Market Integrity Notice

Guidance

Market Regulation Services Inc.
Services de réglementation du marché inc.

July 29, 2005

No. 2005-027

Suggested Routing

- Trading
- Legal and Compliance

Key Topics

- Advantages to Purchaser
- Multiple Marketplaces
- Special Trading and Settlement Rules

UMIR Provisions Referenced

- Rule 2.1 – Just and Equitable Principles of Trade
- Rule 6.1 – Entry of Orders to a Marketplace
- Rule 10.9 – Power of Market Integrity Officials

"ADVANTAGES" TO THE PURCHASER OF A SECURITY

Summary

This Market Integrity Notice provides guidance on the application of the general principle that all advantages attached to a security go to the purchaser of the security on the execution of a trade.

Questions / Further Information

For further information or questions concerning this notice contact:

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"ADVANTAGES" TO THE PURCHASER OF A SECURITY

Summary

This Market Integrity Notice provides guidance on the application of the general principle that all advantages attached to a security go to the purchaser of the security on the execution of a trade.

General Principle – All Advantages to the Purchaser

In the ordinary course, all advantages attached to a security pass to the purchaser upon the execution of a trade. For this purpose, an advantage includes:

- a dividend or other distribution, including rights, to which holders of the same class of security as the purchased security become legally entitled after the date of the trade; and
- any security or securities into which the purchased security has been transformed by operation of law after the date of the trade (including as a result of: an amalgamation; an arrangement; a fundamental change; a take-over bid or issuer bid; a corporate reorganization or a similar transaction).

At the time of settlement of the trade, these advantages must be provided to the purchaser. If the intention of the vendor of a security is to withhold on the sale of the security certain of the advantages that may accrue to ownership of that security, the sale must be conducted either:

- in accordance with the special rules established by the Exchange or QTRS on which the security is listed or quoted; or
- as a Special Terms Order where the conditions of the vendor have been disclosed to prospective purchasers and the purchaser has agreed to the conditions.

For example, an issuer may publicly disclose that it is considering the payment of a special dividend or asking security holders to approve a stock split. If the issuer has not established a record date to give effect to these actions, the Exchange or QTRS on which the security is listed or quoted will not have established any special trading rules for the security. In these circumstances, a security holder who enters a Special Terms Order on a marketplace to sell units of this security with a settlement date which is expected to be after the payment of the special dividend or after giving effect to the stock split will be taken to have agreed to "sell" the advantage of the special dividend or stock split to the purchaser. A prospective purchaser can not be taken to have agreed to the vendor withholding the advantage simply because the transaction is expected to settle on a date which is after the proposed target date for the dividend or stock split as announced by the issuer. The vendor's condition on the trade must be specifically disclosed to the prospective purchaser prior to the prospective purchaser agreeing to undertake the trade.

On the other hand, if the issuer has established a record date to give effect to these actions and the Exchange or QTRS on which the security is listed or quoted has established special trading rules for the security such that purchases of the security made on the marketplace on or after the time specified in the special trading rules will not receive the special dividend or the benefit of the stock split, then all trades on that marketplace will be undertaken in accordance with the special trading rules (unless the vendor and the purchaser mutually agree otherwise).

Securities Trading on Multiple Marketplaces

In accordance with Rule 6.1(2) of UMIR, a listed security or a quoted security which trades on any marketplace will be subject to any special rule or direction issued by the Exchange on which the security is listed or by the QTRS on which the security is quoted with respect to:

- clearing and settlement; and
- entitlement of the purchaser to receive a dividend, interest or any other distribution made or right given to holders of that security.

This provision is designed to ensure that orders and trades in a particular security are comparable between each marketplace on which that security trades. If a security is listed on an Exchange and also trades on an ATS, the special trading rules established by the Exchange will apply to trades on the ATS. If a security is inter-listed between two or more Exchanges and QTRSs, Market Regulation Services Inc. ("RS") will ensure that the same special trading rules apply on each of the marketplaces.

Remedies for Failure to Provide Advantages on Settlement

Under Rule 10.9 of UMIR, a Market Integrity Official may cancel any trade which, in the opinion of the Market Integrity Official, is unreasonable. If RS concludes that the price of a trade is unreasonable given the failure of the vendor to deliver all of the "advantages" of the purchased security that arose after the trade date, RS may cancel the trade irrespective of the period of time that may have elapsed between the execution of the trade and the date of settlement.

Rule 2.1 requires both a Participant and an Access Person to transact business openly and fairly when trading on a marketplace. In the opinion of RS, if a Participant or Access Person enters into a trade with the intention of not delivering on settlement of the trade all of the advantages that flowed from the security following the execution of the trade that Participant or Access Person is in breach of the requirements of Rule 2.1 to conduct business openly and fairly and would be subject to appropriate disciplinary proceedings by RS.

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