REGULATION TO AMEND REGULATION 23-101 RESPECTING TRADING RULES

Securities Act
(R.S.Q., c.V-1.1, s. 331.1, par. (1), (2), (3), (8), (9.1), (15), (26), (32) and (34), and 331.2; 2007, c. 15; 2008, c. 7; 2008, c. 24)

1.   Section 1.1 of Regulation 23-101 respecting Trading Rules is amended:

(1)   by adding, after the introductory phrase, the following definition:

" "automated functionality" means the ability to:

(a)   permit an incoming order that has been entered on the marketplace electronically to be marked as fill-or-kill;

(b)   immediately and automatically execute an order marked as fill-or-kill against the displayed volume;

(c)   immediately and automatically cancel any unexecuted portion of an order marked as fill-or-kill without routing the order elsewhere;

(d)   immediately and automatically transmit a response to the sender of an order marked as fill-or-kill indicating the action taken with respect to the order; and

(e)   immediately and automatically display information that updates the displayed order to reflect any change to its material terms;";

(2)   by adding, after the definition of "best execution", the following:

" "calculated price order" means an order for the purchase or sale of an exchange-traded security, other than a derivative, that is entered on a marketplace if the price of that security

(a)   is not known at the time of order entry; and

(b)   is to be calculated based on, but will not necessarily be equal to, the price of that security at the time of execution;

"closing price order" means an order for the purchase or sale of an exchange-traded security, other than a derivative, that is

(a)   entered on a marketplace on a trading day; and

(b)   subject to the conditions that

(i)   the order be executed at the closing sale price of that security on that marketplace for that trading day; and

(ii)   the order be executed subsequent to the establishment of the closing price;

"inter-market sweep order" means a limit order for the purchase or sale of an exchange-traded security, other than a derivative,

(a)   entered on or routed to a marketplace to be executed against a protected order; and

(b)   identified as an inter-market sweep order; and

at the same time that it is entered or routed, one or more additional limit orders are routed, as necessary, to a marketplace to execute against the displayed volume of any other protected order on that marketplace with a better price than the protected order referred to in paragraph (a);

"non-standard order" means an order for the purchase or sale of an exchange-traded security, other than a derivative, that is entered on a marketplace and is subject to non-standardized terms or conditions related to settlement that have not been set by the marketplace on which the security is listed or quoted;

"protected bid" means a bid for an exchange-traded security, other than a derivative,

(a)   that is displayed by a marketplace that has automated functionality; and

(b)   about which information is provided pursuant to Part 7 of Regulation 21-101 respecting Marketplace Operation, adopted by the Commission des valeurs mobilières du Québec pursuant to decision No. 2001-C-0409 dated August 28, 2001, to an information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider;

"protected offer" means an offer for an exchange-traded security, other than a derivative,

(a)   that is displayed by a marketplace that has automated functionality; and

(b)   about which information is provided pursuant to Part 7 of Regulation 21-101 respecting Marketplace Operation to an information processor or, if there is no information processor, to an information vendor that meets the standards set by a regulation services provider;

"protected order" means a protected bid or protected offer; and

"trade-through" means the execution of a trade at a price that is,

(a)   in the case of a purchase, higher than any protected offer, or

(b)   the case of a sale, lower than any protected bid.".

2.   Section 1.2 of the Regulation is amended by deleting "adopted by the Commission des valeurs mobilières du Québec pursuant to decision No. 2001-C-0409 dated August 28, 2001," and by replacing "Regulation 21-102" with "Regulation 21-101".

3.   The regulation is amended by adding, after section 4.3, the following:

"**4.4.   Reporting of Order Routing by Dealer**

(1)   A dealer shall publish, in a meaningful, readily accessible and usable electronic form and make available at no cost for downloading from a website, a quarterly report on its routing of orders when acting as agent during that quarter and shall include the following information if securities are traded on more than one marketplace:

(a)   the identity of marketplaces where orders are routed for execution, including the percentages of orders routed to each marketplace

(i)   at the direction or instruction of the client, and

2

(ii)	otherwise determined by the dealer; and

(b)	a discussion of any material aspects of a dealer's relationship with a marketplace including a description of any arrangements.

(2)	A dealer shall, within 15 days of receiving a request from a client, disclose to the client the identity of any marketplace where the client's orders were routed for execution in the six months before the request, whether the dealer was specifically instructed to route to a particular marketplace for execution, and the time of the executions, if any, that resulted from such orders.

(3)	This section is effective on **[insert date six months after Effective Date]**.".

4.	The title of Part 6 and section 6.1 of the Regulation are replaced with the following:

"**PART 6	TRADE-THROUGH PROTECTION**

**6.1.	Trade-through Protection**

(1)	A marketplace shall establish, maintain and enforce written policies and procedures that are reasonably designed

(a)	to prevent trade-throughs on that marketplace other than the trade-throughs listed in section 6.2; and

(b)	to ensure that the marketplace, when executing a transaction that constitutes a trade-through listed in section 6.2, is doing so in compliance with this Part.

(2)	A marketplace shall regularly review and monitor the effectiveness of the policies and procedures required by subsection (1) and shall take prompt action to remedy any deficiencies in such policies and procedures.

(3)	At least 45 days before implementation, a marketplace shall provide to the securities regulatory authority and, if applicable, its regulation services provider the policies and procedures, and any material amendments to those policies and procedures, established under subsection (1).

**6.2.	List of Trade-throughs**

The following are the trade-throughs referred to in paragraph 6.1(1)(a):

(a)	the transaction that constituted the trade-through was executed when there were reasonable grounds to believe that the marketplace displaying the protected order that was traded through was experiencing a failure, malfunction or material delay of its systems or equipment;

(b)	the transaction that constituted the trade-through was the execution of an order identified as an inter-market sweep order;

(c)	the transaction that constituted the trade-through was executed by a marketplace that simultaneously routed an inter-market sweep order to execute against the total displayed volume of any protected order that was traded through;

(d)	the marketplace displaying the protected order that was traded through had displayed, immediately before the execution of the transaction that constituted the trade-through, a protected order with a price that was equal or inferior to the price of the trade-through transaction;

(e)	the transaction that constituted the trade-through was the result of the

3

execution of

> > (i)   a non-standard order;
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> > (ii)   a calculated price order; or
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> > (iii)   a closing price order; and

      (f)   the transaction that constituted the trade-through was executed at a time when the best protected bid was higher than the best protected offer.

6.3.   Inter-market Sweep Order Requirements

      A marketplace or marketplace participant responsible for the routing of an inter-market sweep order must take all reasonable steps to ensure that the order is an inter-market sweep order.

6.4.   Systems or Equipment Failure, Malfunction or Material Delay

      (1)   A marketplace shall immediately notify all regulation services providers, its marketplace participants and other marketplaces if there is a failure, malfunction or material delay of its systems or equipment.

      (2)   When executing a transaction that falls within paragraph 6.2(a), and a notification has not been sent under subsection (1), a marketplace that routes an order to another marketplace shall immediately notify

      (a)   the marketplace that it has reasonable grounds to believe it is experiencing a failure, malfunction or material delay of its systems or equipment;

      (b)   all regulation services providers; and

      (c)   its marketplace participants.

      (3)   When a marketplace participant has reasonable grounds to believe that a marketplace is experiencing a failure, malfunction or material delay of its systems or equipment and routes an order to execute against a protected order on another marketplace displaying an inferior price, the marketplace participant must notify

      (a)   the marketplace that may be experiencing a failure, malfunction or material delay of its systems or equipment; and

      (b)   all regulation services providers.

6.5.   Locked or Crossed Orders

      A marketplace participant shall not intentionally lock or cross a particular marketplace or the market as a whole by

      (a)   entering on a marketplace a bid at a price that is the same as or higher than the best protected offer; or

      (b)   entering on a marketplace an offer at a price that is the same as or lower than the best protected bid.

6.6.   Trading Hours

      Each marketplace shall set the hours of trading to be observed by marketplace participants.

4

6.7. Anti-Avoidance

No person shall route an order to an exchange, quotation and trade reporting system or alternative trading system that does not carry on business in Canada in order to avoid executing against better-priced orders on a marketplace.".

5. Paragraph (c) of section 7.2 of the Regulation is replaced with the following:

"(c) that the recognized exchange will transmit to the regulation services provider the information required by Part 11 of Regulation 21-101 respecting Marketplace Operation and any other information the regulation services provider considers necessary for the regulation services provider to effectively monitor the conduct of marketplace participants, and if applicable, the recognized exchange; and".

6. Paragraph (c) of section 7.4 of the Regulation is replaced with the following:

"(c) that the recognized quotation and trade reporting system will transmit to the regulation services provider the information required by Part 11 of Regulation 21-101 respecting Marketplace Operation and any other information the regulation services provider considers necessary for the regulation services provider to effectively monitor the conduct of marketplace participants, and if applicable, the recognized quotation and trade reporting system; and".

7. Section 7.5 of the Regulation is amended by replacing the words "under this Part" with the words "under Parts 7 and 8".

8. Paragraph (d) of section 8.3 of the Regulation is replaced with the following:

"(d) that the ATS will transmit to the regulation services provider the information required by Part 11 of Regulation 21-101 respecting Marketplace Operation and any other information the regulation services provider considers necessary for the regulation services provider to effectively monitor the conduct of ATSs and marketplace participants; and".

9. Section 9.3 of the Regulation is amended by replacing the words "IDA Policy No. 5 Code of Conduct for IDA Member Firms Trading in Domestic Debt Markets" with the words "IIROC Rule 2800 Code of Conduct for Corporation Dealer Member Firms Trading in Wholesale Domestic Debt Markets".

10. This Regulation comes into force on (*indicate the date of coming into force of this Regulation*).

5