

1.1.7 OSC Staff Notice 11-746 IOSCO Publishes Consultation Report: *Policies on Error Trades*

OSC STAFF NOTICE 11-746

IOSCO PUBLISHES CONSULTATION REPORT: *POLICIES ON ERROR TRADES*

On February 18, 2005, Standing Committee 2 (SC2)¹ of the Technical Committee of the International Organization of Securities Commissions (IOSCO) published a Consultation Report, *Policies on Error Trades*.

In February 2004, the Technical Committee of IOSCO asked SC2, in coordination with the IOSCO SRO Consultative Committee,² to examine the policies of regulated securities and derivatives exchanges and their regulators concerning the resolution of "error trades". Error trades are transactions that are executed in error, either due to the actions of a market user or through malfunction of a trading system. This inquiry was prompted, not by concerns about the effectiveness of electronic systems, but by the recognition that error trade policies can affect market integrity and users' confidence in the markets. In addition, the surveillance and resolution of erroneous trades can assist in deterring and detecting market abuse.

Twenty-seven SRO Consultative Committee members and one non-member responded to SC2's survey regarding their existing error trade policies and procedures. Using the survey data and taking into account IOSCO's existing high-level principles regarding secondary markets, SC2 has developed the following draft recommendations for the design of error trade policies:

- Exchanges should evaluate the need for and consider adopting error trade policies.
- Exchanges should have, and regulators should take into account, an exchange's need for flexibility in the design of error trade policies.
- Exchange error trade policies should be comprehensive in order to promote the predictability, fairness and consistency of actions taken under the policy.
- Policies concerning the resolution of error trades should be designed to provide a predictable and timely process.
- Exchange error trade policies should be made transparent to market users.
- Cancellation decisions involving material transactions and resulting from the invocation of error trade policies should be made transparent to market users.
- Exchanges should be encouraged to develop and adopt measures to specifically identify or "highlight" error trade messages to market users.
- Exchanges should be prepared to share information with other markets when possible concerning the cancellation of trades.
- Exchanges should evaluate the need for measures to prevent error trades.
- Market supervisors should support the implementation of error trade policies that are consistent with the above recommendations.
- Market supervisors should take affirmative steps to help ensure that there is adequate surveillance conducted in the markets they supervise to detect whether error trades are related to problematic market activity.

Copies of the Consultation Report have been posted on the Ontario Securities Commission's website at www.osc.gov.on.ca (International Affairs – Current Consultations) and on the website of the International Organization of Securities Commissions at www.iosco.org. (Library – Public Document #190).

The Commission encourages the Canadian securities industry to comment on the Consultation Paper. The comment period will remain open until May 18, 2005. Please submit comments by email to mail@oicv.iosco.org. Please include in the subject line of the email "Public Comment on Consultation Report: *Policies on Error Trades*".

¹ The Commission is a member of IOSCO, the Technical Committee and SC 2. More information about IOSCO and the Commission's participation in IOSCO can be found on the Commission's website at www.osc.gov.on.ca (International Affairs – Who's Who).

² The SRO Consultative Committee consists of the 53 IOSCO Affiliate Members who represent self regulatory organizations, securities market operators and/or derivatives market operators. The Investment Dealers Association of Canada, the Mutual Fund Dealers Association of Canada and TSX Inc. are members of the SRO Consultative Committee.

Please do not submit comments to the Commission.

Questions may be referred to:

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