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Managing Director

Kevin McCoy
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Dear Mr. McCoy:

Re: Proposed Guidance Respecting the Expansion of Single-Stock Circuit Breakers ("SSCBs") (the "Proposed Guidance")

The Investment Industry Association of Canada (the "IIAC" or "Association") appreciates the opportunity to comment on the Proposed Guidance.

We have comments, and seek clarification on the following issues raised by the Proposed Provisions.

Clarification/Confirmation Requested

We seek confirmation that members can rely on monthly publication of the IIROC list of securities that are subject to SSCBs, and will not be required to take additional steps to determine if the status of the security has changed in the period between publication dates.

The Notice states that the determination of what will be considered an actively-traded security is based on the definition of highly-liquid security, but with amendments to reflect the changes in market structure and trading behaviours that have occurred since the definition of highly-liquid security was originally published. We question whether

IIROC intends to redraft the definition of highly-liquid security to reflect these subsequent changes.

Although the IIROC study of SSCBs appears to indicate that the liquidity criteria in the definition of actively-traded securities may effectively preclude lower priced stocks from inappropriately triggering the SSCBs, we seek confirmation that this is the case. Given the inherent volatility of certain low priced stocks, it may be appropriate to apply a price threshold test on the applicability of the SSCBs. Alternatively, it may be appropriate exclude securities that fall outside a prescribed price volatility band such that SSCBs should not apply to volatile securities if an SSCB event prevents "normal" activity in a security with large expected price movements. The methodology for establishing the price volatility band could be applied to determine such exclusions.

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.)?**

   We believe it is appropriate to maintain the current time frame (9:50 am – 3:30 pm) for the SSCBs. Given that the trading at the opening and closing is often volatile, it is likely that SSCBs will be triggered without an underlying cause. SSCBs may be inappropriately triggered as a result of overnight news or other event that does not require a SSCB halt.

   In respect of trading price that would be measured against the threshold for the opening of the market, we seek clarification as to whether the price would be pegged to the last trade price or the pre-opening price.

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?**

   As noted above, we support the maintenance of the existing times for the application of SSCBs. An event triggering a SSCB should not disrupt the MOC. As such, the MOC should be modified to ensure that it is not affected by SSCBs. This view is based on the understanding that the intended purpose of SSCBs is to mitigate a 'fat finger' or technical problem from suddenly driving a large and unfounded price movement during continuous trading. It should be noted that the MOC already has price collars and the MOC clearing price is based on multiple orders. In unusual situations the MOC will trigger an extension to give participants an opportunity to 'balance' any unexpected price volatility. Furthermore it may only compound an SSCB volatility problem if the MOC is aborted due to a SSCB since unfilled MOC orders may attempt to trade after hours when liquidity and pricing tends to be more sporadic.

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?**

   Members were concerned that if the number of SSCBs events in one day were not restricted, an announcement that has been publicly made and absorbed by the market may result in multiple halts as the market reacts to the news. In such a case, it may be appropriate to allow the stock to trade freely at a certain point. Although the Market Integrity Official appears to have the discretion to determine whether the SSCBs should continue to be applied, a more explicit policy about the application of SSCBs in such circumstances should be developed, so that there is more certainty and less discretion in the market.

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)?**

   Members are concerned that the 5 minute halt does not provide the market with sufficient time to digest the news that may have triggered the price movement which in turn triggered the SSCB. For this reason, there may be increased volatility as the market absorbs the news. Members were divided as to whether SSCBs should apply right after the halt or if there should be some period where it should not. Although it is appropriate to prevent panic selling, it may be appropriate to allow the stock to fall to the appropriate level once the market absorbs the news.

5. **Is it appropriate that the percentage price movements to trigger a SSCB are also subject to a minimum trading increment movement?**

   We support the use of trading increments in addition to the other criteria to trigger an SSCB, as it provides additional safeguards for inappropriate triggers, particularly when the securities are lower priced. This would be particularly effective if there is also a lower price threshold to which the SSCBs do not apply.

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?**

The Market Integrity Official should have some discretion to widen the threshold in response to an extraordinary event, however, it is important to provide some guidance and clarity about what sort of activity would constitute an extraordinary event. Without such guidance, we are concerned that the application of SSCBs could be subject to too much discretion and as such, lead to market uncertainty about when the SSCBs would be triggered. It is important to have predictability in such cases, so the discretion should be clearly circumscribed. At a most basic level it should be clear if the ability to exercise discretion applies in respect of news events and/or “fat finger” problems. As noted above, there should also be guidelines as to when and if the SSCBs would be permitted to be triggered several times in one day and when the Market Integrity Official would override the application once the SSCBs have been triggered where the trading is based on one event or issue. .

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

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