

# Market Integrity Notice

## Guidance

February 6, 2006

No. 2006-004

### Suggested Routing

- Trading
- Legal and Compliance

### Key Topics

- Double Printing
- Manipulative and Deceptive Activities
- Short Sale
- Special Settlement
- Special Terms Order

### UMIR Provisions Referenced

- Rule 2.2 – Manipulative and Deceptive Activities
- Rule 6.4 – Trades to be on a Marketplace

### Market Integrity Notices Referenced

- Market Integrity Notice 2003-002 – *Prohibition on Double Printing* (January 12, 2003)
- Market Integrity Notice 2005-004 – *Double Printing and the Entry of Orders* (March 4, 2005)

## FACILITATION OF A CLIENT SPECIAL SETTLEMENT TRADE AND DOUBLE PRINTING

### Summary

This Market Integrity Notice provides guidance on the ability of a Participant to enter into an “off-marketplace” principal transaction with a client for settlement other than on the third business day following the trade. The Participant must concurrently execute as principal a trade on a marketplace for the same price and volume for settlement on the third business day following the trade.

### Questions / Further Information

For further information or questions concerning this notice contact:

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## **FACILITATION OF A CLIENT SPECIAL SETTLEMENT TRADE AND DOUBLE PRINTING**

### **Summary**

This Market Integrity Notice provides guidance on the ability of a Participant to enter into an “off-marketplace” principal transaction with a client for settlement other than on the third business day following the trade (“special settlement”). The Participant must concurrently execute as principal a trade on a marketplace for the same price and volume for settlement on the third business day following the trade (“regular settlement”).

### **Prohibition on “Double Printing”**

Market Regulation Services Inc. (“RS”) has issued Market Integrity Notice 2003-002 – *Prohibition on Double Printing* and Market Integrity Notice 2005-004 – *Double Printing and the Entry of Orders* dealing with the subject of “double printing”. RS considers that double printing creates a false or misleading appearance of trading activity contrary to the provisions of Rule 2.2 of the Universal Market Integrity Rules (“UMIR”) that prohibits a manipulative or deceptive method of trading. The term “double printing” applies when two trades are made on a marketplace when only one trade was necessary to execute the order.

### **Facilitation of a Client Special Settlement Trade**

In the ordinary course, if a client wishes to execute a special settlement trade, the order would be entered on a marketplace as a “Special Terms Order” as the settlement of any trade resulting from the execution of the Special Terms Order would occur on a date other than the third business day following the date of the trade. However, there is no guarantee that such an order would trade even if the price of the order was better than that offered in the regular market.

In order to ensure a timely execution of the trade, a client may ask a Participant to facilitate a special settlement on the purchase or sale of a security. To accomplish this, the Participant would execute the Special Terms Trade with the client as principal and then immediately unwind its position with a further principal trade in the regular market.

Rule 6.4 requires a Participant, acting as principal or agent, to trade in a listed security or a quoted security only by means of the entry of an order on a marketplace, unless the trade is specifically exempted under that Rule. Rule 6.4 would appear to require the Participant to print both the special settlement take-on trade from the client and the regular settlement unwinding trade to the marketplace.

In order to avoid the appearance of “double printing”, RS is of the view that a Participant should not execute the special settlement take-on trade on a marketplace if, concurrent with the execution of the special settlement trade, the Participant executes a regular settlement (T+3)

trade as principal on a marketplace at the same price and volume.. In these circumstances, the Participant must ensure that its audit trail reflects the concurrent nature of the trades. In practical terms, RS recognizes that the “unwinding” trade on the marketplace must be executed first in order to establish the price and volume for the “take-on” trade.

An exemption from Rule 6.4 of UMIR will not be required if a Participant executes the special settlement take-on trade from the client “off-marketplace” and the Participant executes an unwinding trade on a marketplace as principal provided the unwinding trade is:

- undertaken concurrent with the execution of the special settlement trade;
- at the same price as the special settlement trade; or
- for the same volume as the special settlement trade.

If the unwinding trade is not at the same time, price and volume, the Participant must execute the take-on trade on a marketplace as a Special Terms Order.

If the unwinding trade by the Participant involves the Participant selling as principal, the sale will not be considered a “short sale” if the special settlement trade will be settled prior to the settlement of the unwinding trade.

### **Questions / Further Information**

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