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Contact:
Kevin McCoy
Director, Market Regulation Policy
Telephone: 416.943.4659
fax: 416.646.7265
e-mail: kmccoy@iiroc.ca

13-0298
December 11, 2013

Proposed Guidance Respecting the Expansion of Single-Stock Circuit Breakers

Executive Summary

IIROC is requesting comments on proposed guidance ("Proposed Guidance") that would modify the application of single-stock circuit breakers ("SSCB") by:

(i) expanding the list of securities that are subject to SSCBs to include securities that are considered "actively-traded",

(ii) increasing the times during the trading day when SSCBs are active,

(iii) providing that a SSCB remain active for a security on a day when a regulatory halt has occurred on that security, including a halt caused by the triggering of a SSCB, and

(iv) providing for a report, to be made available by IIROC, listing the securities to which SSCBs apply.

IIROC previously issued guidance on the implementation of SSCBs ("Prior Guidance") that introduced SSCBs on an "initial implementation phase" basis on February 2, 2012. IIROC believes that SSCBs continue to be an effective tool to help maintain fair and orderly markets in situations where a particular security experiences a rapid and unexplained price movement. In IIROC's view, it is appropriate to expand the securities covered to include those that are actively-traded, and to increase the time when SSCBs are active to include the periods post-open and pre-close to address significant and unexplained price movements that may occur during these times. The Proposed Guidance would repeal and replace the Prior Guidance.

The most significant impacts of the Proposed Guidance would be the development effort required by IIROC to modify its systems to accommodate the changes to the SSCB program including the preparation and publication of a report that identifies all securities subject to SSCBs at that time.

Participants that have designed controls that take into account the price movements required to trigger a SSCB may be required to modify their processes and controls to align with the information contained in this report.

While the Proposed Guidance is clear that the triggering of a SSCB near the close of regular trading hours does not preclude the operation of a Market-on-Close ("MOC") facility, the current design of the MOC facility offered by the TSX and TSXV does not support a MOC match when a security is not open and available for trading at 4:00 p.m. In order for MOC orders to execute while a regulatory halt is in place, the TSX and TSXV would need to modify their systems.

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1. Policy Development Process

The Market Rules Advisory Committee ("MRAC") of IIROC reviewed the Proposed Guidance. MRAC is an advisory committee comprised of representatives of each of: the marketplaces for which IIROC acts as a regulation services provider, Participants, institutional investors and subscribers, and the legal and compliance community.[1]

Comments are requested on all aspects of the Proposed Guidance, including any matter not addressed in the Proposed Guidance and the specific questions asked on the following page. Comments should be in writing and delivered by ***March 10, 2014*** to:

Kevin McCoy,
Director, Market Regulation Policy,
Investment Industry Regulatory Organization of Canada,
Suite 2000
121 King Street West,
Toronto, Ontario M5H 3T9
Email : kmccoy@iiroc.ca
Fax: 416.943.4659

Comment Letters will be made publicly available on the IIROC website (www.iiroc.ca under the heading "Rules Notices" and sub-heading "Marketplace Rules – Request for Comments") upon receipt. A summary of the comments contained in each submission will also be included in a future IIROC Notice.

After considering the comments on the Proposed Guidance received in response to this Request for Comments, IIROC may make revisions to the Proposed Guidance prior to the issuance of the final Guidance Notice.

The text of the Proposed Guidance is set out in Appendix "A".

[1] The review by MRAC of the Proposed Guidance should not be construed as approval or endorsement of the Proposed Guidance. Members of MRAC may express their personal views on topics and that advice may not represent the views of their respective organizations as expressed during the public comment process.

2. Purpose of SSCBs

SSCBs are designed to invoke a trading halt on all marketplaces in the trading of a particular security that experiences a rapid price movement and to provide certainty of when a Market Integrity Official will intervene by exercising his or her authority under UMIR in connection with a triggered SSCB.[2]

SSCBs are intended to operate as part of a multi-tiered approach to controlling short-term, unexplained price volatility. The first set of controls is currently at the Participant level where, under Policy 7.1, Participants are required to have in place policies and procedures reasonably designed to ensure that trading is carried out in compliance with the applicable requirements, which include provisions of securities legislation, UMIR, National Instrument 23-101 and Marketplace Rules. The second set of controls would be at the marketplace level, where each of the marketplaces would be expected to have effective price/volume thresholds in place that would detect erroneous orders prior to execution. SSCBs represent the third level of controls. The fourth set of controls are market-wide circuit breakers which would trigger and halt all trading on all marketplaces when there are declines in prices which affect the market generally. Each set of controls would ultimately play an important role in the overall control framework designed to mitigate the risks associated with unexplained short term price movement and promote fair and orderly markets.

IIROC may also intervene under the authority of Rule 10.9 of UMIR in order to vary or cancel any trade that is, in the opinion of the Market Integrity Official:

- "unreasonable" when material information related to the issuer of the security may be known to certain parties trading in the market but the information has not been publicly disseminated in accordance with applicable timely disclosure standards ("asymmetric dissemination of material information");
- "unreasonable" in connection with an unintentional "erroneous" trade; or
- not in compliance with the provisions of UMIR.

[2] Rule 10.9(a) of UMIR provides a Market Integrity Official with the power to delay, halt or suspend trading at any time and for such a period of time as the Market Integrity Official may consider appropriate in the interest of a fair and orderly market.

3. Current Application of SSCBs

Under the Prior Guidance, SSCBs:

- apply to:
    - each security that is a constituent of the S&P/TSX Composite Index, and
    - each Exempt Exchange-Traded Fund ("ETF") the assets of which is comprised principally of listed securities;
- provide for a trigger level such that there would be a halt in the event of a price increase or decline of at least 10% in a 5 minute period;
- apply from 9:50 a.m. to 3:30 p.m.;
- provide an initial halt of 5 minutes that may be extended for a further 5 minute period;
- exclude from the trigger calculation prices of trades that may execute outside the "best bid-best ask" spread;
- would result in the cancellation of any trade that executes at more than 5% beyond the trigger price; and
- do not operate for the balance of the trading day following:
    - the triggering of the market-wide circuit breaker, or
    - the resumption of trading following a trading halt, including a halt caused by the initial triggering of a SSCB.

When SSCBs were initially introduced, the process to halt the trading of a particular security across all marketplaces was largely manual. This process is now fully automated such that the invocation of a trading halt caused by the triggering of an SSCB is handled electronically by IIROC and by all marketplaces.

4. Proposed Changes to SSCBs

The Proposed Guidance would expand the application of SSCBs by:

- expanding the list of securities subject to an SSCB to include all securities which are "actively-traded" securities;
- increasing the time during which SSCBs are active to include the entire regular trading day (i.e. 9:30 a.m. to 4:00 p.m.);
- provide for a trigger level such that there would be a halt in the event of a price increase or decline of at least 10% and 20 trading increments in a 5-minute period;

- between the periods of 9:30 a.m. to 9:50 a.m. and 3:40 p.m. to 4:00 p.m. provide for a trigger level such that there would be a halt in the event of a price increase or decline of at least 20% and 40 trading increments in a 5-minute period; and
- re-activating the SSCB following a 30-minute period after the resumption of trading following a regulatory halt, including a regulatory halt caused by the initial triggering of a SSCB.

Under the Proposed Guidance, the securities covered by the SSCB program would change:

- with each addition or deletion of a constituent of the S&P/TSX Composite Index (and securities being added or deleted would be covered or cease to be covered on the date of the change);
- with the listing or delisting of an ETF the assets of which are comprised principally of listed securities; and
- monthly with the determination by IIROC of which securities qualify as actively-traded securities over the prior period.

IIROC will maintain on its website a report listing all securities which are subject to SSCBs. This list will be updated monthly and with each change as described above.

Actively-Traded Securities

IIROC staff believe that it is appropriate to extend the coverage of SSCBs to securities that are actively traded as measured by the average number of executions and the average value of trading but which are not constituents of the S&P/TSX Composite Index or an ETF, the assets of which are comprised principally of listed securities. For the purposes of the Proposed Guidance, the determination of actively-traded securities was derived from the current UMIR definition of highly-liquid security and adjusted to reflect changes in market structure and trading behaviors that have occurred since the definition of highly-liquid was originally published.

Under the Proposed Guidance, a listed security would be considered "actively-traded" if the security traded, in total, on one or more marketplaces as reported on a consolidated market display during the three calendar months ending immediately preceding the determination:

- an average of at least 500 times per trading day, and
- with an average trading value of at least $1,200,000 per trading day.

Fig 1 – Security Coverage of SSCB Proposal (as at September 30, 2013)

	Actively-Traded Securities	Not Actively-Traded Securities
S&P/TSX Composite Index**	214	21
Exempt ETFs	7	94
Other	76	n/a
Total Securities Covered	**412**	
% of Listed Securities*	**8.7%**	
% of Total Value Traded*	**93%**	
% of Total Trades*	**90%**	

*over the period of July 2, 2013 to September 30, 2013

i. *Relationship of Actively-Traded Securities to Constituents of the S&P/TSX Composite Index*

As at September 30, 2013, the S&P/TSX Composite Index was comprised of 235 securities. 21 of the 235 securities in the S&P/TSX Composite Index would not qualify as actively-traded securities. These 21 securities, in aggregate, accounted for an average of 13,843 trades per trading day with an average total value of $58,229,820 per trading day. If a security is in the S&P/TSX Composite Index, it will be covered by a SSCB even if it is not considered to be actively traded.

ii. *Relationship of Actively-Traded Securities to ETFs*

As at September 30, 2013, there were 101 ETFs the assets of which were comprised principally of listed securities. Of these, 7 ETFs would qualify as an actively-traded security. ETFs that are not actively traded will continue to be covered by a SSCB so long as they are comprised principally of listed securities.

5. IIROC Study of SSCBs

When the Prior Guidance was issued, IIROC committed to monitor trading on all marketplaces with the objective of better understanding the potential impact of changes to the SSCB program. IIROC undertook a study to examine the effects of applying SSCBs:

- to all listed securities, and
- between the hours of 9:30 a.m. and 4:00 p.m.

The study looked at the period of March 1, 2012 through June 29, 2012. The study methodology considered the number of SSCBs triggered as a function of listing exchange, price, percentage price change, trading increments, number of trades in a five minute window, and time of day the alerts were triggered. Study alerts were designed to trigger at 10%, 20% and 30% price movements in a 5-minute trading window and covered the entire regular trading day (i.e. 9:30 a.m. – 4:00 p.m.).

A total of 9,991 alerts for 2,143 unique securities were generated during the study period. The analysis showed that extending the SSCB to cover all securities would produce a disproportionate number of alerts for low-priced and less liquid securities. Of the 9,991 alerts triggered during the study, 92% were for securities priced under $1.00 (both TSX and TSX-V listed securities). In terms of liquidity, 8,541 alerts were triggered when there were 10 or fewer trades in the 5-minute measurement window, 1,284 when there were 11-100 trades in the measurement window and 166 when there were more than 100 trades in the measurement window.

The study further found that a greater number of alerts fired during the post-open and pre-close periods at all trigger levels. Over the study period, approximately 3 times more alerts fired in each 5-minute interval during the 15-minute period post-open and approximately 3.5 times more alerts fired during the 15-minute period prior to the close of regular trading when compared to each 5-minute interval between 9:45 a.m. and 3:45 p.m.

6. Developments in the United States

As of June 11, 2010, markets in the United States participated in a single-stock circuit breaker pilot program that initially applied to securities included in the S&P 500 Index.[3] Since the beginning of the single-stock circuit breaker pilot project, there was a re-evaluation of the overall effectiveness of the program, particularly in light of the numerous instances of the circuit breakers triggering due to erroneous trades. On April 5, 2011, the major U.S. exchanges and the Financial Industry Regulatory Authority ("FINRA") submitted a proposal to the Securities and Exchange Commission ("SEC") in an attempt to address these shortcomings by establishing the Limit Up-Limit Down program ("LULD") as market-wide controls in trades of securities covered by the National Market System ("NMS Stocks") that would replace the existing single-stock circuit breaker program.[4]

While similar to the application of SSCBs, LULD provides for a delayed trading halt where new liquidity is allowed to enter the market to adjust the imbalance prior to initiating a halt. During the period prior to a halt (i.e. the limit state), executions may occur within the current

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[3] On September 10, 2010, the SEC approved new rules submitted by the national securities exchanges and FINRA to expand a recently-adopted circuit breaker program to include all stocks in the Russell 1000 Index and certain exchange-traded funds. See, for example, SEC Release No. 34-62884, *Order Approving Proposed Rule Changes Relating to Expanding the Pilot Rule for Trading Pauses Due to Extraordinary Market Volatility to the Russell 1000® Index and Specified Exchange Traded Products.*

[4] See File 4-631 – National Market System Plan to Address Extraordinary Market Volatility. The text of the plan is available at: http://www.sec.gov/news/rules/sro/nms/2012/34-67091.pdf.

price bands. If the imbalance remains after the 15-second window, a trade halt may be invoked even in the absence of a trade having occurred.

This proposal, as amended, was approved for implementation on a pilot project basis. This first phase of the implementation became effective April 8, 2013 with "Tier 1 NMS Stocks".[5] The second phase of the implementation started on August 5, 2013 when the application of LULD was extended to "Tier 2 NMS Stocks" and was based on a rollout schedule established by the listing markets.[6] During the first phase, LULD only applied from 9:45 a.m. to 3:35 p.m.[7] Effective August 5, 2013, LULD was expanded to apply from 9:30 a.m. to 3:45 p.m. and did not apply to the final 15 minutes of trading (from 3:45 p.m. to 4:00 p.m. Eastern Time). The rollout to all Tier 2 NMS Stocks and the extension to cover the last 15 minutes of trading is "scheduled to complete on or before December 8, 2013".[8]

LULD prevents trades in NMS Stocks from occurring outside specified price bands, which are set at a percentage level above and below the arithmetic mean of trades in a particular stock over the preceding 5-minute period.[9] These percentage parameters generally are doubled during the opening and closing and would be double for Tier 2 NMS Stocks as compared to Tier 1 NMS Stocks. However, for securities trading below $0.75, the percentage parameters are, at all times, the lesser of $0.15 or 75% and would apply to both Tier 1 NMS Stocks and Tier 2 NMS Stocks.

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5 "Tier 1 NMS Stocks" are securities in the S&P 500 Index or Russell 1000 Index and certain exchange-traded products ("ETPs") which are not leveraged and with a consolidated average daily trading value of more than $2 million. In addition, other ETPs which "track the same benchmark as an ETP that does meet the volume criterion, will be deemed eligible to be included as a Tier 1 NMS Stock").

6 "Tier 2 NMS Stocks" include all NMS Stocks other than those in Tier 1. For the application during the second phase, see for example Equity Regulatory Alert #2013 – 9 of NASDAQ OMX available at http://www.nasdaqtrader.com/TraderNews.aspx?id=ERA2013-9.

7 With the introduction of LULD, each of the marketplaces repealed their own mechanisms for the control of volatility. However, as a result of volatility in securities covered in Phase 1 of LULD during trading outside the period covered by LULD, the NYSE announced its intention to reintroduce its own controls (known as liquidity replenishment points) to apply during the open and close periods not covered during Phase 1 of LULD.

8 Equity Regulatory Alert #2013-9.

9 The first reference price will be either the opening price or the bid/ask midpoint of the opening quote on the primary listing market. The price bands would be calculated by the Securities Information Processors ("SIPs") responsible for the consolidation of information for an NMS Stock pursuant to Rule 603(b) of Regulation NMS. The SIPs would disseminate the price bands to markets, dealers, information vendors and service providers. The SIPs would also calculate a "Pro-Forma Reference Price" for each NMS Stock on a continuous basis during regular trade hours. If the Pro-Forma Reference Price did not move by one percent or more from the reference price in effect, no new price bands would be disseminated. Each new reference price would remain in effect for at least thirty seconds.

Class of Securities	Reference Price	Percentage Parameter	
		Opening and Close	9:45 a.m. – 3:35 p.m.
Tier 1 NMS Stocks	> $3.00	10%	5%
	$0.75 - $3.00	40%	20%
	< $0.75	Lesser of $0.15 or 75%	Lesser of $0.15 or 75%
Tier 2 NMS Stocks	> $3.00	20%	10%
	$0.75 - $3.00	40%	20%
	< $0.75	Lesser of $0.15 or 75%	Lesser of $0.15 and 75%

When one side of the market for a security is outside the price band, that quote is identified as non-executable. When the other side of the market reaches the price band, the market for that security enters a limit state. All trading in a security enters a limit state when the National Best Offer equals the lower limit band or the National Best Bid equals the upper limit band. Trading for a particular NMS Stock exits a limit state if the entire size of all limit state quotes were executed or cancelled within a 15-second time period. If the market does not exit the limit state within 15 seconds, the primary listing exchange declares a 5-minute halt. In the first phase of implementation (prior to the roll out of any Tier 2 NMS Stocks), a limit state was reached only 4 times and none resulted in a trading pause. In each case, the securities affected were less liquid ETPs.[10]

Following the start of the second phase of implementation on August 8, 2013, NYSE Arca instituted on August 28, 2013 a "rollback" to temporarily remove 530 securities from the LULD program as a result of the triggering of a number of trading halts affecting thinly-traded securities.[11] On August 27, 2013, a separate proposed amendment to the LULD plan was filed with the SEC to exclude a group of illiquid ETPs from the LULD program after a series of halts were triggered affecting illiquid ETPs, often in the absence of any actual trades.[12] Under the LULD plan, a bid or offer that crosses the applicable price band can result in a "limit state", and if not exited within 15 seconds, a 5-minute trading pause (even though a trade did not occur before the trading pause was triggered). The proposed amendment would also change the handling of a pause near the close of trading. Under the proposal, a pause during the last 10 minutes would result in trading not reopening on the "Primary Listing Exchange". Currently, it is contemplated that, when LULD is extended to cover the last 15 minutes of trading, trading

10 ETPs include exchange traded funds and exchange traded notes.

11 http://www.nyse.com/pdfs/2013_08_26_LULD%20Phase%202%20partial%20rollback.pdf. The affected securities had an average daily trading volume of 10,000 shares or less in the 30-day period ending August 21, 2013. Upon removal from LULD, the securities returned to the pre-existing Volatility Trading Pause program. NYSE Arca indicated that it "will be working with LULD Plan Participants to assess whether there are further refinements to the LULD Plan that would more fully optimize processing of limit states and halts."

12 http://www.sec.gov/rules/sro/nms/2013/34-70274.pdf In particular, the amendment would exclude ETPs that did not meet the average daily trading value of more than $2 million but tracked the same benchmark as an ETP that does meet the volume criterion.

would not resume if the pause is triggered during the last 5 minutes of trading. In either case, despite the pause, the Primary Listing Exchange "shall attempt to execute a closing transaction using its established closing procedures".

7. Expansion of the Application of SSCBs

Securities Covered

IIROC believes that SSCBs continue to be an effective tool to:

- help maintain fair and orderly markets in situations where a particular security experiences a rapid price movement, and
- add additional transparency respecting how and when a Market Integrity Official will intervene.

It is important, however, that SSCBs are not applied too widely and inadvertently capture price movements that may be representative of the normal trading patterns of a particular security, such as those securities that are less liquid, lower value and historically demonstrate higher short-term volatility. For such securities, short-term price movements may not be "unexplained".

IIROC believes that the addition of all securities which are highly active to the securities currently subject to SSCBs limits the coverage to listed securities which will benefit the most by avoiding those securities for which automated trading halts are neither practical nor appropriate.

In reviewing the developments in the United States, IIROC staff does not believe that the added complexities of a LULD regime would deliver a corresponding benefit when applied to Canadian market structure.

Securities not covered by SSCBs will continue to be subject to regulatory intervention by a Market Integrity Official through the exercise of his or her powers under UMIR 10.9.

Times When SSCBs Operate

Under the Prior Guidance, SSCBs do not operate in the post-open or pre-close periods. IIROC believes that it is appropriate to increase the time when SSCBs are active to include regular trading hours (i.e. 9:30 a.m. to 4:00 p.m.) when all marketplaces are open for trading. This will provide added controls to address significant and unexplained price movements that may occur during the periods post-open and pre-close. However, the threshold at which a SSCB would trigger would be widened from 10% and 20 trading increments to 20% and 40 trading increments during the periods of 9:30 to 9:50 and 3:30 to 4:00. This approach takes into account the heightened volatility that may occur during both the post-open and pre-close periods. Securities subject to SSCBs that trade on a marketplace outside of regular trading hours when SSCBs are not active would be subject to regulatory intervention by a Market Integrity Official through the exercise of his or her powers under UMIR 10.9.

Under the Prior Guidance a SSCB would not trigger more than once for a particular security during the same trading day, or after the resumption of trading after a regularly halt. Under the Proposed Guidance, SSCB would be activated after the resumption of trading following a regulatory halt, including a regulatory halt initiated by the triggering of an SSCB.

The period immediately following the resumption of trading after a regulatory halt, including a halt caused by the initial triggering of a SSCB, may demonstrate increased volatility as the market absorbs any new information, such as the release of material news. Under the Proposed Guidance, to adjust for this additional volatility the SSCB would not be in operation for the particular security subject to the regulatory halt for a 30-minute period after the resumption of trading. During this period, the particular security would continue to be subject to regulatory intervention by a Market Integrity Official, if required.

Minimum Required Trading Increment Movement

Under the Proposed Guidance, each of the requisite price movements of 10% and 20% are subject to a minimum movement of 20 and 40 trading increments respectively. IIROC believes that this additional condition prevents the inadvertent triggering of SSCBs for lower priced securities where percentage price movement alone may not be indicative of unusual or unexplained volatility.

Impact on Market-on-Close Orders and Closing Price Orders

Under the Prior Guidance, a SSCB would not be invoked after 3:30 p.m. As such, an SSCB would not have any effect on the operation of a MOC facility or the eligibility of a particular security to be traded as a Closing Price Order. Under the Proposed Guidance, a SSCB may trigger at any point during the regular trading day up to 4:00 p.m. The Proposed Guidance would confirm that the triggering of a SSCB late in the regular trading day will not preclude the operation of any MOC facility or the eligibility of the particular security to be traded as a Closing Price Order on a marketplace (provided the executions occur following the expiry of the trading halt). IIROC believes that a MOC facility is an appropriate method of determining closing prices for securities included in various indexes as the MOC facility reduces volatility at or near the close of regular trading by providing equal access and opportunity to Participants in setting the closing price.

IIROC understands that the functionality of the MOC facility of the TSX and TSXV does not currently permit the entry of MOC orders during a regulatory halt or the execution of a MOC match for a security that is subject to a trading halt at the close of regular trading (i.e. 4:00 p.m.), including a regulatory halt resulting from the triggering of a SSCB. If a security is not open and available for trading at the close of regular trading, all orders in the MOC book will be purged and no MOC match will occur. In this circumstance, the closing price for the security on the TSX or TSXV would be set by the last trade that occurred immediately prior to the invocation of the trading halt on the TSX or TSXV.

8. Handling Trades Executed after the Trigger of a SSCB

IIROC is not proposing any changes to the way that trades are handled following the trigger of a SSCB. A Market Integrity Official will use his or her authority granted under Rule 10.9(d) of UMIR to cancel any trade that is more than 5% beyond the calculated trigger price. Any trades that execute at a price that is less than 5% beyond the trigger price will stand.

9. Questions

While comment is sought on all aspects of the Proposed Guidance, IIROC would specifically request responses on the following questions:

1. Is it appropriate that SSCBs remain active during the entire regular trading day (i.e. 9:30 a.m. – 4:00 p.m.)?
2. Given the importance of the MOC facility in determining closing prices for securities included in various indexes, should SSCBs remain active until 3:50 p.m. if the MOC system is not currently designed to facilitate MOC matches for securities that are in a regulatory halt state at the close of the trading day?
3. In contrast to the Prior Guidance, the Proposed Guidance provides that a SSCB remain active following the resumption of trading after a regulatory halt, including a halt caused by the triggering of an SSCB. Is it appropriate that multiple SSCBs may trigger during the same trading day for the same security?
4. Under the Proposed Guidance, the SSCB would be inactive for a period of 30 minutes following the resumption of trading after a trading halt, including a halt caused by the initial triggering of a SSCB. As an alternative, should the reactivation of the SSCB be handled in the same manner as the start of the regular trading day (i.e. 20% price movement and 40 trading increments for a 20-minute period exclusive of the initial trades following the resumption of trading)?
5. Is it appropriate that the percentage price movements to trigger a SSCB are also subject to a minimum trading increment movement?
6. Should a Market Integrity Official have the ability to widen the threshold of a particular security in response to an extraordinary event that would reasonably be expected to increase the volatility of that security?

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Contact:
Kevin McCoy
Director, Market Regulation Policy
Telephone: 416.943.4659
Fax: 416.646.7265
e-mail: kmccoy@iiroc.ca

13-0xxx
Xxxx, 2013

Guidance Respecting the Expansion of Single-Stock Circuit Breakers

Executive Summary

This Guidance Note ("Notice") provides guidance on the exercise of the existing authority under UMIR[13] to halt trading in a particular security as a result of a single-stock circuit breaker ("SSCB"). IIROC previously issued guidance[14] ("Prior Guidance") that introduced SSCBs on an "initial implementation phase" basis on February 2, 2012. This Notice expands on the initial SSCB program to include a broader range of listed securities than those included in the initial implementation phase and expands the time during the trading day when SSCBs operate. Listed securities not covered by the SSCB program will continue to be subject to regulatory

13 Rule 10.9(a) of UMIR provides a Market Integrity Official with the power to delay, halt or suspend trading at any time and for such a period of time as the Market Integrity Official may consider appropriate in the interest of a fair and orderly market.

14 See IIROC Notice 12-0040 *Rule Notice – Guidance – UMIR – Guidance Respecting the implementation of Single-Stock Circuit Breakers* (February 2, 2012) - http://www.iiroc.ca/Documents/2012/7cf90cce-57ae-4760-822a-46b1525e2051_en.pdf

intervention by a Market Integrity Official by exercising his or her existing authority under UMIR.[15]

This notice repeals and replaces IIROC Notice 12-0040.

Operation of SSCBs

Until changed with the issuance of further guidance, SSCBs:

- apply to:
  - each security that is a constituent of the S&P/TSX Composite Index,[16]
  - each Exempt Exchange-traded Fund ("ETF")[17] the assets of which is comprised principally of listed securities, and
  - each security that is considered "actively-traded" for the purposes of this guidance;
- provide for a trigger level such that there would be a halt in the event of a price increase or decline of:
  - at least 10% and 20 trading increments in a five-minute period between 9:50 a.m. and 3:30 p.m., or
  - at least 20% and 40 trading increments in a five-minute period between 9:30 a.m. and 9:50 a.m. and 3:30 p.m. and 4:00 p.m.;
- apply from 9:30 a.m. to 4:00 p.m.;
- provide an initial trading halt of 5 minutes that may be extended for a further 5-minute period;
- exclude from the trigger calculation prices of trades that may execute outside the "best bid – best ask" spread; and
- would result in the cancellation of any trade that executed at more than 5% beyond the trigger level.

Under the Prior Guidance, SSCBs only applied to a particular listed security that is either a constituent of the S&P/TSX Composite Index or an ETF, the assets of which is comprised principally of listed securities. In addition to those securities included in the initial

[15] See IIROC Notice 12-0258 – Rules Notice – Guidance – UMIR - *Guidance on Regulatory Intervention for the Variation or Cancellation of Trades* (August 20, 2012) http://www.iiroc.ca/Documents/2012/b5972693-c0ab-4459-948e-dcd6ca7a6371_en.pdf

[16] A description of the S&P/TSX Composite index is available at http://tmx.com/en/pdf/0000Description.pdf

[17] In UMIR, an Exempt Exchange-traded Fund means a mutual fund for the purposes of applicable securities legislation, the units of which:
(a) are a listed security or a quoted security; and
(b) are in continuous distribution in accordance with applicable securities legislation
but does not include a mutual fund that has been designated by the Market Regulator to be excluded from the definition.

implementation phase, this Notice expands the universe of listed securities subject to a SSCB to include all securities that are actively traded.

For the purposes of this Notice, a listed security is considered actively-traded if the particular listed security traded, in total, on one or more marketplaces as reported on a consolidated market display during the three calendar months ending immediately preceding the determination:

- an average of at least 500 times per trading day, and
- with an average trading value of at least $1,200,000 per trading day.

Securities Covered

SSCBs applied to securities in a broad-based index dampens extreme volatility in those securities and, by extension, the volatility of the index in which they are included. These securities, together with those considered actively-traded, provide coverage of securities that represent a significant portion of total marketplace activity in terms of volume and value traded. Based on data from February 2013, the universe of listed securities to which SSCBs would apply account for approximately 9% of listed securites, approximately 88% of total trades and approximately 92% of the total value traded.

It is important that SSCBs are not applied too widely and inadvertently capture price movements that may be representative of the normal trading patterns of a particular security, such as those securities which are less liquid, lower value and historically demonstrate higher short-term volatility. In such cases, short term price movements may not be "unexplained". For these listed securities, their trading patterns and liquidity profiles are such that automated trading halts are neither practical nor appropriate. These securities will continue to be subject to regulatory intervention by a Market Integrity Official through the exercise of his or her powers under UMIR 10.9.

SSCB Trigger Levels

A SSCB will be triggered for a particular security in the event of a price increase or decline, in a 5-minute period, of at least 10% and 20 trading increments. The inclusion of a minimum tick requirement avoids the inappropriate triggering of SSCBs for securities with lower value which historically demonstrate higher short-term volatility when measured only by percentage price movement. To account for additional volatility that may be present in the post-open (9:30 a.m. to 9:50 a.m.) and pre-close periods (3:30 p.m. to 4:00 p.m.), a SSCB will be triggered for a particular security only in the event of a price increase or decline, in a 5-minute period, of at least 20% and 40 trading increments. For the purposes of determining a price increase or decline, IIROC compares each trade price of a security traded on a marketplace (the potential "triggering" trade) to a reference price. For the purposes of this calculation, the reference price is any transaction in that particular security in the 5-minute period immediately preceeding the potential "triggering" trade. Generally speaking, to determine a reference price IIROC looks to the lowest price in the 5-minute period to determine a price increase, and looks to the highest price in the 5-minute period to determine a price decline. If the last trade occurred more than five minutes earlier, no reference price is calculated and the SSCB will not trigger.

The price of any trade that is permitted by UMIR or by the Order Protection Rule in National Instrument 23-101 to be executed outside of the "best bid – best ask" spread will not trigger a SSCB nor will it be used in calculating price movement for the purposes of establishing a "trigger" point. Prices of trades (other that those described above) that execute on dark marketplaces are included in the calculation of the reference price in the same way that these trades are currently included in the calculaton of the "last sale price" under UMIR.

Length of Trading Halt

Following the triggering of a SSCB, the "triggered" security is halted for a period of five minutes, subject to the ability of a Market Integrity Official to extend the halt by a further five minutes if a significant imbalance of buy and sell orders remains.

If during the 5- or 10-minute (as applicable) halt, IIROC determines that a further halt is required, for instance to facilitate the dissemination of material news that may have leaked into the market, IIROC will send an electronic notice to market participants and replace the SSCB halt with a traditional regulatory halt.

Unless such a regulatory halt is imposed, each marketplace may resume trading at the expiry of the 5- or 10-minute period. Immediately following the imposition of the halt following the triggering of a SSCB, marketplaces should prepare for the resumption of trading by either:

- entering a "pre-open" state to allow for order entry and the dissemination of an indicated "calculated opening price"; or
- permitting order entry and using a "shotgun" opening at the resumption of trading.

The triggering of a SSCB late in a trading day will result in a trading halt for a 5-minute period with a possible extension of a further 5 minutes. As such, all regulatory halts initiated by a SSCB will be lifted prior to 4:10 p.m. A SSCB that triggers late in the trading day will not prohibit the operation of any Market-on-Close facility or the eligibility of the particular security to be traded as a Closing Price Order on a marketplace.

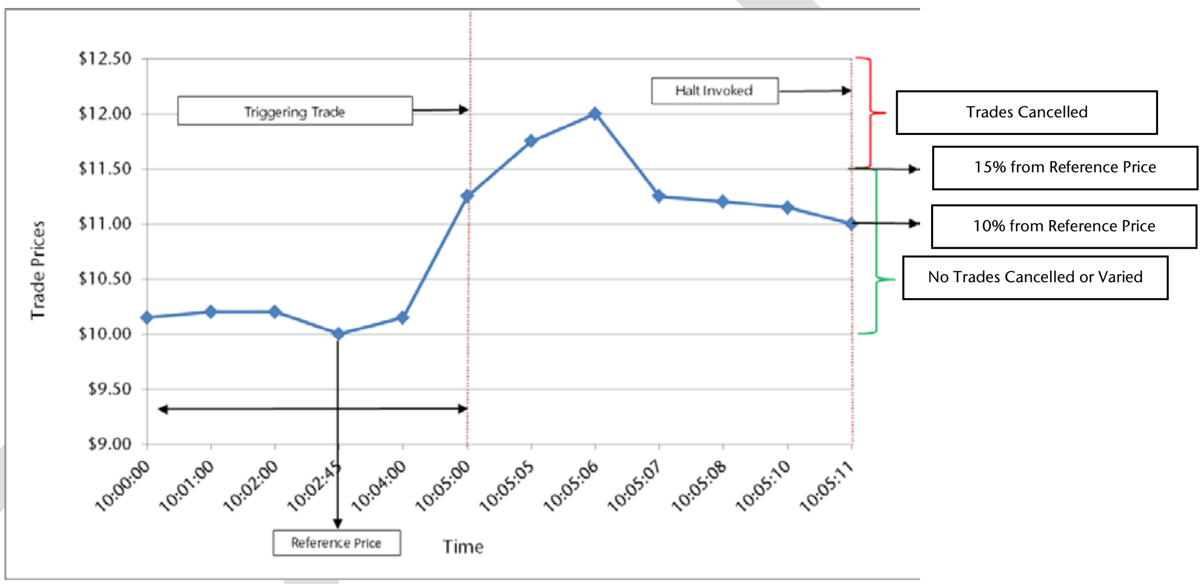
Trading Hours during which SSCBs may be Triggered

SSCBs are operational between the hours of 9:30 a.m. and 4:00 p.m. IIROC believes that this is appropriate as these are core trading hours when all marketplaces are open and available for trading. IIROC is of the view that the post-open (9:30 a.m. – 9:50 a.m.) and the pre-close (3:30 p.m. – 4:00 p.m.) are periods of natural volatility during which care must be taken to avoid the unnecessary triggering of SSCBs. This additional volatility is taken into account by increasing the required price movement to 20% and 40 trading increments during these periods.

During periods when SSCBs are not operational, a Market Integrity Official continues to have the ability to exercise his or her powers under UMIR 10.9.[18]

Handling Trades Executed after the Triggering of a SSCB

IIROC expects, given the volume and speed of trading in the current market, that some trades will occur after the triggering of a SSCB but prior to the invocation of the trading halt across all marketplaces. A Market Integrity Official will use his or her authority granted under Rule 10.9 (d) of UMIR to cancel any trade that is more than an additional 5% beyond the reference price than the calculated trigger price, as these trades are clearly in a zone where a person would not have had a reasonable expectation of execution at that time. Any trades that execute at a price less than an additional 5% beyond the trigger price will stand.



For greater clarity, the chart above illustrates the treatment of trades occurring immediately following the triggering of a SSCB and prior to the invocation of the trading halt based on a 10% price movement to trigger the SSCB and a further price movement of 5% before the cancellation of a trade.

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18 UMIR 10.9(d) provides that a Market Integrity Official may, in governing trading in securities on the marketplace, vary or cancel any trade which, in the opinion of such Market Integrity Official, is unreasonable or may not be in compliance with UMIR or any Policy.

Special Circumstances

There are certain circumstances when a SSCB should not be triggered even though there may be the requisite movement in market prices over the specified period of time. In particular, a SSCB will not be invoked:

- for the balance of the trading day following the triggering of the market-wide circuit breaker (as the invocation of the market-wide circuit breaker indicates that there is a prevailing market sentiment which is not related to liquidity issues for that particular security);
- for a 30-minute period following the resumption of trading after a SSCB for a security (as the previous triggering of a SSCB should act as a warning to the market that there may be liquidity issues with that particular security and that market participants should be monitoring market developments in that security); and
- for a 30-minute period after the resumption of trading following a regulatory halt in the trading of a security, particularly when the halt has been imposed to permit the dissemination of "material news" (as the market should be allowed to react to the news provided that the news has been properly disseminated in accordance with applicable securities legislation and marketplace requirements).

This notice repeals and replaces IIROC Notice 12-0040.