

| Market Integrity Notice |

Guidance

September 1, 2005

No. 2005-030

Suggested Routing

- Trading
- Legal and Compliance

Key Topics

- Double Printing
- Error Account
- Inventory Trading
- Manipulative and Deceptive Activity
- Trading on a Marketplace

UMIR Provisions Referenced

- Rule 2.2 – Manipulative and Deceptive Activities
- Rule 6.4 – Trades to be on a Marketplace

AVOIDING DOUBLE PRINTING IN THE USE OF AN ERROR ACCOUNT

Summary

This Market Integrity Notice provides guidance relating to the proper use of an error account to avoid the appearance of “double printing”, including the circumstances when securities should be transferred into an error account and the method for transferring the securities out of the account.

Questions / Further Information

For further information or questions concerning this notice contact:

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Summary

This Market Integrity Notice provides guidance relating to the proper use of an error account to avoid the appearance of “double printing”, including the circumstances when securities should be transferred into an error account and the method for transferring the securities out of the account.

Background

Rule 6.4 of the Universal Market Integrity Rules (“UMIR”) requires that a Participant execute all trades, whether acting as principal or as agent, through the entry of an order on a marketplace, subject to the exemptions set out in Rule 6.4. One of the exemptions set out in Rule 6.4 allows a Participant to adjust by a journal entry an error in connection with a client order. If a Participant must take a position in a security as a result of a trading error, the Participant should utilize an error account to facilitate the correction of the error and unwind the position in order to provide a verifiable audit trail.

General Obligations

If a Participant has made an error in the trading of a client order, the Participant generally will be obliged to take a position in the security (either a short position or a long position depending on the error made) within the error account. The transfer of the position between the error account and the client’s account or the client accumulation account should be executed as a journal transaction and must not be executed on the marketplace.

Once the position has been transferred to the error account, the Participant shall:

- unwind the position by executing a trade on a marketplace; or
- retain the position by transferring the security by a journal entry to an inventory account or, if the position is to be accepted by the employee of the Participant who made the error, to the appropriate non-client account.

If the Participant attempts to unwind the position, the order entered on a marketplace should be marked as a “principal order”. If the Participant transfers the position from the error account to an appropriate inventory account by way of a journal entry, the Participant subsequently may trade the securities in the same manner as the Participant would any other inventory position.

Market Regulation Services Inc. (“RS”) would consider transactions to be “double printing” contrary to Rule 2.2 of UMIR if the Participant were to execute a cross on a marketplace to move the securities that were the subject of the error:

- from the client account to the error account; or
- from the error account to an inventory account or non-client account.

Extraordinary Circumstances

If the circumstances of an error are such that a Participant can not comply with the guidance set out in this Market Integrity Notice, the Participant should immediately contact the Market Supervision Section of Market Regulation Services Inc. (at 416.646.7220 in Toronto or 604.643.6505 in Vancouver) for specific guidance based on the particular circumstances.

Questions / Further Information

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