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Additional Guidance Respecting Single-Stock Circuit Breakers and Marketplace Thresholds

Executive Summary

This Guidance Note builds on prior guidance on the triggering of a single-stock circuit breaker[1] ("SSCB") and the operation of marketplace thresholds[2].

This guidance:

- adds new SSCB triggering criteria for qualifying leveraged Exempt Exchange-traded Funds

1 See IIROC Notice 14-0170 – Rules Notice – Guidance – *Guidance Respecting the Expansion of Single-Stock Circuit Breakers* (July 10,2014)
2 See IIROC Notice 15-0186 – Rules Notice – Guidance – *Guidance on Marketplace Thresholds* (August 25, 2015)

("Leveraged ETFs")[3] that are based on the extent of leverage

- adds a new marketplace threshold specific to Leveraged ETFs that is based on the extent of leverage.

All other aspects of the prior SSCB and marketplace thresholds guidance are unchanged.

1. Discussion of SSCB Guidance

1.1 Operation of SSCBs

Until changed with the issuance of further guidance, SSCBs:

- apply to:
  - o each security that is a constituent of the S&P/TSX Composite Index,[4]
  - o each Exempt Exchange-traded Fund ("ETF"),[5] the assets of which are comprised principally of listed securities, and
  - o each security that is considered "actively-traded"[6] for the purposes of this guidance, including any Leveraged ETFs (collectively "qualifying securities");
- provide for a trigger level for each qualifying security, other than a qualifying Leveraged ETF, such that there would be a halt in the event of a price increase or decline of:
  - o at least 10% and 20 trading increments in a five-minute period between 9:50 a.m. and 3:30 p.m.
  - o at least 20% and 40 trading increments in a five-minute period between 9:30 a.m. and 9:50 a.m.
  - o at least 20% and 40 trading increments in a five-minute period during the 30 minute period following the resumption of trading after a regulatory halt, including a regulatory halt caused by the triggering of a SSCB

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3 A Leveraged ETF uses financial derivatives and debt to amplify the daily returns of an underlying index. Leveraged ETFs aim at keeping a constant amount of leverage during the investment time frame such as a 2:1 or 3:1 ratio. If a Leveraged ETF has a 2:1 ratio, this means that each dollar of investor capital is matched with an additional dollar of invested debt, theoretically returning 2% where the index returns 1%. This could also work in the opposite direction with amplified losses.

4 A description of the S&P/TSX Composite index is available at http://web.tmxmoney.com/index_profile.php?qm_symbol=^TSX

5 In UMIR, an Exempt Exchange-traded Fund means a mutual fund for the purposes of applicable securities legislation, the units of which:
(a) are a listed security or a quoted security; and
(b) are in continuous distribution in accordance with applicable securities legislation
but does not include a mutual fund that has been designated by the Market Regulator to be excluded from the definition.

6 A listed security is considered actively-traded if the particular listed security traded, in total, on one or more marketplaces as reported on a consolidated market display during the three calendar months ending immediately preceding the determination:

- an average of at least 500 times per trading day, and
- an average trading value of at least $1,200,000 per trading day.

- provide for a trigger level for qualifying Leveraged ETFs that is calculated by multiplying the trigger levels for qualifying securities other than Leveraged ETFs with the leverage ratio of the Leveraged ETF. For example, for a qualifying Leveraged ETF with a 2:1 ratio, the trigger levels are set at twice the usual levels for qualifying securities that are not Leveraged ETFs
- provide that a Market Integrity Official may, with notice, temporarily widen the threshold used to calculate the trigger level of a particular security in response to an extraordinary event where increased volatility may be considered “normal” trading activity
- apply from 9:30 a.m. to 3:30 p.m.
- provide for an initial trading halt of 5 minutes that may be extended for a further 5-minute period
- exclude from the trigger calculation prices of trades that may execute outside the “best bid – best ask” spread
- would result in the cancellation of any trade that executed at more than 5% beyond the trigger level.

1.2 SSCB Trigger Levels for Qualifying Leveraged ETFs

Qualifying Leveraged ETF SSCB thresholds are calculated by multiplying the trigger levels for qualifying securities other than Leveraged ETFs with the leverage ratio of the Leveraged ETF. For example, for a qualifying Leveraged ETF with a 2:1 ratio, the trigger levels are set at twice the usual levels for qualifying securities that are not Leveraged ETFs. For qualifying Leveraged ETFs with a ratio of 2:1, a SSCB will trigger:

- between 9:50 a.m. and 3:30 p.m. with a price change of at least 20% and 40 trading increments in a five-minute window
- after 9:30 a.m. and before 9:50 a.m. and during the 30-minute period following the resumption of trading after a regulatory halt (including a regulatory halt caused by the triggering of an SSCB) with a price change of at least 40% and 80 trading increments in a five-minute window.

Qualifying security type	**Trigger level** **between 9:50 a.m. and 3:30 p.m.**	**Trigger level** **between 9:30 a.m. and 9:50 a.m. or within 30 minutes after a regulatory halt**
Qualifying Security other than a Qualifying Leveraged ETF	Price change of at least 10% and 20 trading increments	Price change of at least 20% and 40 trading increments
Qualifying Leveraged ETF with a 2:1 ratio	Price change of at least 20% and 40 trading increments	Price change of least 40% and 80 trading increments

2. Discussion of Marketplace Threshold Guidance

2.1 Operation of Marketplace Thresholds

Until changed with the issuance of further guidance, marketplace thresholds:

- must be implemented on each marketplace that has retained IIROC as its regulation services provider
- apply during core trading hours of 9:30 a.m. to 4:00 p.m.
- set specific price thresholds beyond which a marketplace may not execute an order unless consented to by a Market Integrity Official
- measure against two reference prices: the national last sale price and the national last sale price established at one-minute intervals
- need not include controls on the volume of an order
- apply to all orders except for: a Basis Order, a Closing Price Order, a Special Terms Order, a Volume-Weighted Average Price Order, an Opening Order, a Market-on-Close Order and an order that participates in an auction following the resumption of trading after a trading halt
- apply to a directed-action order received by a marketplace
- should be publicly disclosed (at least on the website of the marketplace) as to the functionality of the control mechanism(s) used to implement the marketplace thresholds.

3. Marketplace Thresholds for Leveraged ETFs

Marketplace thresholds are intended to generally preclude the execution of an order that would otherwise trigger an SSCB. Therefore, to accommodate the SSCB trigger change for Leveraged ETFs, we are adding a new marketplace threshold specific to Leveraged ETFs.

The following table sets out the price parameters for marketplace thresholds:

Class of Security	Price Category of Security	Threshold Level
Securities not subject to SSCBs	0.00 > – < .50	300%
	.50 ≥ – < 1.00	50%
	1.00 ≥ – < 5.00	30%
	5.00 ≥ – < 10.00	20%
	10.00 ≥ – < 30.00	15%
	≥30.00	10%
Exchange-listed Debt	All price categories	20%

Class of Security	Price Category of Security	Threshold Level
Exchange-Traded Funds (other than Leveraged Exchange-Traded Funds)	All price categories	10%
Leveraged Exchange-Traded Funds	All price categories	multiple of leverage multiplied by 10%[7]
Securities subject to SSCBs[8] (excluding all Exchange-Traded Funds)	All price categories	10%

7 For example, a Leveraged Exchange-Traded Fund that is leveraged at a 2:1 ratio would be subject to a 20% threshold.

8 See http://www.iiroc.ca/industry/rulebook/Pages/SSC-Breakers.aspx for a daily list of securities that are subject to SSCBs.