

For further information, please contact:

David Thomas

Director, Public Affairs

416.943 6921 or dthomas@iiroc.ca

IIROC announces results of regulatory review of May 6 trading in Canadian equity marketplaces

September 9, 2010 (Toronto, ON) --- The Investment Industry Regulatory Organization of Canada (IIROC) announced today the results of its regulatory review of equity trading events on May 6, 2010. The review was undertaken to understand the causes of these sudden price declines and recoveries in Canadian equity marketplaces and to inform decisions about necessary steps to avoid or mitigate a recurrence.

The review involved all trading on May 6 in TSX, TSXV and CNSX-listed securities across nine marketplaces. It identified 47 securities which demonstrated the most unusual price movements and these were subjected to additional, in-depth analysis. The review makes five recommendations and identifies next steps.

“We believe that implementation of the recommendations identified in this report will help regulators and markets to better manage marketplace volatility and maintain more orderly and reliable markets in which investors can have confidence,” said Susan Wolburgh Jenah, IIROC’s CEO and President.

IIROC’s review confirms that the Canadian marketplaces reacted rapidly to the US decline, with the onset of decline and eventual recovery lagging US markets by two minutes. The review found no evidence of erroneous orders, computer glitches or any futures or options trading that spurred the decline in the Canadian marketplaces. While a number of factors were identified that affected trading, no one factor was common to the trading in all of the 47 securities reviewed.

On May 6, the markets were volatile, reflecting concerns over a number of world events. IIROC’s review revealed a mismatch of liquidity, with most of the securities reviewed exhibiting a dominance of sell liquidity from the opening of trading. The presence of this strong liquidity imbalance placed downward pressure on prices of the securities reviewed.

After the sharp decline in the US indices, a number of electronic traders quickly withdrew from the Canadian markets, causing a dramatic and rapid decline in the already limited liquidity and putting further pressure on prices. Finally, the triggering of Stop Loss orders was a major contributor to the deepest price declines experienced by many of the less liquid securities reviewed.

The review also found that when three Canadian marketplaces activated their volatility and erroneous trade controls, there was no evidence of a large-scale migration of orders to other marketplaces, unlike the US experience.

Canada's best price obligation requires all orders (the 'full depth of book') to be executed at the best prices that are available across all visible marketplaces. This requirement would appear to have contributed to a more orderly price decline through the order book until all outstanding liquidity was exhausted. In the US, by contrast, the trade through obligation is a 'top of book' requirement.

The review makes five recommendations and identifies next steps:

1. *The Canadian Securities Administrators (CSA) and IIROC should review the current market-wide circuit breaker to determine if the current trigger levels are appropriate and whether an independent Canadian-based circuit breaker level is required.*

- Work on this initiative has not yet commenced. As the North American financial markets are very interconnected and the current market-wide circuit breakers are based on those in the US which are under review, IIROC will work with the CSA and will consult with both Canadian marketplace participants and US regulators on this issue.

2. *IIROC staff with the CSA should investigate whether single stock circuit breakers in the form of temporary trading halts should be implemented in Canada.*

- This initiative is currently underway. IIROC will soon be issuing a request for comments on a single stock circuit breaker proposal.

3. *The CSA and IIROC should ensure that all marketplaces adopt volatility controls and the form and level of these controls should be reviewed to assess to what degree they ought to be harmonized.*

- The CSA and IIROC staff are currently examining the next steps with regard to volatility controls in the context of an electronic trading rule and will recommend an appropriate course of action.

4. *All IIROC dealers should consider how to effectively manage Stop Loss Orders in the current high-speed, multi market environment. IIROC should also provide its Registered Representatives and clients, including those who enter their orders directly onto the marketplace without personalized advice, with guidance on the use of Stop Loss Orders in this environment.*

- IIROC will issue guidance to dealer members and investors on the appropriate use of certain order types in a multi-market environment. IIROC will host an educational seminar for investors and interested market participants to help them understand the challenges of trading effectively in the new market environment.

5. IIROC should review the current erroneous and unreasonable price policies and procedures, taking into account the experience of May 6.

- The review is currently underway and will be published for comment when completed.

The CSA and IIROC will continue to work together on next steps. For the full report, visit www.iiroc.ca or click [here](#).

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.