

Market Integrity Notice

Guidance



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

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Suggested Routing

- Trading
- Legal and Compliance

Key Topics

- Best Execution
- Best Price Obligation
- Client-Principal Trading
- Client Priority
- Consolidated Market Display
- Double Printing
- Multiple Marketplaces
- Principal Market
- Short Sale

UMIR Provisions Referenced

- Rule 2.2 – Manipulative and Deceptive Activities
- Rule 3.1 – Restrictions on Short Selling
- Rule 5.1 – Best Execution of Client Orders
- Rule 5.2 – Best Price Obligation
- Rule 5.3 – Client Priority
- Rule 7.7 – Trading During Certain Securities Transactions
- Rule 8.1 – Client-Principal Trading

Market Integrity Notices Referenced

- Market Integrity Notice 2005-015 – *Guidance – Complying with “Best Price” Obligations* (May 12, 2005)
- Market Integrity Notice 2005-023 – *Guidance – Securities Trading on Multiple Marketplaces* (July 29, 2005)
- Market Integrity Notice 2006-012 – *Amendment Approval – Provisions Respecting Client Priority* (May 26, 2006)

SECURITIES TRADING ON MULTIPLE MARKETPLACES

Summary

This Market Integrity Notice provides guidance on the obligations of a Participant or Access Person under the rules and policies of the Universal Market Integrity Rules with respect to trading activity in a security that trades on more than one marketplace.

This Market Integrity Notice repeals and replaces Market Integrity Notice 2005-023 – Guidance – Securities Trading on Multiple Marketplaces (July 29, 2005) and Market Integrity Notice 2005-015 – Guidance – Complying with “Best Price” Obligations (May 12, 2005).

Questions / Further Information

For further information or questions concerning this notice contact:

Karen Green
Senior Legal Counsel

Telephone: 416.646.7251

Fax: 416.646.7265

e-mail: karen.green@rs.ca

SECURITIES TRADING ON MULTIPLE MARKETPLACES

Summary

This Market Integrity Notice provides guidance on the obligations of a Participant or Access Person under the rules and policies of the Universal Market Integrity Rules (“UMIR”) with respect to trading activity in a security that trades on more than one marketplace. 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.

This Market Integrity Notice repeals and replaces Market Integrity Notice 2005-023 – Guidance – Securities Trading on Multiple Marketplaces (July 29, 2005) and Market Integrity Notice 2005-015 – Guidance – Complying with “Best Price” Obligations (May 12, 2005).

Background

National Instrument 21-101 (“Marketplace Operation Instrument”) and National Instrument 23-101 (“Trading Rules”) (together, the “ATS Rules”) envisage different marketplaces trading the same securities. Market Regulation Services Inc. (“RS”) is recognized as a self-regulatory organization by the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Ontario Securities Commission (“OSC”) and, in Quebec, by the Autorité des marchés financiers (the “Recognizing Regulators”) and authorized to be a regulation services provider for the purposes of the ATS Rules. RS adopted, and the Recognizing Regulators approved, UMIR as the integrity trading rules that would apply in any marketplace that retains RS as its regulation services provider.

Currently, 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 an Exchange; and for Bloomberg Tradebook Canada Company (“Bloomberg”), Liquidnet Canada Inc. (“Liquidnet”), Perimeter Markets Inc. (“BlockBook”) and Shorcan ATS Limited (“Shorcan”), each as an ATS.

CNQ has received approval of the OSC to vary its recognition order to offer trading in securities listed on other Exchange through a facility to be known as “Pure Trading” and RS will act as the regulation services provider for trading through that facility. Pure Trading is expected to launch the first phase of operations on October 12, 2006 with a cross printing facility. The second phase consisting of a full continuous auction market will be launched four to six weeks later. Liquidnet has notified the applicable securities regulatory authorities that Liquidnet expects to vary its operations by the end of 2006 to allow the matching of orders for Canadian listed securities rather than acting solely as an order router. TriAct Canada Marketplace LP (“TriAct”) has notified the OSC that it intends to launch operations as an ATS that would trade Canadian listed securities. RS has received an application to act as the regulation services provider for TriAct, which expects to launch operations by the end of 2006.

Conforming UMIR to the Requirements of the Canadian Securities Administrators

On July 14, 2006, the Canadian Securities Administrators (“CSA”) published a Notice of Proposed Amendments to National Instrument 21-101 – *Marketplace Operation* and Companion Policy 21-101CP and National Instrument 23-101 – *Trading Rules* and Companion Policy 23-101CP (the “CSA Notice”). In the CSA Notice, the CSA clarified their requirements with regard to information on orders and trades that each Participant is to take into account when fulfilling best execution obligations. In particular, the CSA confirmed their view “that availability of pre-trade and post-trade information is essential to facilitate best execution and market integrity, especially with multiple marketplaces trading the same securities”. Although the CSA review of “trade-through” and “best execution” obligations generally is ongoing, the CSA proposed to clarify their requirements by amending Companion Policy 23-101CP to add the following section:

In order to meet best execution obligations, we [the CSA] expect that a dealer will take into account order information from all marketplaces where a particular security is traded (not just marketplaces where a dealer is a participant) and take steps to access orders, as appropriate. This may include making arrangements with another dealer who is a participant of a particular marketplace or routing an order to a particular marketplace, where appropriate.

In the CSA Notice, the CSA indicated that further amendments to the ATS Rules may be proposed on the completion of the study following Concept Paper 23-403 – *Developments in Market Structure and Trade-Through Obligations* published by the CSA on July 22, 2005. The provisions of UMIR and their interpretation and application would be modified to conform to the positions adopted by the CSA. Upon the publication of the proposed amendments to the ATS Rules respecting trade-through obligations, RS will issue additional Market Integrity Notices to request comments on proposed amendments to UMIR and to provide further guidance on trading practices that may be required as a direct consequence of the final position adopted by the CSA with respect to trade-through obligations.

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 requirements of UMIR.

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”. Each of these prices has been determined by reference to order or trade information contained in “a consolidated market display”, which contained orders and trade information from each marketplace to which the Participant or Access Person has trading access. Specifically, a Participant has been required to refer to order and trade information from each:

- Exchange of which they are a member;
- QTRS of which they are a user;
- ATS of which they are a subscriber; and
- a particular marketplace if the Participant has entered into a contractual arrangement as an “introducing broker” with another dealer as “carrying broker” and that other dealer was a subscriber, user or member of that marketplace.

With the publication of the CSA Notice, the CSA clarified that each Participant should make reference to order or trade information from each marketplace trading the particular security that has been provided by the marketplace to an information vendor. ***In order to ensure that the provisions and application of UMIR conform to the requirements of the CSA, RS:***

- ***is issuing this Market Integrity Notice which repeals and replaces Market Integrity Notice 2005-023 – Guidance – Securities Trading on Multiple Marketplaces (July 29, 2005) and Market Integrity Notice 2005-015 – Guidance – Complying with “Best Price” Obligations (May 12, 2005); and***
- ***will be proposing the amendment of Part 1 of Policy 5.2 to remove as qualifications on the “best price” obligation factors related to access to information, access to marketplaces and consideration of foreign markets.***

Summary of Basic Operating Features of Current Marketplaces

Appendix “A” includes a summary of the basic features, as of August 22, 2006, of each of the marketplaces for which RS acts as a regulation services provider. Information is also provided on:

- the Pure Trading facility of CNQ as approved by the OSC;
- the proposed changes in the operations of Liquidnet which remain subject to the approval of the applicable regulatory authorities; and
- the proposed operations of TriAct which remain subject to the approval of the OSC.

The summary of features includes:

- a description of the marketplace operation model;
- the type of securities traded;
- access requirements;
- provisions for pre-trade transparency;
- provisions for post-trade transparency; and
- the hours of operation.

The summary is provided in the context of assisting Participants and Access Persons to ascertain their obligations in accordance with the requirements of the CSA as set out in the CSA Notice when trading a security that is eligible to be traded on multiple marketplaces. This

summary is not meant to be comprehensive of all facilities and features offered, or to be offered, by a particular marketplace. Reference should be made to the rules and policies of the marketplace or to material provided by each marketplace for a more detailed description of their operations. The information on the proposed changes in operation by Liquidnet and the proposed operation by TriAct is based on their current intentions and may change prior to implementation.

Order Transparency

None of BlockBook, Bloomberg and Liquidnet provides pre-trade transparency as contemplated by Part 7 of the Marketplace Operation Instrument of any orders entered on their marketplace. Upon launch of operations, TriAct will not provide pre-trade transparency of any orders¹. While Shorcan provides pre-trade transparency by means of a web-page available through a connection to Reuters, data disseminated in this manner may not be readily incorporated into data feeds provided by other information vendors. Each of CNQ, TSX and TSXV provides pre-trade transparency of all orders with the data disseminated through a number of information vendors. Upon launch of operations, Pure Trading intends to provide pre-trade transparency of all orders with the data disseminated through a number of information vendors.

BlockBook uses proprietary signalling to indicate to all subscribers the presence of liquidity and pricing of liquidity based on certain parameters. In the case of Liquidnet, subscribers are informed if another subscriber has a matching “indication of liquidity”, following which a one-on-one negotiation of orders may take place. Reference should be made to Appendix “A” for a summary description of these features.

Trade Transparency

In accordance with the requirements of the 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 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. Upon the launch by Liquidnet of trading in Canada of TSX-listed securities in Canadian funds, post-trade transparency in such securities will be provided by means of a web-page available through Reuters (in a manner similar to BlockBook and Shorcan). Each of CNQ, TSX and TSXV provides full post-trade transparency of all trades executed on their marketplace

¹ TriAct will provide real-time aggregate liquidity information (symbol and side) to the order routing system used by subscribers. This information will not be transparent to subscribers. However, it will provide their routing systems with an indication of those securities for which there is a reasonable likelihood that an order routed to TriAct will trade.

with the data disseminated through a number of information vendors. Upon launch of operations, both Pure Trading and TriAct intend to provide full post-trade transparency of all trades executed on their marketplace with the data disseminated through a number of information vendors.

Limited Access to a Marketplace

BlockBook limits access to its marketplace to registered dealers and qualified institutional investors that have become subscribers. In the case of each of the Exchanges, TSX, TSXV and CNQ (including the “Pure Trading” facility), access to the marketplace is limited to dealers that have become “members” of the Exchange. Shorcan limits access to its marketplace to dealers that have become subscribers and who enter orders as principal (and not as agent on behalf of clients). TriAct will limit access to its marketplace to registered dealers who become subscribers. Bloomberg and Liquidnet limit subscribers to “institutional investors” (other than dealers). As a result of the differences in access criteria, if a Participant is acting on behalf of a client, the Participant would not be able to access orders on Bloomberg, Liquidnet or Shorcan and, if the Participant is acting as principal, the Participant would not be able to access orders on Bloomberg or Liquidnet. A Participant that is not a subscriber to Shorcan may not jitney an order through a dealer that is a subscriber to Shorcan.

Manual or Fully-Automated Marketplaces

With the exception of Shorcan, all of the other marketplaces approved to date provide for fully-automated electronic order entry by persons with access. Each of Bloomberg and Liquidnet currently operate as order routers and do not execute or match orders on their marketplaces. Upon the launch by Liquidnet of trading in Canada of TSX-listed securities in Canadian funds, order entry will be fully automated and trading will occur based on anonymous and direct negotiations conducted electronically between subscribers. Each of BlockBook, CNQ, Pure Trading, TriAct, TSX and TSXV provide or will provide fully-automated order matching and trade execution (and, as such, an order entered on their trading system is electronically and immediately executable whether or not the order has been visible in a consolidated market display). On the other hand, Shorcan is a “manual” marketplace in which all orders are physically entered on the marketplace by employees of Shorcan and all “indications of interest” provided by subscribers to an employee of Shorcan must be confirmed by an employee of Shorcan before entry into the Shorcan trading system as an order.

Requirements Under UMIR

There are six rules under UMIR for which the requirement to monitor order and trade information from multiple marketplaces is most important. Rule 3.1 applies to both a Participant and an Access Person while Rules 5.1, 5.2, 5.3, 7.7 and 8.1 apply only to a Participant. As additional marketplaces develop and as the means for distributing market data on orders and trades evolves (including the possible introduction of an information processor in response to

the CSA Notice), RS will review the rules and guidance provided with respect to dealing with securities trading on multiple marketplaces. ***The guidance provided in this Market Integrity Notice may be further varied or altered depending upon amendments to the ATS Rules adopted following the completion of the review initiated by Concept Paper 23-403 – Developments in Market Structure and Trade-Through Obligations.***

As indicated in the “Summary of Basic Features of Current Marketplaces”, not all marketplaces provide transparency for orders entered on that marketplace and the provisions for post-trade transparency vary between marketplaces. In addition, not all marketplaces may be accessed by either Participants or Access Persons and not all marketplaces provide fully-automated order matching and trade execution. These differences in data dissemination, marketplace access and market structure impact on the steps which a Participant or Access Person must take in order to comply with UMIR.

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.

In the absence of an information processor, trade information disseminated by certain marketplaces is not readily incorporated into data feeds provided by other information vendors. 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 determining “last sale price” for the purpose of Rule 3.1 (and “last independent sale price” for the purpose of Rule 7.7), RS would consider 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.

If a security has not traded on any marketplace for at least one calendar year, RS would consider the “principal market” to be:

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

As at the date of this Market Integrity Notice, the “principal market” for any listed security is the Exchange on which the security is listed subject to the following exceptions:

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

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 5.1 – Best Execution of Client Orders

The obligation to monitor information on orders entered on and trades executed on marketplaces trading the same security falls to the Participant handling the client order. Neither UMIR nor the ATS Rules requires a Participant to maintain trading access to every Canadian marketplace on which a security may trade. However, with the publication of the CSA Notice, the CSA has clarified their requirement that each Participant will take into account order and trade information from all marketplaces that trade the same securities when discharging their best execution obligations. As set out in the CSA Notice, the CSA expects that a Participant will make arrangements with another dealer who is a participant of a particular marketplace or will directly route an order to a particular marketplace, where appropriate. In the view of RS, a Participant would be expected to make such arrangements if the particular marketplace had demonstrated that there is a reasonable likelihood that the marketplace will have liquidity for a specific security relative to the size of the client order.

RS is also of the view that a Participant in discharging its best execution obligation should consider possible liquidity on marketplaces that do not provide transparency of orders in a consolidated market display, such as BlockBook and TriAct, if:

- the displayed volume in the consolidated market display is not adequate to fully execute the client order on advantageous terms for the client; and
- the non-transparent marketplace has demonstrated that there is a reasonable likelihood that the marketplace will have liquidity for the specific security.

As originally set out in Market Integrity Notice 2005-015 – *Guidance – Complying with “Best Price” Obligations*, RS is of the opinion that a Participant may have an obligation to consider execution opportunities in special trading facilities of a marketplace if the price at which such trades will execute in such special facilities is a better price than available on another marketplace. For example, both BlockBook and Shorcan offer facilities to “discover” additional volume at the price of the last trade on their market. In the case of BlockBook this facility is known as the “Follow-on Auction” and on Shorcan the facility is known as the “Trade Expansion Protocol”. Reference should be made to Appendix “A” for a summary description of these facilities.

If a Participant in handling various “Good Till Cancelled” orders on behalf of clients has entered the orders on a marketplace that has closed for trading on a particular day, RS would not expect that the Participant would move the orders “en masse” to a marketplace that continues to trade those securities. In considering best execution of the client orders, the Participant must weigh the possible loss of priority against the likelihood of execution opportunities. Nonetheless, RS would expect that the Participant would continue to monitor trading opportunities on those marketplaces that are open for trading and would enter appropriate orders if the client orders would trade with orders displayed on the marketplace that continues to trade.

A Participant does not have to consider as part of its best execution obligation of a client order any marketplace to which dealers are not eligible to have trading access. If a marketplace limits access to dealers trading as principal, RS would permit a Participant to execute a trade on that marketplace as principal and then to unwind the position taken on as principal in a transaction with a client order on another marketplace without such transactions being considered “double printing” contrary to Rule 2.2 of UMIR on manipulative and deceptive activities.

Participants are reminded that they may have other legal obligations (including applicable securities law requirements or common law) to their clients that may require them, in certain circumstances, to consider other marketplaces and organized regulated markets that may not otherwise be required by Rule 5.1 of UMIR.

Rule 5.2 - Best Price Obligation

Under Rule 5.2, a Participant has an obligation to make reasonable efforts to fill better-priced orders on a marketplace before executing a trade at an inferior price on another marketplace or a foreign market. In accordance with the requirements of the CSA as set out in the CSA Notice, a Participant must take into account order information from all marketplaces trading a particular security (and not just marketplaces for which the Participant is a member, user or subscriber). In order to undertake “reasonable efforts” to effect a trade at the best price, a Participant must take appropriate steps to access orders on any marketplace. These steps may include the Participant making arrangements with another Participant who is a member, user or subscriber

of the particular marketplace to handle the order as a jitney on behalf of the Participant who is not a member, user or subscriber of the particular marketplace.

In the view of RS, the “best ask price” and “best bid price” can only be determined by reference to orders on marketplaces that provide pre-trade transparency. In order for a Participant to demonstrate that it had made “reasonable efforts” to execute a client order at the best price, RS expects the Participant will deal with “better-priced” orders on another marketplace if that marketplace:

- disseminates order data in real-time and electronically through one or more information vendors;
- permits dealers to have access to trading in the capacity as agent;
- provides fully-automated electronic order entry; and
- provides fully-automated order matching and trade execution.

Of the current marketplaces, only CNQ, TSX and TSXV meet all four conditions and it is anticipated that Pure Trading will meet the four conditions. BlockBook, Bloomberg, Liquidnet and TriAct do not, or will not, disseminate order data. While Shorcan disseminates order data, Shorcan limits access to dealers trading as principal and is a “manual” marketplace. RS is of the opinion that “reasonable efforts” does not require a Participant to take into account orders displayed on a manual marketplace that can not be immediately and electronically accessed. As such, a Participant has an obligation to execute against better-priced orders on CNQ, Pure Trading, TSX and TSXV before executing at an inferior price on any marketplace or organized regulated market.

Since the “better-priced” orders are determined from information in a consolidated market display, a Participant owes an obligation only to the “visible” portion of a “better-priced” order on another marketplace. If a marketplace permits the entry of an “iceberg” order for which only a portion of the volume is disclosed, no “best price obligation” is owed to the portion of the order that is not visible at the time the Participant is determining its obligation under the Rule 5.2. At the present time, iceberg orders are permitted on CNQ, TSX and TSXV and it is anticipated that iceberg orders will be permitted on Pure Trading.

If a marketplace has visible orders but the marketplace is not open for trading at that time, a Participant does not owe a “best price” obligation to such orders. A Participant may trade at any time taking into account all visible orders on marketplaces then open for trading. This obligation will apply to special trading facilities of a marketplace which conducts trading before or after “regular” trading hours if orders in such special facility are visible.

As originally set out in Market Integrity Notice 2005-015 – *Guidance – Complying with “Best Price” Obligations*, RS is of the opinion that a Participant will be considered to have taken reasonable efforts if the Participant enters orders on another marketplace concurrent with, or immediately following, the trade on a particular marketplace and such orders have a sufficient volume and are at a price that will fill the volume of better-priced orders on that other marketplace that are visible at the time of the trade on the particular marketplace. The

obligation to fill better-priced orders is not limited by the size of the trade. The volume of the orders to be entered is determined solely by the visible volume of better-priced orders.

Since TriAct will not have pre-trade transparency, UMIR would not require a Participant to determine if a “better-priced” order existed on TriAct prior to executing on another marketplace. However, under its proposed market model, TriAct will provide price improvement over the “best ask price” and the “best bid price” on the execution of a trade at the time of execution. As such, no order executing on TriAct would owe a “best price obligation” to an order on another marketplace.

Rule 5.3 – Client Priority

A Participant that enters client orders and principal or non-client orders for the same security on more than one marketplace must be aware of the requirements regarding client priority set out in Rule 5.3. As a general requirement, a Participant is required to provide priority for a client order over a principal order or non-client order only if the client order is received prior to the entry of the principal order or non-client order and the client order is at the same or “better” price and is subject to the same conditions and settlement terms as the principal order or non-client order. In particular, a Participant can never intentionally trade ahead of a client order that is either a market order or a tradeable limit order that was received prior to the entry of the principal order or non-client order unless the Participant receives the specific consent of the client. One example of an intentional trade includes simultaneously entering a client order in a relatively illiquid market and entering a principal or non-client order in a more liquid marketplace where the principal or non-client order is likely to obtain faster execution at the same or better price than the client order. In this circumstance, the Participant is not able to rely on the exemption from client priority provided for allocations made by the trading system of a marketplace since the client order and the principal or non-client order were entered on different marketplaces. Reference should be made to Market Integrity Notice 2006-012 – *Amendment Approval – Provisions Respecting Client Priority* (May 26, 2006) for further guidance on the application of Rule 5.3 as amended effective May 26, 2006.

Shorcan limits access to its marketplace to dealers trading as principal. If a Participant receives a client order for a particular security which is entered on another marketplace and the Participant subsequently enters a principal order on Shorcan, the Participant may be under an obligation to reallocate any fill received on the execution of the principal order on Shorcan to the client. The reallocation would be required if the client’s order has not executed but would have executed on Shorcan ahead of the Participant’s order if the client’s order had been eligible for entry on Shorcan and had been entered on Shorcan on receipt of the client’s order by the Participant.

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”.

As with the determination of the “last sale price” for the purposes of Rule 3.3, RS recognizes that, in the absence of an information processor, trade information disseminated by certain marketplaces is not readily incorporated into data feeds provided by other information vendors. RS is of the view that a Participant when determining the “last independent sale price” of a particular security may rely on trade information from the “principal market” for the trading of that security. (For a discussion of the concept of “principal market”, see “Rule 3.1 – Restrictions on Short Selling” above.)

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.

Rule 8.1 – Client-Principal Trading

A Participant may execute a principal order or non-client order against a client order for 50 standard trading units or less of a security with a value of \$100,000 or less if:

- the execution occurs at a “better price”; and
- the Participant has taken reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market at that time.

A “better price” is defined as a price lower than the best ask price, in the case of a purchase, and a price higher than the best bid price, in the case of a sale. A Participant must consider price information on orders from those marketplaces that would be taken into account for the purposes of complying with the best price obligation under Rule 5.2 when determining whether the client is provided a “better price” or “best available price” for the purposes of Rule 8.1.

Upon launch of operations, TriAct will operate a non-transparent marketplace that will execute trades in accordance with a pre-established formula at a price between the best ask price and the best bid price at the time of execution. Given the mechanism by which the trade price will be calculated on TriAct, RS is of the opinion that the trade price on TriAct will satisfy the requirements to be the “best available price” taking into account the condition of the market.

Questions / Further Information

For further information or questions concerning this notice contact:

Karen Green,
Senior Legal Counsel,
Market Policy and General Counsel's Office,
Market Regulation Services Inc.,
Suite 900,
145 King Street West,
Toronto, Ontario. M5H 1J8

Telephone: 416.646.7251

Fax: 416.646.7265

e-mail: karen.green@rs.ca

ROSEMARY CHAN,
VICE PRESIDENT, MARKET POLICY AND GENERAL COUNSEL

Appendix “A”

Summary of Basic Features of Current Marketplaces

The following table is a summary of the basic features of each of the marketplaces for which RS acts as a regulation services provider. The listed features are those which are in effect (or in the case of Pure Trading approved of by the applicable securities regulatory authority) as of August 22, 2006. Proposals which remain subject to change prior to implementation are set out in shaded text and the disclosure is based on intentions as of August 22, 2006.

The summary is provided in the context of assisting a Participant or Access Persons to ascertain their obligations when trading a security that is eligible to be traded on multiple marketplaces in accordance with the requirements of the CSA as set out in the CSA Notice. This summary is not meant to be comprehensive of all facilities and features offered by a particular marketplace. Reference should be made to the rules and policies of the marketplace or to material provided by each marketplace for a more detailed description of their operations.

Marketplace	Description of Operational Model	Type of Securities Traded	Access Requirements	Pre-Trade Transparency ²	Post-Trade Transparency ²	Hours of Operation ³
BlockBook	<p>Fully-automated electronic order entry by persons with access.</p> <p>Fully-automated order matching and trade execution.</p> <p>Order entry permitted from 6:00 a.m. Opening at a Calculated Match Price (that maximizes the volume trading on the opening).</p> <p>Continuous Auction Mode orders are evaluated continuously with priority given first to price and second to time, subject to limit price, time in force, minimum fill and lot size constraints. If there are no additional trades during a “stability period” following a match in the Continuous Auction Mode, move to the “Follow-On Auction Mode” in which orders to trade at the last sale price are accumulated for a period of 120 seconds with priority given to orders of parties participating in the trade initiating and during the stability period.</p> <p>Minimum lot size of 100 units of a security. Orders in the Continuous Auction Mode are subject to a minimum order size of 25,000 units of a security. Orders in the Follow-on Auction Mode have no minimum order size.</p>	<p>All TSX-listed securities (excluding warrants and rights).</p>	<p>Subscribers limited to institutional investors or registered dealers.</p>	<p>No pre-trade transparency of the volume or price of specific orders (though subscribers are aware that another subscriber has entered an order for a particular security due to the use of a different colour to display that particular security on the monitors of each subscriber).</p> <p>Orders are fully anonymous.</p> <p>All subscribers are provided certain information on orders by means of “signalling features” that indicate the presence of orders and price ranges.</p>	<p>Full post-trade transparency of executions (price and volume) disseminated electronically through a web-based page provided by Reuters. Data is also disseminated electronically through TSXDatalinx (but is not presently offered by a data vendor).</p> <p>Trades are fully anonymous.</p>	<p>8:30 a.m. to 4:00 p.m.</p> <p>BlockBook has announced that, effective September 5, 2006, trading will be extended until 5:00 p.m.</p>

Marketplace	Description of Operational Model	Type of Securities Traded	Access Requirements	Pre-Trade Transparency ²	Post-Trade Transparency ²	Hours of Operation ³
Bloomberg TradeBook	Fully-automated electronic order entry by persons with access. Operates as an order router routing orders for execution to an organized regulated market in the United States operated by an affiliate or to marketplaces in Canada.	All TSX-listed securities and various foreign exchange-traded securities.	Subscribers limited to institutional investors.	Not Applicable.	Not Applicable.	9:30 a.m. to 4:00 p.m.
CNQ (excluding Pure Trading)	Fully-automated electronic order entry by persons with access. Fully-automated order matching and trade execution. Auction market based on price and time priority (subject to priority to crosses between orders from the same Participating Organization). Order entry permitted from 7:00 a.m. Opening at a Calculated Opening Price (that maximizes the volume trading on the opening). Market-making system applicable to "Regular Book". Separate book for "Special Terms Orders".	All CNQ-listed securities (excludes securities traded on Pure Trading).	Registered dealers that have been accepted as a CNQ Dealer.	Full pre-trade transparency of orders (price and volume) entered in the "Regular Book" and "Special Terms Book". A portion of volume may be hidden ("iceberg order"). Public identification of Participant entering the order is optional. Order data disseminated in real-time and electronically through TSX Datalinx to various information vendors.	Full post-trade transparency of executions (price and volume) entered in the "Regular Book" and "Special Terms Book". Trade data disseminated in real-time and electronically through TSX Datalinx to various information vendors.	9:30 a.m. to 4:00 p.m.
CNQ (Pure Trading)	Fully-automated electronic order entry by persons with access. Fully-automated order matching and trade execution. Auction market based on price and time priority (subject to priority to crosses between orders from the same Participating Organization). Order entry permitted from 7:00 a.m. Opening at a Calculated Opening Price (that maximizes the volume trading on the opening). Separate book for "Special Terms Orders".	All TSX-listed securities.	CNQ Dealers.	Full pre-trade transparency of orders (price and volume) entered in the "Regular Book" and "Special Terms Book". A portion of volume may be hidden ("iceberg order"). Public identification of Participant entering the order is optional. Order data disseminated in real-time electronically to various information vendors.	Full post-trade transparency of executions (price and volume) entered in the "Regular Book" and "Special Terms Book". Trade data disseminated in real-time and electronically to various information vendors.	Not yet established. Application would permit hours between 8:00 a.m. and 6:00 p.m.
Liquidnet	Fully-automated electronic order entry by persons with access. Currently operates as an order router routing orders for execution to an organized regulated market operated outside of Canada by an affiliate. Has received from the OSC and applied to other Canadian jurisdictions for regulatory approval to match negotiated orders for Canadian-listed securities in	All TSX-listed securities and various foreign exchange-traded securities.	Subscribers limited to institutional investors.	No pre-trade transparency of the volume or price of specific orders, however subscribers are informed if another subscriber has a matching "indication of liquidity".	Not Applicable when acting as an order router. Full post-trade transparency of executions of TSX-listed securities in Canadian funds (price and volume) to be disseminated electronically through a web-based page	2:30 a.m. to 5:00 p.m.

Marketplace	Description of Operational Model	Type of Securities Traded	Access Requirements	Pre-Trade Transparency ²	Post-Trade Transparency ²	Hours of Operation ³
	Canadian funds. Under the model, subscribers will transmit indications of liquidity to the system. Where there is an “indication match”, matching subscribers will begin a one-to-one electronic negotiation, which may result in a trade.				provided by Reuters. Trades are fully anonymous.	
Shorcan	All indications of interest communicated by telephone to Shorcan. Only indications of interest at the “best price” are considered “orders”. All orders must be from a dealer acting as “principal”. Where a “match” of orders occurs, a “Trade Expansion Protocol” begins wherein parties to the original match and other subscribers may enter further orders for greater volume at the price of the original match. Minimum order size of 10,000 units of a security.	All TSX-listed securities.	Subscribers limited to registered dealers acting as principal.	Full pre-trade transparency of orders (price and volume) disseminated electronically through a web-based page provided by Reuters. Orders are fully anonymous.	Full post-trade transparency of executions (price and volume) disseminated electronically through a web-based page provided through Reuters. Trades are fully anonymous.	7:30 a.m. to 5:00 p.m.
TriAct	Fully-automated electronic order entry by persons with access. Fully-automated order matching and trade execution. A Call Market with certain continuous market features involving passive liquidity-providing orders (“LP orders”) or active liquidity-taking orders (“Marketflow orders”). Marketflow orders match with LP orders on a continuous basis. LP orders match with one another every 30 seconds. LP save 80% of the NBBO spread when matched with a Marketflow order and 50% of the NBBO spread when matched with another LP order. Marketflow orders save 20% of the NBBO spread up to \$0.01 when matched with an LP order. Any portion of a Marketflow order not filled will be routed by a subscriber’s Access Vendor to the marketplace specified by the subscriber at the time of the entry of the Marketflow order.	All TSX-listed securities.	Subscribers limited to registered dealers.	No pre-trade transparency of the volume or price of orders. However, a subscribers’ access vendor will receive symbol and “side” information on orders in TriAct on an aggregate basis.	Full post-trade transparency of executions (price and volume). Trade data disseminated in real-time and electronically through TSX Datalinx to various information vendors.	9:30 a.m. to 4:00 p.m.

Marketplace	Description of Operational Model	Type of Securities Traded	Access Requirements	Pre-Trade Transparency ²	Post-Trade Transparency ²	Hours of Operation ³
TSX	<p>Fully-automated electronic order entry by persons with access.</p> <p>Fully-automated order matching and trade execution.</p> <p>Auction market based on price and time priority (subject to priority to crosses between orders from the same Participating Organization). Minimum order size in Regular Book of one board lot.</p> <p>Order entry permitted from 7:00 a.m. Opening at a Calculated Opening Price (that maximizes the volume trading on the opening).</p> <p>Market-on-Close facility for certain securities. Special Trading Session for trades at closing price. Market-making system applicable to "Regular Book". Separate book for "Special Terms Orders".</p>	All TSX-listed securities.	Registered dealers that have become a Participating Organization of the TSX.	<p>Full pre-trade transparency of orders (price and volume) entered in the "Regular Book", "Special Terms Book" and "Special Trading Session". A portion of volume may be hidden ("iceberg order"). Public identification of Participant entering the order is optional.</p> <p>Order data disseminated in real-time electronically through TSX Datalinx to various information vendors. No pre-trade transparency of orders entered in the Market-on-Close facility.</p>	<p>Full post-trade transparency of executions (price and volume) entered in the "Regular Book", "Special Terms Book", "Market-on-Close" facility and "Special Trading Session".</p> <p>Trade data disseminated in real-time and electronically through TSX Datalinx to various information vendors.</p>	<p>Regular Session - 9:30 a.m. to 4:00 p.m. (Toronto time)</p> <p>Market-on-Close 4:00 to 4:10 p.m.</p> <p>Special Trading Session 4:10 to 5:00 p.m.</p>
TSXV	<p>Fully-automated electronic order entry by persons with access.</p> <p>Fully-automated order matching and trade execution.</p> <p>Auction market based on price and time priority (subject to priority to crosses between orders from the same Participating Organization).). Minimum order size in Regular Book of one board lot.</p> <p>Order entry permitted from 7:00 a.m. Opening at a Calculated Opening Price (that maximizes the volume trading on the opening).</p> <p>Separate book for "Special Terms Orders".</p>	All TSXV-listed securities.	Registered dealers that have become a Participating Organization or Member of the TSXV.	<p>Full pre-trade transparency of orders (price and volume) entered in the "Regular Book" and "Special Terms Book". A portion of volume may be hidden ("iceberg order"). Public identification of Participant entering the order is optional.</p> <p>Order data disseminated in real-time and electronically through TSX Datalinx to various information vendors.</p>	<p>Full post-trade transparency of executions (price and volume) entered in the "Regular Book" and "Special Terms Book".</p> <p>Trade data disseminated in real-time and electronically through TSX Datalinx to various information vendors.</p>	9:30 a.m. to 4:00 p.m.

- Notes:**
- ¹ As contemplated by sections 7.1 and 7.3 of the Marketplace Operation Instrument.
 - ² As contemplated by sections 7.2 and 7.4 of the Marketplace Operation Instrument.
 - ³ All times given are local Toronto time.