



Appendix C - IIROC Initiatives on Short Sales and Failed Trades

The following table outlines the initiatives taken or proposed by IIROC in connection with short sales and failed trades since October of 2008. The initiatives are grouped under the following elements of the overall strategy of IIROC regarding the regulation of short sales and failed trades:

- repeal the price restrictions on shorts sales;
- enhance investor education and confidence regarding the role of short selling in the operation of the market and the reasons for trade failures;
- increase transparency of information regarding short sale activity and failed trades;
- monitoring of regulatory arbitrage opportunities related to short sales;
- disclose the criteria for regulatory intervention for variation or cancellation of trades in the event of significant price volatility;
- enhance monitoring of short sales and failed trades; and
- impose pre-borrow requirements for short sales made in certain circumstances.

Specific Initiative	Summary Description	Status of Initiative	Implementation Dates	
			Approved Initiatives	Proposed/On going Initiatives
Repeal of Price Restrictions on Short Sales				
Repeal of Price Restrictions on Short Sales	Repeal of the requirement that a short sale may not be made at a price less than the last sale price of the security ("tick test").	Approved		September 1, 2012
Elimination of "Short Exempt" Order Marking Requirements	Eliminate the ability to mark a "short sale" as being "exempt" from the tick test.	Approved		September 1, 2012
Enhancement of Investor Confidence				
Educating Investors on the Role of Short Selling	Provide disclosure in the IIROC on-line investor education tool ("Guide to Equity Markets: Learning the Mechanics and Rules of Trading") regarding the role of short selling. Address "short selling" at the "Investor Forum" that would accompany the launch of the investor education tool.	Completed	May 2011	
Release of Empirical Studies	Publication of <i>Trends in Trading Activity, Short Sales and Failed Trades (for the period May 1, 2007 to April 30, 2010)</i> and <i>Price Movement and Short Sale Activity: The Case of the TSX Venture Exchange (for the period May 1, 2007 to April 30, 2010)</i> .	Completed	February 25, 2011 (Studies published as IIROC Notices 11-0077 and 11-0078)	



Specific Initiative	Summary Description	Status of Initiative	Implementation Dates	
			Approved Initiatives	Proposed/On going Initiatives
Update of Empirical Studies	Undertake and publish updates of the empirical studies to determine the effect, if any, of the Amendments and other initiatives on trends in trading activity, short sales and failed trades.	Planning Stage		Approximately one year after implementation of Amendments
Release Study on Short Sale Circuit Breakers	Publication of <i>Effects of Short Sale Circuit Breakers in the United States on the Trading of Inter-listed Securities in Canada</i> .	Completed	March 2, 2012 (Published as IIROC Notice 12-0***)	
Transparency				
Marketplace Dissemination of Daily Summaries of Short Sale Activity	Encourage marketplaces to co-operatively prepare and disseminate daily summaries of short sale activity.	Meetings with marketplaces		While certain marketplaces have explored this option, there are no firm plans to provide this information
IIROC Dissemination of Semi-Monthly Short Sale Trading Summaries	IIROC to prepare and publish on a semi-monthly basis (that corresponds to the timetable for the Consolidated Short Position Reports) information on short selling activity in each security consolidated from trading on each marketplace.	Planning Stage		Following introduction of the “Short-Marking Exempt” designation
Continuation of Semi-Monthly Short Position Report	Withdrawal of the proposal to repeal the requirement for each Participant to prepare a short position report.	Withdrawn	February 25, 2011	
Additional Transparency of Short Sale and Failed Trade Information	In conjunction with the Canadian Securities Administrators, solicit public input of possible additional transparency of short sales and failed trades.	Issuance of Request for Comments on March 2, 2012 (IIROC Notice 12-0***)		Publication of comments received and specific proposals
Monitoring of Regulatory Arbitrage Opportunities				
Short Sale Ineligible Security	Provide that IIROC, with the concurrence of applicable securities regulatory authorities, may designate a security as being ineligible to be sold short for a period of time.	Approved (October 15, 2008)	October 15, 2008	
Monitoring of Short Selling of Inter-listed Securities Subject to Price Restriction in the United States	The Securities and Exchange Commission has adopted a rule effective February 28, 2011 which provides that if a the price of a security declines 10% from the previous closing on the listing market that any short sales for the balance of that trading day and the next trading day must be entered at a price at least one trading increment above the national best bid at the time of entry. IIROC Surveillance will monitor the triggering of short sale circuit breakers for inter-listed securities and impact on short selling activities on Canadian marketplaces.	On-going	Since February 28, 2011	



Specific Initiative	Summary Description	Status of Initiative	Implementation Dates	
			Approved Initiatives	Proposed/On going Initiatives
Disclosure of Criteria for Regulatory Intervention				
Guidance on Implementation of Single Stock Circuit Breakers	IIROC has issued guidance respecting the use of IIROC's power to impose a regulatory halt in the event of a significant (of at least 10%) and unexplained price movement over a 5-minute period in a security included in the S&P/TSX Composite Index or an exchange-traded fund comprised principally of listed security.	Completed (Guidance issued as IIROC Notice 12-0040)	February 2, 2012	
Proposed Guidance on Regulatory Intervention for Trade Variation or Cancellation	IIROC has issued proposed guidance respecting the use of IIROC's power to vary or cancel "unreasonable" trades or certain other trades which were not in compliance with UMIR.	Republication of Request for Comments		Following review of public comments
Enhanced Monitoring				
Report of an "Extended Failed Trade"	Requirement to provide an on-line report to IIROC if a "failed trade" persists for a period of 10 days or more.	Approved (October 15, 2008)	June 1, 2011 (for trades other than those utilizing the Trade-for-Trade facility of CDS).	
Report of a Trade Variation or Cancellation	Requirement to provide a report to IIROC if a trade is varied or cancelled (with respect to price, volume or settlement date) after execution outside of procedures of the marketplace on which the trade was executed or the clearing agency.	Approved (October 15, 2008)	June 1, 2011	
Clarify Requirements to be considered "Owner" of Securities	Clarify that a person will only be considered to own securities as a result of a conversion, exchange or exercise if full payment has been made and all forms, notices and, if applicable, certificates have been submitted	Approved (October 15, 2008)	October 15, 2008	
Introduce Short Sale/Price Movement Trade Alert	Introduce a new alert in the surveillance system that looks specifically at changes in the pattern of short selling in connection with price declines.	Completed	Fully operational First Quarter of 2011	
Daily Failed Trade Database	Co-operate with the OSC and CDS in the development of a database of daily trade failures.	Planning Stage		Following review of public comments
Introduce "Short-Marking Exempt" Designation	Provide that certain accounts (arbitrage, market makers and automated institutional accounts that do not take a "directional" position on particular securities) are exempt from marking sales as "short sales".	Approved		September 1, 2012
Pre-Borrow Requirements in Certain Circumstances				
Client or Non-Client Having an "Extended Failed Trade"	Require a client or "non-client" to have pre-borrowed securities that are the subject of a short sale if the client or non-client has previously executed an "extended failed trade" in any security (and the Participant is not satisfied that the extended failed trade was not solely the result of an administrative error).	Approved		September 1, 2012