



Appendix A - Text of Provisions Respecting Regulation of Short Sales and Failed Trades

The Universal Market Integrity Rules are hereby amended as follows:

1. Rule 1.1 is amended by inserting the following definitions of “Pre-Borrow Security” and “short-marking exempt order”:

“Pre-Borrow Security” means a security that has been designated by a Market Regulator to be a security in respect of which an order, that on execution would be a short sale, may not be entered on a marketplace unless the Participant or Access Person has made arrangements to borrow the securities that would be necessary to settle the trade prior to the entry of the order.

“short-marking exempt order” means an order for the purchase or sale of a security from account that is:

- (a) an arbitrage account;
 - (b) the account of a person with Marketplace Trading Obligations in respect of a security for which that person has obligations;
 - (c) a client, non-client or principal account:
 - (i) for which order generation and entry is fully-automated, and
 - (ii) which, in the ordinary course, does not have, at the end of each trading day, more than a nominal position, whether short or long, in a particular security; or
 - (d) a principal account that has acquired during a trading day a position in a particular security in a transaction with a client that is unwound during the balance of the trading day such that, in the ordinary course, the account does not have, at the end of each trading day, more than a nominal position, whether short or long, in a particular security.
2. Rule 3.1 is deleted.
 3. Rule 3.2 is amended by:
 - (a) deleting in clause (a) of subsection (1) the phrase “or subclause 6.2(1)(b)(ix)”;



- (b) deleting subsection (2) and inserting:

Clause (a) of subsection (1) does not apply to an order that has been designated as a “short-marking exempt order” in accordance with subclause 6.2(1)(b)(ix).

- 4. Rule 6.1 is amended by adding the following subsections:

- (3) A Participant acting as agent shall not enter a client order or a non-client order on a marketplace that would, if executed, be a short sale if the client or non-client has previously executed a sale of any listed security that became a failed trade in respect of which notice to the Market Regulator was required pursuant to Rule 7.10 unless:

- (a) the Participant has made arrangements for the borrowing of the securities necessary to settle any resulting trade prior to the entry of the order; or
- (b) the Participant is satisfied, after reasonable inquiry, that the reason for any prior failed trade was not as a result of any intentional or negligent act of the client or non-client.

- (4) A Participant acting as principal or an Access Person shall not enter an order on a marketplace for a particular security that would, if executed, be a short sale if the Participant or Access Person has previously executed a sale in that security that became a failed trade in respect of which notice to the Market Regulator was required pursuant to Rule 7.10 unless:

- (a) the Participant or Access Person has made arrangements for the borrowing of the securities necessary to settle any resulting trade prior to the entry of the order; or
- (b) the Market Regulator has consented to the entry of such order or orders.

- (5) A Participant or an Access Person shall not enter an order on a marketplace for a Pre-Borrow Security that would, if executed, be a short sale unless the Participant or Access Person has made arrangements for the borrowing of the securities necessary to settle any resulting trade prior to the entry of the order.

- 5. Clause (b) of subsection (1) of Rule 6.2 is amended by:



- (a) deleting in subclause (viii) the phrase “which is subject to the price restriction under subsection (1) of Rule 3.1” and substituting the phrase “but not including an order which is designated as a “short-marking exempt order” in accordance with subclause 6.2(1)(b)(ix)”;
- (b) deleting subclause (ix) and substituting the following:
 - (ix) a short-marking exempt order.

The Policies to the Universal Market Integrity Rules are hereby amended as follows:

1. Policy 1.1 is amended by inserting the following as Part 2.1

Part 2.1 – Definition of “Pre-Borrow Security”

Under the definition of a “Pre-Borrow Security”, the Market Regulator may designate a security in respect of which an order that on execution would be a short sale may not be entered on a marketplace unless the Participant or Access Person entering the order has made arrangements to borrow the securities that would be required to settle the trade prior to the entry of the order. In determining whether to make such a designation, the Market Regulator shall consider whether:

- based on information known to the Market Regulator, there is an increase in the number, value or volume of failed trades in the particular security by more than one Participant or Access Person;
- the number or pattern of failed trades is related to short selling; and
- the designation would be in the interest of maintaining a fair and orderly market.

2. Part 1 of Policy 2.2 is amended by:
 - (a) inserting at the end of clause (b) the word “and”;
 - (b) deleting at the end of clause (c) the phrase “; and”;
 - (c) deleting clause (d).
3. Policy 3.1 is repealed.