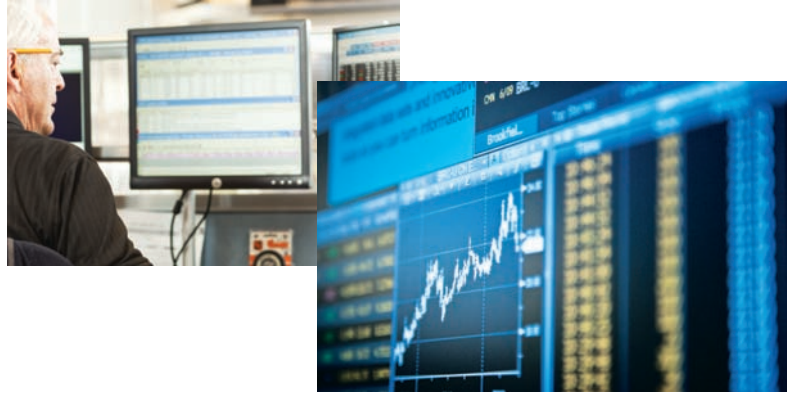


Innovative and proactive regulation



We have made investment in technology a key priority. In 2010 we launched **STEP**, the Surveillance Technology Enhancement Platform, to keep pace with higher volumes and faster trading in a multiple marketplace environment. Last year, we monitored 351 million trades on nine marketplaces, a 34-per-cent increase over the previous year. Daily 'message' traffic – which includes quotes, orders and cancels as well as trades – continues to grow, averaging 160 million daily, and the total number of orders now outnumbers the number of trades on average by a factor of 57 to 1.

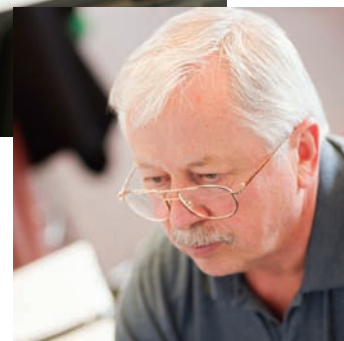
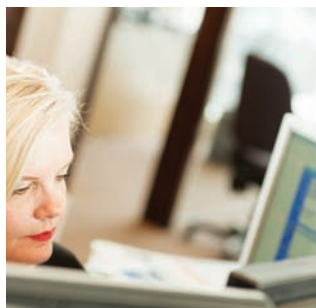
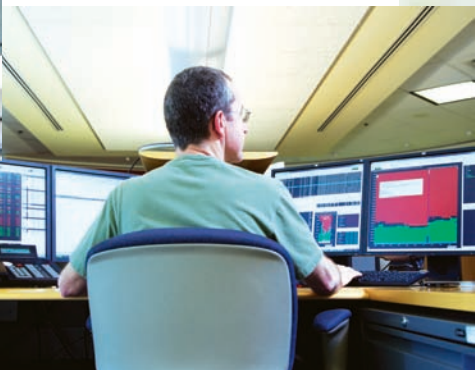
We invested in technology to help staff to more effectively identify potential regulatory infractions and to identify and analyze trading patterns, a capability which will allow us to better understand the impact of different technologies, rules and strategies on trading. STEP enables staff to quickly and effectively design alerts based on that analysis, to assist in monitoring for potential violations across all marketplaces, based on a consolidated view and in real-time.

Last year, we implemented a common audit platform for our Business Conduct, Trading Conduct and Financial and Operations compliance departments. As a result, IIROC compliance departments are now on the same audit platform, examination files are electronic and easily accessible and staff members can work on a file simultaneously. This investment in technology has increased efficiency and productivity.

Made-in-Canada regulatory responses

In responding to the complexity of our regulatory challenges, we must always balance made-in-Canada approaches and solutions against maintaining broad consistency with global approaches.

We conducted two comprehensive studies involving short sales and failed trades, which guided us in charting a regulatory approach appropriate to Canada's particular market environment. These studies provided data and analysis that are integral to effective policy making and ensure that our rules for market integrity in Canada are informed by relevant and timely data.



Based on the findings, rule amendments were proposed, including the repeal of the tick test, a requirement that short sales can only be made at a price not lower than the previous sale price of a security on a specific marketplace.

We are also developing a made-in-Canada approach to regulation of dark orders. IIROC, together with the CSA, has proposed limits on the use of dark orders, including a requirement, subject to certain exceptions, for execution priority for visible over dark orders and for dark orders to provide meaningful price improvement. We believe these limits are necessary to maintain the quality of the price discovery mechanism and to address concerns about the impact of dark orders on the quality of the Canadian capital market.

Proactive and innovative

Our proposed new Marketplace Regulation Fee Model reflects an adaptive approach to changes in the market environment. The model includes total messages and trades on marketplaces in its calculation to more fairly reflect the drivers of market regulation costs. Both the proposed Marketplace Regulation and Member Regulation fee models were developed through direct consultation with IIROC-regulated firms and marketplaces. Both of the proposed fee models aim to treat IIROC members fairly in a transparent manner, are supportive of industry competition and allow us to operate on a cost-recovery basis.

The Flash Crash of May 6, 2010: In a matter of minutes, North American stocks dropped then recovered in dramatic fashion. **8.5%** of TSX-listed securities and **13.8%** of TSX-V-listed securities suffered drops in price of 10% or more.

IIROC's Response:

- Ruled to vary or cancel 223 trades in 5 different securities.
- Conducted reviews of trading involving 230 million data points, focused on the 47 securities which had fallen 20% or more.
- Issued 5 recommendations:
 1. Review appropriateness of current market-wide circuit breaker and whether an independent Canadian-based circuit breaker level is required.
 2. Investigate whether single-stock circuit breakers in the form of temporary trading halts should be implemented in Canada.
 3. Marketplaces should adopt volatility controls, with form and level of controls reviewed to assess need for harmonization.
 4. Dealers should consider how to effectively manage stop loss orders in the current high-speed, multi-market environment, and provide guidance to staff and clients, including those who are self-directed.
 5. Review the current erroneous and unreasonable price policies and procedures.