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IIROC issues proposal for Single-Stock Circuit Breakers and invites public comment

November 18, 2010 (Toronto, ON) – The Investment Industry Regulatory Organization of Canada (IIROC) has issued for public comment a [proposal](#) to implement single-stock circuit breakers to address rapid, significant and unexplained price movement in a security that calls into question whether there is a “fair and orderly” market for that security. The proposal builds on the approach followed by IIROC when instituting coordinated regulatory halts across all Canadian marketplaces that trade a particular security.

Under IIROC’s proposal, single-stock circuit breakers would apply to all securities listed on an exchange in Canada, including securities inter-listed in Canada and the U.S. When a stock price increases or decreases past a certain threshold, the circuit breaker would trigger a trading halt to provide a pause.

The proposed halt would last five minutes for TSX-listed shares, with the possibility of an extension in the case of a severe order imbalance. The proposed halt for stocks listed on the TSX-Venture and CNSX exchanges is 10 minutes to account for lower levels of liquidity.

Shortly after the May 6 Flash Crash, the Canadian Securities Administrators and IIROC together announced they had begun a comprehensive analysis of the events of the crash, including a review of the “appropriateness of the existing circuit breaker policy.” During the crash, markets in the US and Canada experienced extreme volatility, with some stocks quickly experiencing dramatic price declines and rallies.

Under the Universal Market Integrity Rules (UMIR), IIROC has the authority to delay, halt or suspend trading at any time where it is considered appropriate and in the interest of a fair and orderly market. The regulatory halt may apply market-wide or to particular securities. This allows for the imposition of manual halts to address unexplained price movements in a single security. However, current practice is not adequate where there is a need to halt trading in multiple securities across multiple marketplaces, all in a short window of time.

The thresholds under the proposal distinguish between more liquid and less liquid securities. The proposed thresholds are:

- For TSX-listed securities, a halt would be initiated where a stock's price increases or decreases by at least 10 per cent or 10 trading increments, whichever is greater, over a five-minute period.
- For securities listed on the TSX-V or CNSX, a halt would be initiated where a stock's price increases or decreases by at least 20 per cent or 20 trading increments, whichever is greater, over a 10-minute period.

The circuit breakers would be in effect from 9:50 am to 3:40 pm ET.

The Single-Stock Circuit Breaker Proposal is intended to operate as part of a multi-tiered approach for controlling short-term, unexplained price volatility:

- I. The first set of controls is at the market participant level where, under UMIR, firms are required to comply with their existing trade supervision obligations.
- II. The second set of controls would be effective marketplace volatility controls with consistent objectives across marketplaces.
- III. The single-stock circuit breaker would represent the third level of controls.

Both market participant obligations and marketplace level controls should be designed to detect 'erroneous orders' prior to execution. Each of the above-noted elements plays an important role in the overall control framework designed to mitigate the risks associated with unexplained short-term price movement and to promote fair and orderly markets.

The proposal calls for a three-stage process consisting of initial consultation and development, implementation and review/evaluation.

Public Comment Period: The proposal is being issued for a 60-day comment period.

Once comments are received from the public, marketplace participants and the Canadian Securities Administrators, IIROC will review the comments and, as appropriate, revise the Single-Stock Circuit Breaker Proposal. Comments should be directed to:

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IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services

Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.