology to derive end-of-day bid & ask prices as well as a single “closing price” for all thinly traded equities.

Data vendors will need to be consulted to ensure that these newly derived prices can be properly received and re-distributed.

Lastly, the IIAC will also continue to discuss with the CSA and IIROC the need to amend industry regulations, including the Universal Market Integrity Rules and Dealer Member Rules, to ensure the derived end-of-day values can be utilized broadly within industry.

The Investment Industry Association of Canada (IIAC) is the professional association for Canada’s securities industry. Our 117 member firms comprise most of the securities trading and capital market activity in Canada and are leading providers of wealth management services for Canadians. To learn more visit www.iiac.ca