



Market Regulation Services Inc.

Services de réglementation du
marché inc.

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May 17, 2005.

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Alberta Securities Commission,
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Attention: Patricia Johnston,
Director, Legal Services and Policy Development

- and -

Autorité des marchés financiers,
800, Square Victoria,
22e Étage,
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Attention: Jacinthe Bouffard

- and -

British Columbia Securities Commission,
12th floor,
Pacific Centre,
P.O. Box 10142,
701 West Georgia Street,
VANCOUVER, British Columbia.
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Attention: Mark Wang

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- and -

Manitoba Securities Commission,
1130 Broadway,
WINNIGEG, Manitoba.
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Attention: Douglas Brown

- and -

Ontario Securities Commission,
Capital Markets Branch,
Suite 1903, Box 55,
20 Queen Street West,
TORONTO, Ontario.
M5H 3S8

Attention: Susan Greenglass, Senior Counsel

Dear Sirs and Mesdames:

**Re: Amendment to the Universal Market Integrity Rules
- Interim Provisions Respecting Trade-Through Obligations**

Further to our notice of May 5, 2005 pursuant to section 5.1.1 of the Joint Rule Protocol for Market Regulation Services Inc. ("RS") as between the Alberta Securities Commission, British Columbia Securities Commission, Autorité des marchés financiers, Manitoba Securities Commission and Ontario Securities Commission (collectively the "Recognizing Regulators") regarding the possible immediate impletion of proposed amendments to the Universal Market Integrity Rules ("UMIR") and policies ("Policies") regarding trade-through obligations of a Participant or Access Person, RS wishes to acknowledge receipt of notice from the Ontario Securities Commission on behalf of the Recognizing Regulators of their disagreement with the assessment of the Board of Directors of RS ("Board") on the need for immediate implementation. Nonetheless, the Board has concluded that amendments to UMIR and the Policies respecting the trade-through obligations of a Participant or Access Person (the "Proposed Amendments") should be pursued in accordance with Parts 2, 3 and 4 of the Joint Rule Protocol. RS therefore wishes to file the enclosed material in connection with the Proposed Amendments.

UMIR is built around the premise that a fair and orderly market is one which respects the notion that the best-priced orders should trade first as orders compete for execution. Investor confidence in the integrity of the marketplace can only be assured when individual investors believe that their orders have achieved best price. The Board determined that the introduction of multiple competitive marketplaces in circumstances where this principle was not respected and enforced represented a substantial risk of material harm to retail and other investors, marketplaces and those persons having trading access to marketplaces. For this reason, notice was provided to the Recognizing Regulators that the Board intended to seek the immediate implementation of the Trade-Through Amendments. The Recognizing Regulators have provided notice that they do not agree that immediate implementation of the Trade-Through Amendments is necessary at this time.

RS understands that the Recognizing Regulators will be pursuing an initiative to study and to receive public comment on various aspects of “trade-through” obligations in Canada. RS supports this initiative and intends to be an active participant in the review. However, the Board is of the view that, pending the outcome of this initiative, steps should be taken to protect the orders of retail and other investors from the possibility of being traded-through. In the view of the Board, trade-throughs have not been a feature of equity trading in Canada and the practice should not be allowed to develop in the absence of the type of comprehensive review that will be undertaken by the Recognizing Regulators. The Trade-Through Amendments have been adopted as an interim measure that would, if approved by the Recognizing Regulators, remain in effect pending the outcome of the comprehensive review of trade-throughs.

Prior to the completion of the comprehensive review initiated by the Recognizing Regulators, RS will monitor the incidence of trade-throughs that occur on marketplaces regulated by RS. If the Board concludes, based on the level of trade-throughs or the patterns of trade-through activity that emerge, that material harm to retail and other investors, marketplaces or to those persons having trading access to marketplaces can be demonstrated to the Recognizing Regulators, the Board may request again that the Recognizing Regulators approve the immediate implementation of the Trade-Through Amendments if, at that time, the Trade-Through Amendments have not otherwise been approved by the Recognizing Regulators.

The substance of the Proposed Amendments was initially included in a package of proposals published by RS in Market Integrity Notice 2004-018 – Provisions Respecting “Off-Marketplace” Trades, issued on August 20, 2004. At the request of the Recognizing Regulators, the Proposed Amendments have been separated from that package of proposals. The balance of the proposals, revised to take account of comments received, was republished for comment in Market Integrity Notice 2005-012 – Provisions Respecting “Off-Marketplace” Trades issued by RS on April 29, 2005.

We are enclosing the English and French language versions of:

- the text of the amendments to the Rules and Polices related to the introduction of a specific trade-through obligation applicable to both a Participant and an Access Person;
- the translation opinion; and
- Market Integrity Notice 2005-016 dated May 12, 2005 (which contains as Appendix “C” a chart that summarizes the public comments received on specific questions related to the application of trade-through obligations to an Access Person asked in Market Integrity Notice 2004-018 and the response of RS).

RS initially issued the Market Integrity Notice on May 12, 2005 following the issuance of a press release by the Ontario Securities Commission which referenced the Proposed Amendments. Management of RS made the decision to post the Market Integrity Notice in advance of filing of the rule amendment in order to address inquiries from the media and others as to the substance of the Proposed Amendments. In particular, it was very important for RS to communicate that immediate implementation of the Proposed Amendments was an interim solution pending the outcome of the comprehensive review of trade-through requirements that would be undertaken by the Recognizing Regulators. The Market Integrity Notice provides for a comment period which will expire on June 30, 2005. RS would request that the Market Integrity Notice be published, if possible, in the May 20, 2005 edition of the OSC Bulletin or alternatively in the May 27, 2005 edition.

In accordance with the Joint Rule Protocol, RS wishes to confirm that:

1. The Proposed Amendments as set out in the Market Integrity Notice represent the culmination of a policy review process undertaken over the last two years involving significant input from:
 - Participants and Access Persons in response to Market Integrity Notice 2004-018;
 - the Rules Advisory Committee, the Working Group on Access Persons and the Board of RS; and
 - the marketplaces.

In submitting the Proposed Amendments, RS is specifically requesting comments on the most efficient and cost-effective means of ensuring compliance with the trade-through obligations by all parties with access to Canadian marketplaces.

2. In the opinion of RS, the implementation of the Proposed Amendments would not require technological systems changes to be made by a marketplace. However, an Access Person would have to introduce procedures to ensure compliance with the obligation as part of the procedures that they will develop in order to handle the entry of orders on a marketplace directly by the Access Person. Depending upon the nature of the operations of the Access Person and the number of marketplaces to which they may have access, the Access Person may

determine to “system enforce” compliance with its obligations. In accordance with Rule 7.1 of UMIR, each Participant should already have procedures to address the issue of trade-throughs.

3. Reference is made in the Market Integrity Notice to the “trade-through” rules as they currently exist in the United States. Reference is also made to changes to the existing rules which will be made on the implementation of Regulation NMS which was approved by the United States Securities and Exchange Commission on April 6, 2005.
4. The Proposed Amendments are being filed by RS on its own behalf and not on behalf of any marketplace that has retained RS as its regulation services provider.

If the Proposed Amendments are approved by the Recognizing Regulators, the amendments will be effective on the date of publication of notice of the approval.

If you have any questions regarding this matter, please do not hesitate to contact me at (416) 646-7277.

Yours truly,

“James E. Twiss”

James E. Twiss,
Chief Policy Counsel.

Enclosures (6)

cc. Tom Atkinson, Market Regulation Services Inc.
Rosemary Chan, Market Regulation Services Inc.

Cindy Petlock, Ontario Securities Commission
Tracey Stern, Ontario Securities Commission
Steve Plummer, British Columbia Securities Commission
Elaine Lanouette, Autorité des marchés financiers