

August 27, 2004

No. 2004-022

*Suggested Routing: Trading, Legal & Compliance*

## **NOTICE OF AMENDMENT APPROVAL**

### **ORDER ENTRY DURING A REGULATORY HALT**

#### **Summary**

Effective August 27, 2004, the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Ontario Securities Commission and, in Quebec, the Autorité des marchés financiers (the “Recognizing Regulators”) approved an amendment to the Universal Market Integrity Rules (“UMIR”) to repeal the restriction on order entry on a marketplace during a regulatory halt.

#### **Background to the Amendment**

Prior to the amendment, subsection (1) of Rule 9.1 provided that no order for the purchase or sale of security be entered on a marketplace during the period of a regulatory halt or suspension. A regulatory halt or suspension is imposed by Market Regulation Services Inc. (“RS”) to ensure a fair and orderly market. The regulatory halt or suspension imposed by RS is applicable in all marketplaces that have adopted UMIR. A delay, halt or suspension imposed by a marketplace, including the Toronto Stock Exchange, TSX Venture Exchange or Canadian Trading and Quotation System, is not governed by subsection (1) of Rule 9.1 of UMIR and, in accordance with subsection (3) of Rule 9.1, orders may be entered on any marketplace in accordance with the market quality rules of the marketplace on which the order is entered.

The prohibition on order entry was initially introduced in effect to prevent persons, who may obtain specific information about an issuer before another person, from gaining an advantage by entering order first during the period of the regulatory halt or delay. Where marketplaces have a system of time priority, it was assumed that this order entry would provide the persons receiving the information an advantage over others. It had been anticipated that the receipt of orders would be random following the lifting of the ban such that no “identifiable group” would systematically benefit from the imposition or lifting of a regulatory halt, delay or suspension.

RS pursued the amendment as the rule, in practice, was not achieving its intended result. Prior to the amendment, all retail client orders that had been entered directly had to be manually re-entered following the lifting of the halt. The re-entry requirements provided an unintended advantage to certain traders or account holders whose access to the market was more direct.

With the implementation of the amendment, RS will be able to continue to monitor the entry of the orders and will be in a position to more accurately determine if any person is attempting to take advantage of undisclosed material information during the period of time that the execution of orders is prohibited. Unusual orders or patterns of orders can be questioned by RS prior to RS reopening the security for trading.

### **Summary of the Amendment**

The amendment allows orders for a particular security to be entered on a marketplace during the period of time that there was a regulatory halt, delay or suspension in effect regarding that particular security. Order execution with respect to a particular security will continue to be prohibited on all marketplaces during a regulatory halt, delay or suspension affecting the particular security.

### **Text of the Amendment**

The text of the amendment to the Rules, as approved by the Recognizing Regulators and effective as of August 27, 2004, is set out in Appendix "A". Appendix "B" contains the text of the relevant provisions of the Rules as they read following the adoption of the amendment.

### **Response to the Request for Comments**

RS received one comment letter in response to the Request for Comments on the proposed amendment set out in Market Integrity Notice 2004-010. The comment and the response of RS are summarized in Appendix "B".

### **Questions**

Questions concerning this notice may be directed to:

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## **Appendix “A”**

### ***Universal Market Integrity Rules***

#### **Amendment Related to Order Entry During a Regulatory Halt**

The Universal Market Integrity Rules are amended as follows:

1. Subsection (1) of Rule 9.1 is amended by deleting the phrase “entered on a marketplace or”.

## Appendix “B”

### ***Universal Market Integrity Rules***

#### **Comments Received on Proposed Amendment Related to Order Entry During a Regulatory Halt**

On April 16, 2004, RS issued Market Integrity Notice 2004-010 requesting comments on proposed amendment to UMIR related to the repeal of the restriction on order entry on a marketplace during a regulatory halt. In response to that Market Integrity Notice, RS received comments from TSX Markets. The following table presents a summary of the comment received together with the response of RS.

Text of Provisions Following Adoption of the Amendment	Commentator and Summary of Comment	Response to Comment
<p><b>9.1 Regulatory Halts, Delays and Suspensions of Trading</b></p> <p>(1) <b>Regulatory Halts and Suspensions</b> - No order for the purchase or sale of a security shall be executed on a marketplace or over-the-counter, at any time while:</p> <p>(a) an order of a securities regulatory authority to cease trading in the security remains in effect;</p> <p>(b) in the case of a listed security, the Market Regulator of the Exchange on which the security is listed has halted or suspended trading in the security while such halt or suspension remains in effect;</p> <p>(c) in the case of a quoted security, the Market Regulator of the QTRS has halted or suspended trading in the security while such halt or suspension remains in effect; and</p> <p>(d) in the case of any security other than a listed security or a quoted security, a Market Regulator of an ATS on which such security may trade has halted trading for the purposes of the public dissemination of material information respecting such security or the issuer of such security.</p>	<p><b>TSX Markets</b> - The commentator supports the amendment based on its understanding that the prohibition on order entry was introduced in an attempt to prevent a person, who may obtain specific information about an issuer before another person, from gaining an advantage by entering an order first during the period of a regulatory halt, delay or suspension. Under the amendment, RS will be able to monitor the entry of orders during a regulatory halt and should be in a position to determine if any person is attempting to take advantage of undisclosed material information. Therefore, the amendment addresses the potential harm the original rule had intended to prevent.</p>	<p>RS agrees.</p>