

**For Immediate Release  
November 13, 2009**

**Canadian Securities Regulators Enact Order Protection Rule  
to Maintain Integrity of Multiple Marketplaces**

**Toronto** – The Canadian Securities Administrators (CSA) today announced amendments to National Instrument 21-101 *Marketplace Operation* (NI 21-101) and National Instrument 23-101 *Trading Rules* (NI 23-101) to create an Order Protection Rule and other additional requirements relating to trading on multiple marketplaces.

The Order Protection Rule requires all visible, immediately accessible, better-priced limit orders to be filled before other limit orders at inferior prices, regardless of the marketplace where the order is entered. Other amendments include a prohibition on intentionally locking or crossing markets.

“These amendments, the Order Protection Rule in particular, will help maintain investor confidence in the integrity of the Canadian market, which has rapidly evolved into a multiple marketplace environment,” said Jean St-Gelais, Chair of the CSA and President & Chief Executive Officer of the Autorité des marchés financiers (Québec). “The new rules will ensure that orders that are entered are being treated fairly, regardless of the participant’s sophistication or the order size.”

The Order Protection Rule will require each marketplace to have policies and procedures in place to reasonably prevent trade-throughs. By introducing these requirements, the rule maintains the historical obligation of full depth-of-book protection in Canada and continues to facilitate fairness and provide investors an incentive to participate in the price discovery process, which in turn increases market liquidity.

Subject to ministerial approvals, the amendments (other than the Order Protection Rule) will come into force in all CSA jurisdictions on January 28, 2010. The Order Protection Rule will come into effect on February 1, 2011. The CSA continues to consult with industry and it will be developing and publishing a plan for the rollout of the Order Protection Rule.

The CSA, the council of the securities regulators of Canada’s provinces and territories, co-ordinates and harmonizes regulation for the Canadian capital markets.

**For more information:**

Carolyn Shaw-Rimmington  
Ontario Securities Commission  
416-593-2361

Mark Dickey  
Alberta Securities Commission  
403-297-4481

Ainsley Cunningham  
Manitoba Securities Commission  
204-945-4733

Natalie MacLellan  
Nova Scotia Securities Commission  
902-424-8586

Janice Callbeck  
PEI Securities Office  
Department of the Attorney General  
902-368-6288

Fred Pretorius  
Yukon Securities Registry  
867-667-5225

Donn MacDougall  
Northwest Territories  
Securities Office  
867-920-8984

Sylvain Théberge  
Autorité des marchés financiers  
514-940-2176

Ken Gracey  
British Columbia Securities Commission  
604-899-6577

Wendy Connors-Beckett  
New Brunswick Securities Commission  
506-643-7745

Barbara Shourounis  
Saskatchewan Financial Services Commission  
306-787-5842

Doug Connolly  
Financial Services Regulation Div.  
Newfoundland and Labrador  
709-729-2594

Louis Arki  
Nunavut Securities Office  
867-975-6587

# Amendments to National Instrument 21-101 and National Instrument 23-101

## Questions and Answers

1. *What is the Order Protection Rule and why is it important?*

Order protection ensures that all immediately accessible, visible, better-priced limit orders are executed prior to inferior-priced limit orders. It is important to support and maintain investor confidence and integrity in the Canadian capital market. It also promotes the price discovery process by rewarding those participants that display visible limit orders.

2. *What is the current obligation and why should it be moved to a marketplace level?*

Currently, investment dealers are subject to a full depth-of-book order protection obligation, which is set out in IIROC's UMIR 5.2 *Best Price Obligation*. However, some marketplaces enable trading by subscribers that are not dealers. The CSA have decided to shift this obligation to a marketplace level as opposed to a dealer-level in order to level the playing field and make all participants in the market, including non-dealer subscribers subject to the rule. In addition, there are fewer marketplaces than dealers, and we are of the view that a marketplace level obligation is more efficient.

Dealers do have the ability, on an order-by-order basis, to take on the responsibility of ensuring compliance with the Order Protection Rule. This involves using the "directed-action order". See the CSA Notice accompanying the amendments for details.

3. *Does the Order Protection Rule impact best execution?*

The Order Protection Rule does not impact a dealer's existing obligation to achieve best execution for its client under UMIR Rule 5.1 *Best Execution of Client Orders*. The rationale for a dealer's best execution obligation and the order protection obligation is different. The best execution obligation is based on the fiduciary duty that a dealer has to its client while order protection is based on the obligation of a participant to the market as a whole. The decision of how and where to trade (best execution) is determined by the particulars of the order and the needs of the client. However, all better-priced orders must be honoured at the time of execution (Order Protection Rule).

4. *Why is a full depth-of-book obligation necessary?*

A full depth-of-book obligation requires a participant to execute against all better-priced visible orders displayed on all marketplaces. This is in contrast to a "top-of-book" obligation which would require only the execution of the orders at the best bid or offer. The CSA are of the view that only a full depth-of-book obligation meets the policy objectives outlined above. In addition, this is the current standard for the Canadian market. Concerns about latency and costs of

compliance with respect to a full depth-of-book obligation are addressed in CSA Notice accompanying the amendments.

5. *How will trading fees be monitored in an order protection environment that requires executions on marketplaces where the best price is shown?*

The CSA will be taking a three pronged approach. First, the CSA will rely on current obligations in NI 21-101 that prohibit a marketplace from unreasonably conditioning or limiting access to its services and provide additional guidance as to what that prohibition means in the context of fees. Second, the Order Protection Rule prohibits discrimination between orders that originate on a marketplace and orders that are routed there. Finally, we will be asking all marketplaces to review and justify their current fees and fee structure in light of the existing obligations.

6. *Why is the CSA prohibiting intentionally locking markets?*

Although there is some debate as to whether a “locked market” represents the most efficient market because of its zero bid-ask spread, it is our view that a locked market is generally perceived as reflecting some inefficiencies in the market where the two orders would have matched if they were entered on a single marketplace. The CSA also wants to prevent confusion for investors, particularly retail investors, who may not understand why their order is not being executed if an opposite side order is posted and available at the same price as well as encourage the use of limit orders.