

| Market Integrity Notice |

Guidance

July 28, 2005

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Suggested Routing

- Trading
- Legal and Compliance

Key Topics

- U.S. Dollar Trading
- Arbitrage Accounts
- Highly-Liquid Security

UMIR Provisions Referenced

- Rule 1.1 – Definitions – “Best Ask Price”, “Best Bid Price” and “Last Sale Price”
- Rule 7.7 – Trading During Certain Securities Transactions

SECURITIES TRADING ON MARKETPLACES IN U.S. AND CANADIAN CURRENCIES

Summary

This Market Integrity Notice provides guidance on the obligations of a Participant or Access Person under the Universal Market Integrity Rules with respect to trading activity in a security that trades in both Canadian and U.S. currency on Canadian marketplaces. Generally, trades in a security denominated in Canadian currency will be treated as if the trades were made in a distinct security from trades denominated in U.S. currency for the purpose of determining acceptable arbitrage activity, the last sale price, best ask price and best bid price. However, trading activities in both currencies may be aggregated to determine whether the security qualifies as a “highly-liquid security”.

Questions / Further Information

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SECURITIES TRADING ON MARKETPLACES IN U.S. AND CANADIAN CURRENCIES

Summary

This Market Integrity Notice provides guidance on the obligations of a Participant or Access Person under the Universal Market Integrity Rules (“UMIR”) with respect to trading activity in a security that trades in both Canadian and U.S. currency on a marketplace. Generally, trades in a security denominated in Canadian currency will be treated as if the trades were made in a distinct security from trades denominated in U.S. currency for the purpose of determining acceptable arbitrage activity, the last sale price, best ask price and best bid price. However, trading activities in both currencies may be aggregated to determine whether the security qualifies as a “highly-liquid security”.

UMIR defines a marketplace as a recognized exchange (“Exchange”), a recognized quotation and trade reporting system (“QTRS”) or an alternative trading system (“ATS”) that carries on business in Canada.

Background

In February, 2004, the Toronto Stock Exchange (“TSX”) began to allow issuers with a listed security that traded in Canadian currency to also trade that security in U.S. currency. The trading symbol used for a security trading in U.S. currency is the standard TSX trading symbol followed by the suffix “.U”. Generally, the same trading options and features are available from the TSX for securities trading in U.S. currency as are available to securities trading in Canadian currency.

UMIR Obligations

Arbitrage Activity

An “arbitrage account” is defined in UMIR as including an account in which the holder makes a usual practice of buying and selling securities “in different markets” to take advantage of differences in prices available “in each market”.

Legitimate arbitrage activity occurs where one seeks to profit from differences in price where the same security is traded on two or more markets and, at a particular moment, the price on the two markets is different after currency conversion is taken into account. If a security trades on a Canadian marketplace in both Canadian and U.S. currencies, RS will consider a Participant or Access Person to be engaging in legitimate arbitrage activity where the Participant or Access Person treats the Canadian dollar book and the U.S. dollar book of the marketplace as “different markets” for the purposes of arbitrage activity.

In accordance with an exemption from Rule 3.1 of UMIR, an arbitrage account is able to undertake a short sale below the last sale price if the “seller knows or has reasonable grounds

to believe that an offer enabling the seller to cover the sale is then available and the seller intends to accept such offer immediately”.

Highly-Liquid Securities and Trading During Certain Securities Transactions

Rule 7.7 of UMIR governs the activities of dealers, issuers and others in connection with trading activity in a security during the period of time that certain transactions involving the issuance of that security or a related security are being undertaken including: a distribution of securities; a securities exchange take-over bid; an issuer bid; an amalgamation; an arrangement; a capital reorganization or similar transaction. Rule 7.7 prescribes acceptable activities and otherwise restricts trading activities to preclude manipulative conduct by persons with an interest in the outcome of the distribution of securities or other transactions.

Under Rule 7.7, a “highly-liquid security” is exempt from certain of the restrictions and prohibitions governing trading activity during securities transactions. A “highly-liquid security” is defined as a listed security or quoted security that:

- has traded, in total, on one or more marketplaces as reported on a consolidated market display during a 60-day period ending not earlier than 10 days prior to the commencement of the “restricted period”:
 - an average of at least 100 times per trading day, and
 - with an average trading value of at least \$1,000,000 per trading day; or
- is subject to Regulation M under the *Securities Act of 1934* (United States) (“Reg M”) and is considered to be an “actively-traded security” under that regulation.

RS maintains a list of securities which, based on data available to RS, meet the definition of a “highly-liquid security” as a result of achieving the required number of average daily trades and average daily trading value on Canadian marketplaces. The list maintained by RS does not contain listed securities or quoted securities that are inter-listed with a market in the United States and that are considered to be “actively-traded” under Reg M but which fail to meet the tests for average daily trades and average daily trading value on Canadian marketplaces. A separate list of highly-liquid securities is prepared for each trading day. For convenience, a summary identifies the securities which have been added or deleted from the list of highly-liquid securities on a particular trading day. Persons may rely on the list and summary prepared by RS or they may independently verify if a security meets the requirements of a “highly-liquid security” so long as they retain a record of the data they rely upon in verifying the requirements. The list of highly-liquid securities and the daily summary of changes is available on the RS website (at www.rs.ca) and may be accessed through the “Quick Links” on the homepage or under the heading “Timely Disclosure” on the “Surveillance” page.

If a security is traded on marketplaces in both Canadian and U.S. currencies, the trading activity in both currencies may be aggregated to determine whether the security meets the definition of a “highly-liquid security” for the purpose of the exemption from the requirements in Rule 7.7. If a security is traded on Canadian marketplaces in both Cdn\$ and US\$ and the security is on the

list of “highly-liquid securities” maintained by RS, that status applies to the security regardless of the currency in which the trade is made.

“Last Sale Price”, “Best Ask Price”, and “Best Bid Price”

UMIR contains a number of rules which require that trading be conducted at the “last sale price” or at a price that is the same as or better than the “best ask price” or “best bid price”. In each case, this price is determined by reference to order or trade information contained in “a consolidated market display”, which is made up of order and trade information from those marketplaces to which the Participant or Access Person has access.

If a security is traded in both Canadian and U.S. currencies on a marketplace to which a Participant or Access Person has access, the Participant or Access Person must, in effect, treat the security in each currency as a distinct security for the purposes of determining the “last sale price”, “best ask price” or “best bid price”. For example, if issuer ABC trades on a marketplace with orders and trades reported in Canadian currency under the symbol “ABC” and with orders and trades reported in U.S. currency under the symbol “ABC.U”, then the “last sale price”, “best ask price” or “best bid price” of:

- security “ABC” is determined by reference only to the sales, asks and bids of “ABC” in Canadian currency; and
- security “ABC.U” is determined by reference only to the sales, asks and bids of “ABC.U” in U.S. currency.

Questions / Further Information

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