

January 16, 2011

To: IIROC

**Submission Regarding Proposed Guidance Respecting Implementation of Single-Stock Circuit Breakers**

I support the trading halts proposed.

The halts should be applicable to unusual price movements that take place at any time other than the opening trades. To my knowledge, there is no logical basis to exclude the time after 3:40 p.m. or even to exclude the time before 9:50 a.m. other than to exclude the opening trades that occur at the opening price (which by design and by nature may be radically different than the previous closing price).

The IIROC notice at page 5 indicates that “[G]enerally, trading is halted to permit the dissemination of material news by a listed issuer during the trading day...”

It should be obvious that unusually sharp price movements in a security MAY indicate that material news has arisen. Therefore it is logical to halt trading for some period of time to allow a sufficient number of traders to confirm and digest the news or to reject its validity.

If one supports the halting of trading on release of material news then it is logical to support the proposed single- stock circuit breakers since an unusually sharp price movement would be indicative that material news may have arisen.

But why should we halt stocks for material news?

In my view the reason for halts has to do with fairness and the behavior of price movements in response to material news.

Consider what happens when very material positive or negative news is released outside of trading hours. What happens is that a number of traders (but not all traders) will adjust their bid and ask prices to reflect the news. The adjustments take place before the opening of trading. When trading resumes the stock will undergo, at the opening, a “single-step-change” in price up or down. Because the news has been disseminated and digested, NO TRADES will take place at a price that reflects lack of knowledge of the news. MANY traders, especially retail traders, will in fact be totally unaware of the news and certainly will not have digested it. Nevertheless as long as a sufficient number of buyers and sellers are aware of the news the trade prices will still reflect the news. For example, if a retail trader has a Sell order in place at 5% above the recent market price and during the non-trading hours, very positive news is released that causes the stock price to open 20% higher than its previous close, that retail client will have his shares sold at the 20% higher price at which the stock opens. This is the case whether or not that retail trader has any knowledge of the news. Similarly if a retail trader has a Buy order in at 5% below market and the stock opens 20% lower that trader will pay the 20% lower price. This process obviously benefits all those retail traders who are not in a position to monitor and digest material news in real time even outside of trading hours.

When a stock is halted mid-day, this same process occurs whereby all trades that take place after a reasonable period of halt are made on the basis of the news having been priced into the market. ALL trades “benefit” from the news.

In contrast when material news arises and there is no halt then one side of a trade can be aware of the news and take advantage of the other. A retail trader with a sell order 5% above market will be sold at that price despite the fact that the news justifies a 20% higher price. In this case the price will adjust in a multi-step manner, instead of adjusting fully in a single-step-change.

No useful discussion of this matter can take place without an understanding of the manner in which halts can ensure that ALL trades subsequent to news have that news “priced in” and that lack of a halt WILL disadvantage some traders.

Some submitters might argue that it is completely fair for alert traders to be able to take advantage of news to the detriment of non-alert traders. That is a valid view. But the law has been that halts are made for material news. Since unusually sharp price changes are indicative of the existence of material news, logic dictates that some period of halt is appropriate.

Respectfully Submitted.

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