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Rules Notice
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13-0059
February 21, 2013

Guidance on Market-wide Circuit Breakers

Executive Summary

This Rules Notice provides guidance relating to the imposition, on and after April 8, 2013, of a general regulatory halt in the trading of securities in co-ordination with the application of market-wide "circuit breakers" on markets in the United States. This Rules Notice also provides guidance relating to the imposition of a general regulatory halt based on movement in the S&P/TSX Composite Index (in place of the S&P 500 Index) on a trading day or a portion of a trading day when U.S. markets are not scheduled to be open for trading.

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1. Power for Regulatory Halts in Canada

Rule 9.1 of UMIR allows IIROC to impose a trading halt or suspension for regulatory purposes. Such a regulatory halt or suspension may apply to a particular security traded on a marketplace, a range of securities or to trading of all securities generally. By the terms of Rule 9.1, no order for the purchase or sale of security shall be executed on a marketplace or over-the-counter at any time while the regulatory halt applicable to that security remains in effect. If the regulatory halt has been imposed for reasons other than the issuance of a cease trade order by an applicable securities regulatory authority, a trade may be executed outside of Canada on a foreign organized regulated market[1] if such a trade is permitted by applicable securities legislation.

2. Co-ordination of Market-wide Halts with the United States

Effective Monday, April 8, 2013, trading halts will be triggered when the S&P 500 Index declines below its closing value on the previous trading day by:

Level 1 - 7%

Level 2 - 13%

Level 3 - 20%

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[1] For the purposes of UMIR, a "foreign organized regulated market" means a market outside of Canada:

(a) that is an exchange, quotation or trade reporting system, alternative trading system or similar facility recognized by or registered with a securities regulatory authority that is an ordinary member of the International Organization of Securities Commissions;

(b) on which the entry of orders and the execution or reporting of trades is monitored for compliance with regulatory requirements at the time of entry and execution or reporting by a self-regulatory organization recognized by the securities regulatory authority or by the market if the market has been empowered by the securities regulatory authority to monitor the entry of orders and the execution or reporting of trades on that market for compliance with regulatory requirements; and

(c) that displays and provides timely information to information vendors, information processors or persons providing similar functions respecting the dissemination of data to market participants for that market of at least the price, volume and security identifier of each trade at the time of execution or reporting of the trade on that market,

but, for greater certainty, does not include a facility of a market to which trades executed over-the-counter are reported unless:

(d) the trade is required to be reported and is reported to the market forthwith following execution;

(e) at the time of the report, the trade is monitored for compliance with securities regulatory requirements; and

(f) at the time of the report, timely information respecting the trade is provided to information vendors, information processors or persons providing similar functions respecting the dissemination of data to market participants for that market.

The length of the regulatory halts at each level is as follows:

Level 1:

- before 3:25 p.m. – 15 minutes
- at or after 3:25 p.m. – trading shall continue, unless there is a Level 3 halt

Level 2:

- before 3:25 p.m. – 15 minutes
- at or after 3:25 p.m. – trading shall continue, unless there is a Level 3 halt

Level 3:

- at any time – trading shall halt and not resume for the remainder of the trading day.

3. Market-wide Halts when Markets in the United States Not Open for Trading

In the event that marketplaces in Canada are open for trading on a trading day or a portion of a trading day[2] that markets in the United States are not scheduled to be open for trading, trading halts will be triggered on those trading days or portions of trading days when the S&P/TSX Composite Index declines below its closing value on the previous trading day by:

Level 1 – 7%

Level 2 – 13%

Level 3 – 20%

In all other respects, the timing and duration of the market-wide trading halt will be in accordance with the requirements established in the United States (as set out in section 2 – Co-ordination of Market-wide Halts with the United States).

4. Discretion to Authorize Resumption of Certain Trading

If there is a market-wide halt in trading as a result of a Level 3 market-wide circuit breaker, the general provision is that trading will not resume on marketplaces for the remainder of the trading day. IIROC recognizes that this restriction may cause practical problems in connection with index rebalancing and other transactions driven off the closing price, particularly the expiry of listed derivatives.

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[2] On certain trading days (such as the day preceding the Independence Day holiday or the Friday following the Thanksgiving holiday), the practice has been for markets in the United States to be open for trading for only part of the trading day.

As set out in Rule 10.9 of UMIR, the power of a Market Integrity Official to halt trading is discretionary "at any time and for such period of time as such Market Integrity Official may consider appropriate in the interest of a fair and order market". At the time of a regulatory halt as a result of a Level 3 market-wide circuit breaker, IIROC will consider:

- the circumstances behind the 20% decline in the index level (e.g. whether the decline was a result of market sentiment or attributable to technical problems at one or more markets or dealers); and
- the extent of the need to transact trades on that trading day at the "closing price".[3]

Based on this consideration, IIROC may provide notice, as soon as practicable following the imposition of the Level 3 halt, that it will permit[4] trading on marketplaces in:

- a Market-on-Close facility that would calculate and execute at the closing price of the security on that marketplace on that trading day; and/or
- a facility or session that provides for the execution of Closing Price Orders (that would execute at the closing price established in a Market-on-Close facility or, if no trading in the particular security occurred in the Market-on-Close facility, at the last sale price at the time of the imposition of the Level 3 trading halt).

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[3] While index events or adjustments may occur on any trading day based on corporate developments for constituents (such as the completion of take-over bids, amalgamations and reorganizations), most of the major indices in Canada, such as those under the S&P/TSX Canadian Indices, provide for a quarterly "rebalancing" with all additions, deletions and share changes being effective after the close of trading on the third Friday of March, June, September and December. The "Index Methodology" for the S&P/TSX Canadian Indices states: "In situations where the TSX is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular traded reported for each security before the exchange closed."

With respect to listed options that are traded on the Bourse de Montreal, options expire and are exercised based on the closing prices on the third Friday of the calendar month of the expiry of the particular option contract.

[4] While IIROC may permit trading in a Market-on-Close facility or in a facility or session that provides for the execution of Closing Price Orders, marketplaces which have these facilities or sessions may determine whether to make them available following a Level 3 trading halt.