

**ASC/BCSC Audit of  
Market Regulation Services Inc.  
Western Region**

**May 26, 2005**

(The audit covered the period from March 2002 to August 2004)

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## **Executive Summary**

The Alberta Securities Commission and the British Columbia Securities Commission's audit of Market Regulation Services Inc.'s Western Region covered the period from March 1, 2002 to August 31, 2004. The primary regulatory responsibility for RS Western Region is providing market integrity oversight for the TSX-V. Overall performance by the RS Western Region in this capacity is satisfactory. It is completing thorough reviews and, for the most part, files are completed in a timely manner. Enforcement proceedings initiated during January to December 2004 declined dramatically when compared to the first two years. Recent activity, since January 2005 indicates that this trend may have reversed. Staff turnover is very high and contributed to a lack of results and must be addressed before it impacts any further on RS results. RS also needs to expedite its development of performance measures. RS Western Region has a good working relationship with RS Eastern Region and the TSX-V. Some minor changes to RS's policies and procedures are recommended to ensure that they are up to date and consistent with actual practice.

## **Background**

Market Regulation Services Inc. (RS) was formed on March 1, 2002, as a joint initiative of TSX Inc. and the Investment Dealers Association (IDA). RS became the independent market integrity services provider for the Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSX-V), Canadian Trading & Quotation System Inc. (CNQ), Bloomberg Tradebook Canada Company and Liquidnet Canada Inc.

RS's mandate is to foster investor confidence and market integrity through a common set of market integrity principles and equity trading rules known as the Universal Market Integrity Rules (UMIR). The TSX and TSX-V adopted UMIR to replace their own market and trading rules.

RS is recognized as a Self Regulatory Organization (SRO) by the provincial Securities Commissions in Alberta, British Columbia, Manitoba, Ontario and Quebec. Under Recognition Orders issued by each of these Securities Commissions, RS has authority to act as a regulation services provider pursuant to National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*.

## **Scope of Audit**

This was the first audit of RS. The Alberta Securities Commission (ASC) and the British Columbia Securities Commission (BCSC) jointly conducted the review of RS Western Region. RS Western Region's primary responsibility is monitoring trading on the TSX-V and enforcing compliance by Participants<sup>1</sup> located in western Canada with UMIR. In addition, it ensures compliance with other regulatory requirements applicable to trading on all markets to which RS provides regulation services.

The audit focused on existing processes at RS. The period under review was March 1, 2002 to August 31, 2004 (the Review Period). Field work took place from October 14, 2004 to November 12, 2004 and included the following steps:

- review of RS policy and procedures manuals
- interviews with RS personnel
- review of the Investigations & Enforcement and Surveillance & Compliance Departments
- observation of surveillance activities and processes
- review of file samples from Complaints, Surveillance & Compliance and Investigations & Enforcement

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<sup>1</sup> Participants is defined as a dealer registered in accordance with securities legislation of any jurisdiction and who is a member of an Exchange, a user of a recognized or trade reporting system (QTRS), or a subscriber of an alternate trading system (ATS), or a person who has been granted trading access to a marketplace and who performs the functions of derivatives market maker.

A total sample of 60 files was drawn from the various departments. The sample was composed of the following files:

**File Sample**  
**March 1, 2002 to August 31, 2004**

<b>Department</b>	<b>File Type</b>	<b>Open Files Reviewed</b>	<b>Closed Files Reviewed</b>
Complaints *	Initial Complaint Files	0	5
Surveillance & Compliance	Investigative Trading Analyst Files	10	10
Investigations & Enforcement	Investigation Files	5	26
Investigations & Enforcement	Prosecutions	0**	4
Sub-Total		<b>15</b>	<b>45</b>
Total Files		<b>60</b>	

\* The RS Corporate Compliance Officer in Toronto reviews and processes all complaints. Complaints that are specific to the Western Region are forwarded to RS Western Region.

\*\* There were no open Prosecution files to review at the time of the audit.

## **Overview of Departments & Major Processes**

### **Surveillance & Compliance**

Surveillance & Compliance's primary functions are to:

- monitor trading activity
- ensure compliance with timely disclosure requirements
- conduct trading analysis and preliminary investigations
- ensure trade desk compliance with UMIR

Surveillance Officers conduct real time monitoring of trading activity through the use of sophisticated systems and programs. These systems can also provide evidence to pursue potential violations and UMIR infractions such as insider trading, manipulative activities and front running.

Surveillance Officers also scrutinize news releases and ensure TSX-V companies disclose information on a timely basis. When required, Surveillance Officers initiate trading halts in companies' securities, often to allow the issuer to release material information.

Issues that require a more detailed review are forwarded to Investigative Trading Analysts (ITAs) for more in depth trading analysis and preliminary investigations. Identified breaches are forwarded to Investigations & Enforcement for further review or, if the breach falls outside of RS's regulatory jurisdiction, the matter is referred to the appropriate agency.

Compliance Officers conduct Trade Desk Reviews (TDRs) of trading firms to ensure that their trade desk processes and procedures are in compliance with UMIR and provincial Securities Commissions' requirements. TDRs serve to identify deficiencies that must be resolved to maintain compliance. RS may also comment on the effectiveness of trade desk procedures and controls to assist firms to comply with rules and policies.

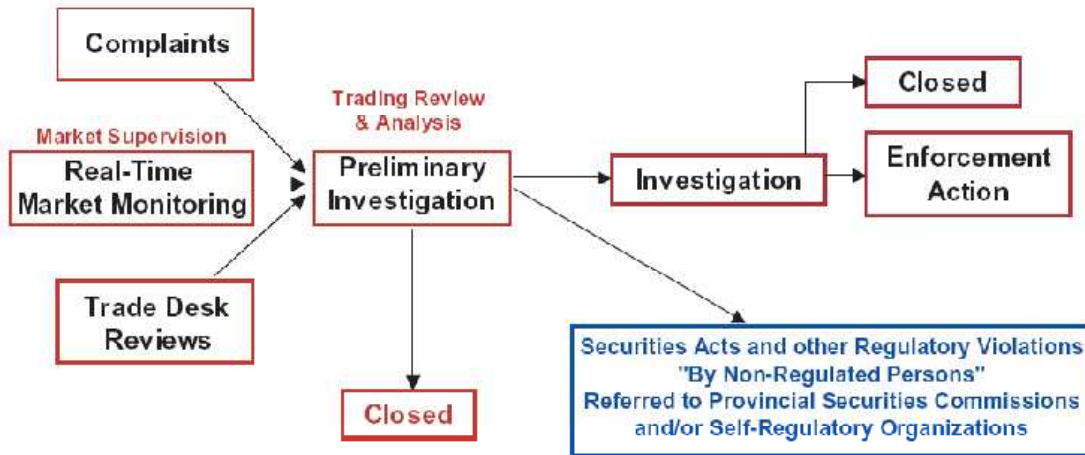
### **Investigations & Enforcement**

Investigations & Enforcement conduct investigations and prosecute cases. RS focuses its enforcement efforts on UMIR violations that have the highest risk to market integrity. These violations include manipulative and deceptive trading, front running and other client priority failures, as well as related trading supervision and audit trail issues. We did not assess RS's risk based approach in this audit.

Investigations are received from the following sources:

- RS surveillance activities
- Public and Industry Complaints
- RS trade desk reviews

The following chart shows the flow of cases from initial detection to completion of an investigation:



Source: RS 2004 Annual Report

Once an investigation is completed, the Chief Counsel reviews the file and makes a recommendation to the Vice-President, Market Regulation, Western Region. These recommendations can include any of the following actions:

- closing the file if the evidence does not support enforcement action
- sending a warning letter or other resolution short of enforcement action
- referring the file to another agency with appropriate jurisdiction such as a securities commission or another SRO
- proceeding with a settlement or prosecution at a disciplinary hearing

All proposed enforcement actions must be reviewed and authorized by an internal staff committee called the Enforcement Review Committee (ERC). The ERC is composed of personnel from both RS Eastern and Western Regions.

If the ERC approves the enforcement action, RS prepares an Offer of Settlement and a Statement of Allegations, which summarizes the facts supporting the allegations. Any agreement to settle reached with RS staff is subject to review by a hearing panel for approval or rejection.

If there is no agreement to settle with RS staff or a hearing panel rejects the settlement, a Notice of Hearing is issued. A panel then hears evidence and must determine if there is a violation of UMIR or other marketplace rules. If the hearing panel determines that a violation has occurred, a Disciplinary Notice describing their decision is issued. Once the panel renders a decision, it is published. Regulated persons may request a hearing and review by the Securities Commission if they are not satisfied with the panel's decision.

## Summary of Key RS Audit Findings

### 1. Results

#### Investigations & Enforcement

The following is a summary of enforcement results since March 2002:

Fiscal Year	Number of Settlements	Warning Letters & Red Flag Letters	Hearings
March 2002 to February 28, 2003	6	n/a	0
March 1, 2003 to February 28, 2004	12	n/a	0
March 1, 2004 to August 31, 2004	0	10	0

Enforcement results since January 2004 are significantly lower than the two preceding years. During the period January 2004 to August 2004, there were no Disciplinary Hearings and no Settlements. Enforcement actions in this period were limited to warnings.

Overall, Investigation & Enforcement files were well documented and for the most part, files were completed in a timely manner. RS Western Region has been active in identifying and addressing recurring problems such as violations of the Customer-Principal Trade (CPT) and market stabilization rules. Many of these violations are inadvertent and RS emphasized to firms that they are liable for the misconduct of their traders and encouraged the development of internal disciplinary processes by the firms as appropriate to eliminate or minimize the violations.

RS Western Region staff have been active in their market related projects including:

- development of the Cease Trade Order (CTO) database
- coordination of the Insider Trading Task Force (ITTF) and production of a report on recommended means of better addressing illegal insider trading
- participation in a project to identify the extent of front running and related client priority violations occurring on RS regulated markets

#### Assessment

The Canadian Venture Exchange (CDNX) prior to the creation of RS, was the lead SRO responsible for regulating trading conduct in the western region. CDNX also had additional jurisdiction to regulate general conduct of dealers. RS was created to focus exclusively on trading conduct and market integrity issues.

RS Western Region's enforcement results for the first two years (March 2002 through February 2004) are comparable to its predecessor, CDNX, after making adjustments for RS's restricted jurisdiction to trading matters. Also being a new SRO, it is reasonable to



expect some initial growing pains as RS determines its focus areas and considers how best to enforce UMIR.

However, between January and December 2004, enforcement results declined dramatically as there were no Disciplinary Hearings, contested or otherwise, and no Settlements.

The statistics for this period should not be considered in isolation. Significant staff turnover contributed to the recent decline in enforcement proceedings (see Staffing, Turnover and Training). Despite significant staff turnover throughout the Review Period, RS Western Region staff provided significant contributions to major projects, such as the CTO database, ITTF and the front running review. They have been active in resolving chronic issues like CPT violations.

RS staff undertook increased industry education efforts. For example, they conducted in-house presentations at firms to their traders, investment advisers and compliance staff as a follow-up to a trade desk audit. In addition, RS staff worked with compliance staff at the western-based firms to improve their trading supervision and audit trail standards. Their work included instruction on and review of trading supervision manuals, and critiques of compliance and supervision procedures. These are significant activities and must be considered in analysis of the results of RS Western Region.

We support RS's focus on significant violations based on the degree that the violations impact on market integrity, its initiative to expedite file referrals, and its use of innovative real time approaches such as red flag letters. Also, we acknowledge the need for improved cooperation and coordination for manipulation investigations across agencies.

However, even allowing for all of these factors, in the last eight months of the Review Period, investigations that were within RS's jurisdiction resulted in only minor actions. Although the results of these investigations were appropriate for the nature of the trading misconduct involved, our expectation is that RS's focus on significant violations and improved staffing levels will produce more significant enforcement results. We anticipate a material increase in the number of substantive enforcement results in the coming period. This may already be occurring, as we note that since January 2005 four related Settlements were completed involving one firm and three employees.

#### **Summary of Recommendations & Expected Outcomes**

- More substantial enforcement results are anticipated over the next fiscal year.
- RS will expeditiously complete investigation reports for all current investigations.
- Chief Counsel duties need to be clearly defined with specific performance objectives. These duties and functions should be included in the Investigations and Enforcement Policies and Procedures Manual.
- A separate Manager of Investigations should be reconsidered to manage the files and allow the Chief Counsel to focus only on Prosecution files (see Staffing, Turnover and Training for further discussion).

## **Surveillance & Compliance**

### **Results**

Surveillance focuses on the real time monitoring of trading activities and compliance with timely disclosure requirements for TSX-V companies. Surveillance monitors approximately 12,000 trades a day or 3,000,000 a year and it investigates an average of 600 alerts a day or 150,000 per year. Surveillance receives and reviews 80 to 100 news releases a day and it administers an average of 3 halts per day or 750 per year.

We reviewed a problem previously identified by the BCSC's Corporate Finance Department regarding non-compliant technical disclosures in news releases filed by mining and exploration companies. In response to the problem, the BCSC, TSX-V and RS personnel jointly developed an educational seminar to help RS improve its disclosure reviews. RS effectively addressed the mining disclosure issue by improving its disclosure detection methods in a timely manner.

### **Trade Desk Reviews**

The emphasis of TDR priorities is adjusted from year to year. The current focus of TDRs is to ensure that firms have a comprehensive Trade Supervision Policy (TSP). TSPs outline specific compliance functions, and the individuals who are responsible for them, to ensure that the firm is meeting the standards of UMIR 7.1 – Trade Supervision Obligations. The TDR Policies and Procedures Manual is very detailed and its contents are now harmonized with RS Eastern Region.

The goal of trade desk and policy reviews is to encourage firms to be more proactive in diagnosing and acting on their deficiencies prior to a review by RS, to ensure that repeat deficiencies do not occur or are minimized. This is achieved by requiring the firm to conduct more internal reviews. RS, in turn, samples the firms' reviews and tests their methodology. This approach is intended to allow RS more time to focus on TSP issues and areas of greater risk in the context of the firm's particular business model.

During the review period, RS completed 25 TDRs and reviewed 15 TSPs. Of these reviews, there were 14 file referrals to the ITAs and 5 file referrals to Investigations & Enforcement. All referral issues are outlined in a memo to the Manager of Surveillance & Compliance, who then decides if the matter should be referred to an ITA or Investigations for further review.

Referrals can range from minor technical violations to more significant issues, such as a manipulation. Regardless of the seriousness, violations can be an indication of a firm's overall compliance commitment and may lead to larger underlying issues.

There is some overlap in areas reviewed by the IDA Sales Compliance Department audits and RS TDRs. Because of this overlap, the IDA and RS rely on each other to complete parts of their reviews. To ensure that there are no regulatory gaps, and to avoid duplicating efforts, RS and the IDA entered into a Memorandum of Understanding (MOU) that details what each SRO is responsible for reviewing. They share reports and communicate regularly.

**Assessment**

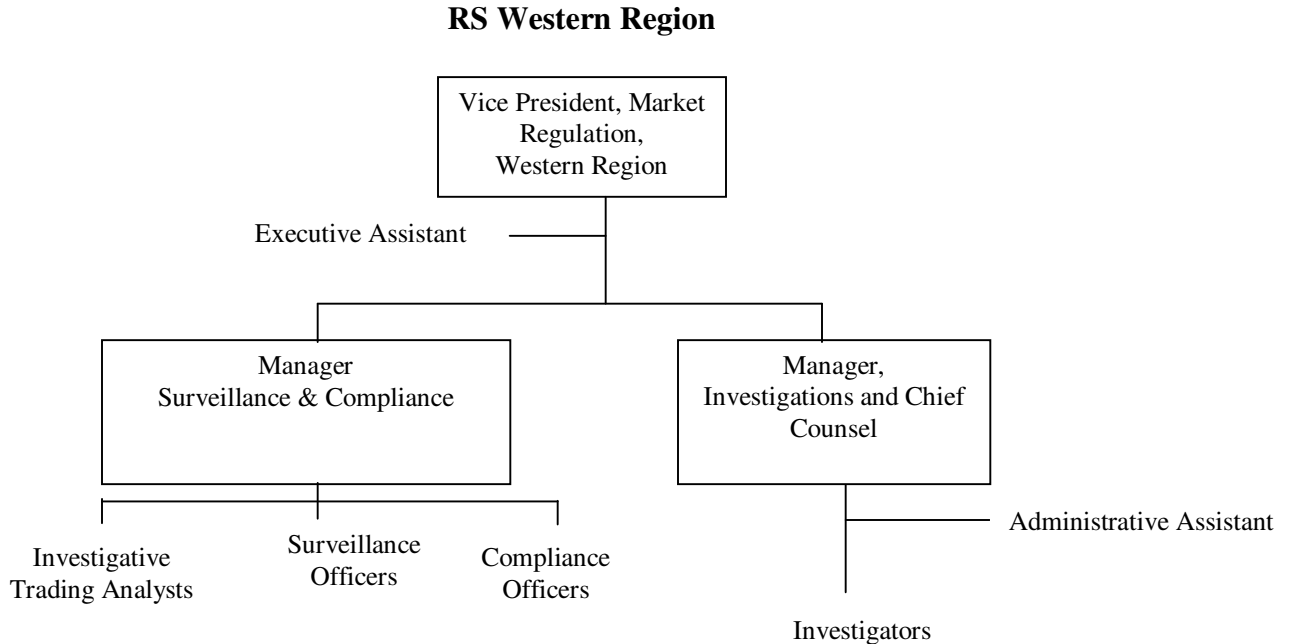
Surveillance Officers are administering trading halts in a timely manner and they maintain good communication and cooperation with the TSX-V. Surveillance staff effectively addressed the mining disclosure issue by improving their disclosure detection methods in a timely manner.

Trade Desk Compliance procedures are harmonized between the Eastern and Western offices and they appear to be working well. There are no apparent interpretation differences between the two offices. Frequent communication between the two offices ensures a consistent application of UMIR.

Compliance Officers have an extensive tracking system to follow up on deficiencies. RS Compliance Officers appear to have a good working relationship with the IDA. Overall, the TDR program is well organized.

## 2. Staffing, Turnover and Training

The full staffing complement for the RS Western Region office is a total of 18 positions. Since its inception in March 2002 to the date of this report, 7 Investigators have left and there have been changes to all management positions with the exception of the Vice President, Western Region.



The following is a breakdown of the vacated positions since March 1, 2002:

### **Investigations and Enforcement**

- Seven Investigators
- Manager of Investigations (position eliminated through re-organization)
- Manager, Investigations and Chief Counsel (vacant at the end of the Review Period and subsequently filled)

### **Surveillance and Compliance**

- Manager, Surveillance and Compliance (vacant at the end of the December 2004 and subsequently filled)

## **Assessment**

For a relatively small group, the staff turnover has been extremely high.

Turnover impacted on the timely completion of files as some investigation files took longer than expected due to the departure of investigators. Of the 26 closed Investigation files reviewed in the sample, 4 files were not completed in a timely manner due to staff turnover.

We were concerned that the absence of a Chief Counsel and a Manager of Surveillance & Compliance would further impact on RS's ability to complete files on a timely basis. RS, as an interim measure, assigned Chief Counsel in Toronto to proceed with RS Western Region's Prosecutions and, if necessary, RS was prepared to retain outside legal counsel to complete Prosecution files. RS has since filled these two positions.

Also, the elimination of the Manager of Investigations position through a re-organization appears to coincide with the decline in Enforcement results since January 2004.

We recognize the difficulty in staffing these positions, however, RS must analyze staffing turnover and address any underlying causes. Discharging its regulatory responsibilities is dependent on hiring and retaining qualified individuals.

RS has very comprehensive policies and procedures manuals but the majority of training is conducted on the job and relies upon the experience of others in the area. We appreciate that on the job training is likely the best way to train RS staff given the specialized nature of the work and the lack of readily available courses. We also favorably note that RS initiated a training program in 2004 concentrating on North American-wide trading issues and the U.S. experience, and is considering several training options to supplement the existing training.

## **Summary of Recommendations & Expected Outcomes**

- Report in writing to the BCSC any management position that remains vacant for more than 60 days.
- Revisit the decision to eliminate the Manager of Investigations to allow Prosecutions to focus exclusively on their files.
- Provide a report to the BCSC by September 30, 2005, addressing staff turnover and RS's assessment and plans to manage the issue going forward.

### **3. File Prioritization, Performance Measures and File Aging**

#### **File Prioritization**

RS uses a risk-based approach to prioritize all files and to schedule trade desk reviews. Prioritization is used to help RS meet corporate objectives and address high priority risks such as manipulations and front running.

#### *Surveillance - File Prioritization and File Loads*

The Manager of Surveillance & Compliance initially assesses all Trade Review and Analysis (TRA) files and assigns them to an ITA. The current file loads for ITAs is about 35 files per ITA. RS's target number of files per ITA is 25 files but RS believes that a file load of 35 files is manageable.

According to the policies and procedures manual, a Regulatory Impact Rating is assigned to all new files. The purpose of the Regulatory Impact Rating, which is related to Productive Value (see Performance Measures), is to assist in determining file prioritization and to estimate the workload. The rating is a combination of a file priority number (determined by the Manager) and a workload measure number (determined by the ITA).

The Manager of Surveillance & Compliance uses the workload measure aspect of the Regulatory Impact Rating for initial file assignment to aid in managing ITA file workloads. See Appendix 1 for additional information about the Regulatory Impact Rating Calculation.

#### *Investigations - File Prioritization and File Loads*

The Chief Counsel ranks Investigation files as high, medium or low priority, then assigns them to an investigator. Prioritization is based on several criteria including:

- type of infraction (UMIR violation)
- risk to the market (Low, Medium, High)
- isolated or repeat violation
- single or multiple infractions
- age of time period that allegations occurred
- score and final ranking (High, Medium or Low)

The score is based on criteria used to measure its regulatory significance, it could be a ranking of offences, or based on other criteria that reflect the value to RS. Investigators typically have three or four files and one of these files is their priority file. Priority files have a high score ranking and are the focus of the investigator's time. When time permits, Investigators work on their medium and low priority files. A file's priority ranking can change throughout the life of the file.

### *Trade Desk Reviews – Review Prioritization*

TDRs are scheduled using a risk-based approach. The Risk Assessment formula has similar components as the Regulatory Impact Rating with four equally weighted factors including:

- trading quartile (size of Participant and amount of trading)
- Participant review in previous year
- assessment of effectiveness of Participant's supervision system
- findings of previous review

### **Performance Measures and File Aging**

The principal tenets of RS's performance goals are to pursue worthwhile investigations, complete them in a timely manner, and make meaningful year-to-year performance comparisons.

RS uses a calculation it calls Productive Value to measure performance outcomes. Productive Value is a measure of how much work of value to the organization is accomplished. The concept measures not only productivity but also the significance of the work done.

$$\text{Productive Value} = \text{Priority} \times \text{Measure of Work.}$$

The Productive Value calculation is still under development and, in particular, the qualitative aspect of the calculation, the impact on the market, has yet to be finalized. In the interim, RS relies on informal benchmarks to measure performance for TRA and Investigation files and, to a lesser extent, trade desk reviews. RS is currently testing its informal benchmarks to establish their relevancy. Once RS proves the effectiveness and reliability of the benchmarks and the Productive Value calculation, it intends to link them to employee compensation.

### *Surveillance – Performance Measures and File Aging*

The current goal for TRA files is to complete them, on average, in 120 days. RS tracks file statistics and file turnaround times by monitoring the average age of active cases and the average number of days it takes to close a file. The statistics are calculated using a weighted average based on violation type and are presented on a quarterly basis in RS's Operations Reports.

In practice, TRA file loads and file aging are monitored by an internal spreadsheet that uses a straight-line average to monitor the files, as opposed to the weighted average used in the Operational Reports. RS Western Region prefers to monitor its files using the straight-line average as they believe it is a better overall indicator.

RS maintains that the use of the averages to track file progress is not meant to be a performance indicator but rather a tool to track the turnover rate of the files and the time it takes to close the files. RS has reservations about using the average as a performance indicator because the file loads are not something under their control. RS takes the

position that if staff are performing well, but due to increasing case loads the averages increase, staff should not be penalized.

#### *Investigations & Enforcement- Performance Measures and File Aging*

Investigations files have the following informal targets. Investigation files are:

- assessed and within 45 days of opening, or longer as agreed to by the Chief Counsel and the Investigator, closed or earmarked for investigation
- completed in 9 months
- completed within 12 months of the violation
- fast-tracked based on priority ranking and market integrity considerations

#### *Trade Desk Reviews – Performance Measures*

TDR benchmarks depend on the focus and goals in any given year. This year, the TDR team focused on firms establishing compliant trade supervision policies and procedures. RS does not believe that statistics alone, such as the number of TDRs completed in a year, represent a meaningful benchmark. Compliance Officers do however have the informal benchmark of completing draft TDR reports within five days of completing a review.

#### **Assessment**

The file review determined that the policies and procedures were not always followed for TRA file prioritization and, in some cases, files were not assigned a Regulatory Impact Rating. Overall, the Regulatory Impact Rating had little bearing on file prioritization because the files were completed on a First In First Out (FIFO) basis. The prioritization methods outlined in the policies and procedures are complex and do not seem to be used very extensively as a tool by staff or management. Reliance on the FIFO method is an indication that the stated prioritization methods are not working. Despite the discrepancy between the policies and procedures manual and actual practice, TRA files are thorough and completed in a relatively timely manner on a FIFO basis.

Currently, RS Regulatory Impact Ratings are most easily measured and developed in Investigations & Enforcement, and they may not be as effective for establishing file priorities for TRA files. The process, however, remains a work in progress. The objective is to develop a system that can be used for evaluation purposes and performance target setting, as well as the objective measurement of corporate performance year over year. Regardless, RS must expedite its work on Regulatory Impact Ratings.

Investigations & Enforcement file prioritization procedures and Compliance's trade desk review prioritization methods are followed and appear to be working.

In general TRA file loads are well managed. However, in the latter part of the Review Period, the average number of days required to close a file has been increasing and was as high as 169 days in December 2004. A new protocol for insider trading investigations is expected to help reduce the average age of files.



TRA staffing levels appear adequate at the moment. If the file loads continue to increase, or the target age of the files is reduced from 120 days, RS will need to reconsider its approach and the resources in this area.

The Manager of Surveillance & Compliance performs many critical functions including preliminary file assessment and estimating additional work required for completion. Turnover affected the Manager of Surveillance & Compliance position with the departure of the incumbent in late 2004. RS has since named a replacement. However, we remain concerned as the average age to close files has steadily increased beyond the 120 day target.

Investigations & Enforcement don't track file aging on an aggregate basis in the same manner as TRA files. They rely upon the file lists that show the number of months the Investigation file has been open. Since Investigation file loads are generally smaller than TRA files, it does not appear that a more elaborate tracking system is necessary.

The file review showed that it is not always clear when an Investigation was closed in Investigations and when it was opened in Prosecutions. RS needs to clearly define and track these closing and openings so that it can accurately track files and measure performance outcomes.

Compliance Officers are meeting their targets of five days to prepare a draft TDR report.

#### **Summary of Recommendations & Expected Outcomes**

- RS should follow its policies and procedures or consider choosing a different prioritization method for TRA files. A simpler process may be more effective.
- The current performance measures for the TRA group are not being followed. We expect RS to expedite their development of benchmarks in this area and have appropriate performance measures in place (and followed) by August 31, 2005.
- Improvements need to be made to clearly define and track when a file is closed in Investigations and subsequently opened in Prosecutions.

## **4. Policies and Procedures**

TDR Policies and Procedures were revised and harmonized with RS Eastern Region and implemented in August 2004. The Surveillance Policies and Procedures manuals were recently updated as the previous manuals were from the CDN. The revised manuals are now harmonized with the RS Eastern office. There were several revisions of the Investigations Procedures Manual in 2004.

### **Assessment**

Policies and procedures manuals for all departments are very well done. They are detailed and specific, however, some procedures, such as the assignment of TRA files, are not being followed. The policies and procedures manuals should reflect actual practice.

Management input was well documented for investigations, especially for the newer files, however, the Investigation Procedures Manual does not specify this requirement. The requirement for documenting management input, as well as the rationale for significant decisions about the direction of the investigation, should be included in the Investigations Procedures Manual.

### **Summary of Recommendations & Expected Outcomes**

Recommended changes to the policies and procedures manuals:

- Revise procedures for the assignment of files to the TRA group.
- Define procedures for files closed out of Investigations and opened in Prosecutions.
- Add follow up requirements for recipients of red flag letters.
- Detail the Chief Counsel's responsibilities.
- Include the requirement in the Investigation Procedures Manual to document all management input on significant decisions about file direction, including decision rationale.

## List of Acronyms

ASC	Alberta Securities Commission
BCSC	British Columbia Securities Commission
CDNX	Canadian Venture Exchange
CNQ	Canadian Trading & Quotation System Inc.
CPT	Customer-Principal Trade
CTO	Cease Trade Order
ERC	Enforcement Review Committee
IDA	Investment Dealers Association
ITA	Investigative Trading Analyst
ITTF	Insider Trading Task Force
MOU	Memorandum of Understanding
RS	Market Regulation Services Inc.
SRO	Self Regulatory Organization
TDR	Trade Desk Review
TRA	Trade Review and Analysis
TSP	Trade Supervision Policy
UMIR	Universal Market Integrity Rules

## **Appendix 1**

### **Regulatory Impact Calculation**

The File Priority assessment is based on three components:

- Infraction Risk (ranked market integrity risks based on UMIR)
- Ongoing or Completed
- Market Impact (Low, Medium, High)

The Workload Measure number has two components:

- Complexity of Review
- Number of Trades

The Regulatory Impact Number is a combination of the File Priority number and the Workload Measure and is calculated as follows:

(Infraction Risk + Ongoing/Completed + Market Impact) X (Complexity of Review and Number of Trades)

These rankings can change throughout the life of a file.

## Appendix 2

### Important Dates

Sept/00	IDA and TSX Group agree to create an independent regulation services provider called Market Regulation Services Inc. (RS)
Sept/01	RS incorporated under the Canada Business Corporations Act.
Feb/02	Securities Commissions in Alberta, B.C., Manitoba, Ontario and Quebec grant RS recognition as a self-regulatory organization.
Mar/02	RS opens its doors for business, becoming the first independent regulator of its kind for Canadian equity markets, and assumes market regulation for the TSX and TSX V.
Apr/02	RS implements a common set of rules for equities trading across the country, called Universal Market Integrity Rules (UMIR).
Sept/02	RS puts into force the Sanction Principles and Guidelines for equity trading rule violations.  RS initiates regulation of its third marketplace and the first alternative trading system (ATS) in Canada - Bloomberg Tradebook Canada Company.
Oct/02	RS participates in the creation of a national task force to examine illegal insider trading.
Nov/02	RS institutes new early warning system ("potential violation alerts") to inform compliance officers of potential violations by their traders.
Feb/03	RS launches new national Cease Trade Order database.
Jul/03	Number of marketplaces regulated by RS grows as it initiates regulation of the first quotation and trade reporting system (QTRS) in Canada - Canadian Trading and Quotation System Inc. (CNQ).

Source: RS web site

<http://www.rs.ca/en/about/history.asp?printVersion=no&loc1=about&loc2=history>