

| Market Integrity Notice |

Guidance

February 28, 2007

No. 2007-003

Suggested Routing

- Trading
- Legal and Compliance

Key Topics

- Market Stabilization
- Multiple Marketplaces
- Principal Market
- Short Sale

UMIR Provisions Referenced

- Rule 3.1 – Restrictions on Short Selling
- Rule 7.7 – Trading During Certain Securities Transactions

Market Integrity Notices Referenced

- Market Integrity Notice 2006-017 – *Guidance – Securities Trading on Multiple Marketplaces* (September 1, 2006)

“PRINCIPAL MARKET” DETERMINATION FOR 2007

Summary

This Market Integrity Notice provides guidance on:

- the determination for the 2007 calendar year of the “principal market” for each listed security; and
- the use of “principal market” in the application of the Universal Market Integrity Rules.

Questions / Further Information

For further information or questions concerning this notice contact:

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“PRINCIPAL MARKET” DETERMINATION FOR 2007

Summary

This Market Integrity Notice provides guidance on:

- the determination for the 2007 calendar year of the “principal market” for each listed security; and
- the use of “principal market” in the application of the Universal Market Integrity Rules (“UMIR”).

Background

Currently, Market Regulation Services Inc. (“RS”) has been retained to be the regulation services provider for: the Toronto Stock Exchange (“TSX”), TSX Venture Exchange (“TSXV”) and Canadian Trading and Quotation System (“CNQ”), each as a recognized exchange (“Exchange”); and for Bloomberg Tradebook Canada Company (“Bloomberg”), Liquidnet Canada Inc. (“Liquidnet”), Perimeter Markets Inc. (“BlockBook”) and Shorcan ATS Limited (“Shorcan”), each as an alternative trading system (“ATS”). RS expects to act as the regulation services provider for TriAct Canada Marketplace LP (“TriAct”) upon its commencement of operations as an ATS.

In accordance with the requirements of National Instrument 21-101 (“Marketplace Operation Instrument”), each marketplace must provide details of each trade to an information vendor in a timely manner. Bloomberg and Liquidnet do not provide post-trade transparency as each marketplace presently operates as an order router with orders entered on their system being executed on other marketplaces or organized regulated markets. While BlockBook, Liquidnet and Shorcan provide post-trade transparency by means of a web-page available through Reuters, data disseminated in this manner may not be readily incorporated into data feeds provided by other information vendors. In addition, BlockBook presently disseminates trade information through TSXDatalinx though no data vendors currently offer this data other than through the web-page available through Reuters. Each of CNQ (including Pure Trading), TSX and TSXV provides full post-trade transparency of all trades executed on their marketplace with the data disseminated through a number of information vendors. Upon launch of operations, TriAct intends to provide full post-trade transparency of all trades executed on their marketplace with the data disseminated through a number of information vendors.

UMIR Requirements

Until such time as there is an information processor to provide pre-trade and post-trade information consolidated for all marketplaces, the current “market-driven solution” to data consolidation that relies on information vendors may be subject to certain limitations on the ability to integrate data from certain marketplaces based on the basic operating features of those marketplaces. In these circumstances, RS recognizes that the constraints on the availability of trade information may impact the ability of a Participant or Access Person to fully comply with the provisions of UMIR which require that trading be conducted at the “last sale

price” or “last independent sale price”. Each of these prices is to be determined by reference to order or trade information contained in “a consolidated market display”, which contains orders and trade information from each marketplace trading a particular security.

Rule 3.1 – Restrictions on Short Selling

Rule 3.1 of UMIR provides that, subject to certain exemptions, neither a Participant nor an Access Person may make a short sale below the “last sale price”. In turn, the term “last sale price” is defined as the price of the last sale of at least one standard trading unit displayed in “a consolidated market display” but excludes the price of a trade resulting from a Basis Order, Call Market Order or Volume-Weighted Average Price Order.

RS is of the view that a Participant or Access Person when determining the “last sale price” of a particular security may rely on trade information from the “principal market” for the trading of that security. In the view of RS, the lowest price at which a Participant or Access Person may make a short sale will be the lesser of:

- the last sale price of the security on the principal market; or
- the last sale price of the security on the marketplace on which the Participant or Access Person enters the short sale order provided such trade occurred subsequent to the last sale on the principal market.

If the order for the short sale would be immediately executed on entry on a marketplace at a price which complies with Rule 3.1 due to the last sale price on the principal market, the order may be marked as “short exempt” if that marker is available on the marketplace on which the order is entered. If the order is entered on a marketplace which does not provide for the inclusion of a “short exempt” marker (such as the TSXV or CNQ), the trade should be identified as a “short sale”.

In the opinion of RS, TriAct will operate as a “Call Market” in addition to having certain features of a continuous market. As a result of this “hybrid” structure, any trade on TriAct will not establish the “last sale price”.

Rule 7.7 – Trading During Certain Securities Transactions

Rule 7.7 of UMIR imposes prohibitions or restrictions on a Participant who is a “dealer-restricted person” trading in certain securities during a “restricted period”. During the restricted period, a dealer-restricted person is not permitted to bid for or purchase a restricted security or attempt to “induce or cause any person to purchase a restricted security”. A number of exemptions to this prohibition apply, including exemptions related to the “last independent sale price” of the security. The term “last independent sale price” is defined as including “the last sale price of a trade, other than a trade that a dealer-restricted person knows or ought reasonably to know has been executed by or on behalf of a person that is a dealer-restricted person”.

Specifically, in the view of RS, the highest price at which a Participant that is a “dealer-restricted person” may make a bid or purchase of a restricted security will be the lesser of:

- the last independent sale price of the security on the principal market; or
- the last independent sale price of the security on the marketplace on which the Participant enters the bid or makes the purchase provided such trade occurred subsequent to the last independent sale on the principal market.

Determination of “Principal Market”

RS initially set out its criteria for the determination of the “principal market” in Market Integrity Notice 2006-017 – *Guidance – Securities Trading on Multiple Marketplaces* (September 1, 2006). In determining “last sale price” for the purpose of Rule 3.1 and “last independent sale price” for the purpose of Rule 7.7, RS considers a marketplace to be the “principal market” for the trading of the security if:

- trade data from the marketplace is disseminated in real-time and electronically through one or more information vendors;
- in the previous calendar year, the marketplace had the largest trading volume for that security as among the marketplaces that disseminated trade data in real-time and electronically through one or more information vendors; and
- the security continues to be traded on that marketplace.

For securities that were listed on an Exchange on January 1, 2007, the “principal market” during 2007 is the Exchange on which the security is listed subject to the following exceptions:

- XPEL Technologies Corp. which trades on CNQ under the symbol “XPEL” while also listed on the TSXV under the symbol “DAP.U” and for which the “principal market” is TSXV; and
- United Reef Limited which trades on CNQ under the symbol “URPL” while also listed on the TSXV under the symbol “URP” and for which the “principal market” is TSXV.

For any security that was not listed or traded on a marketplace as of January 1, 2007, RS would consider the “principal market” during 2007 to be:

- in the case of a listed or quoted security, the marketplace on which the security is first listed or quoted and on which the security continues to trade; or
- in the case of security other than a listed security or quoted security, the marketplace on which the security is first traded and continues to trade.

If a security that was listed on an exchange as of January 1, 2007 “inter-lists” during the 2007 calendar year on another exchange, the exchange on which the security was listed as of January 1, 2007 will remain the “principal market” throughout 2007 provided the security continues to trade on that exchange. If the security “delists” from the original exchange, the second exchange will become the “principal market” for the balance of 2007 after the date the security is delisted from the original exchange.



Questions / Further Information

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