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## 1 hot issues

### Cease Trade Orders

Have you ever wondered what would happen if an issuer does not to meet its continuous disclosure obligations as prescribed by National Instrument 51-102 (NI 51-102)?

If the issuer is in non-compliance of filing these regulatory documents, a **cease trade order (CTO)** is issued. A CTO halts the trading of the stock in the province where the CTO was issued and is only lifted until the CTO is revoked by a Revocation Order.

Management can limit the damage of a CTO by applying for a **management cease trade order (MCTO)** in accordance with National Policy 12- 203 *Cease Trade Orders for Continuous Disclosure Defaults* (the **Policy**), which was introduced on September 1, 2008. The MCTO prohibits management and specific insiders from trading in the issuer's securities but does not affect other shareholders from trading in the company's stock.

### Who issues MCTO and CTO's?

Canadian securities commissions have the sole authority to issue them. The securities commissions oversee securities regulations in their respective provinces or territories and require publicly traded companies to disclose important information to the public as soon as possible. In addition to regulatory continuous disclosure requirements, companies must also reveal details about other significant events or developments – such as takeover bids and merger and acquisitions, which may potentially affect the value of the company's shares once the information is made public.

### Scope of the Policy

The Policy effectively replaces CSA Staff Notices 57-301 and 57-303 and Ontario Securities Commission Policy 57-603. Generally, the Policy outlines the criteria that the CSA will utilize in deciding if a default or deficiency merits the issuance of a MCTO or CTO. The Policy applies to defaults or deficiencies with respect to the following periodic continuous disclosure obligations:

- annual or interim financial statements, management's discussion and analysis (MD&A);
- annual information forms (AIF); and
- certification of filings under Multilateral Instrument 52-109 (MI 52-109)

Non-periodic disclosure obligations, such as a material change reports, or mineral project technical disclosures (43-101), are not governed by this Policy.

### Will it be a MCTO or a CTO?

- An issuer is eligible to apply for an MCTO if it demonstrates that it has a history of complying with continuous disclosure obligations, that the default will be rectified quickly (usually within one to two months) and the continuous disclosure disruption is not likely to be recurring.

Essentially, the MCTO is part of a 'voluntary' process where only management and specific insiders will be subject to the cease trade order.

A CTO will generally be issued when the issuer is not likely to rectify the default within a short period of time and where the circumstances leading to default are likely to continue and the company's stock is halted from trading so no one can trade the stock.

### Applying for an MCTO

An application to the principal provincial regulator should be made two weeks in advance of the default, or if this deadline is missed despite the use of reasonable diligence, the application should be accompanied by an explanation for the delay.

Once an MCTO is issued, the issuer must also file default status reports every two weeks providing updates on matters such as the progress in rectification of default or failure to meet the rectification plan. Failure to file the default status reports will result in a CTO being issued.

## How long does a CTO last and what are the types of CTO's?

A CTO may remain in effect for several days, or for an indefinite period of time. CTO's status will be listed as either 'Issued', 'Amended', 'Expired' or 'Revoked':

- **Issued CTO** means that the cease trade order is currently in force, and trading in the company's securities is forbidden.
- **Amended CTO** means that the original order has been changed and the changed order is currently in force.
- **Expired CTO** means that the original order has expired and is no longer in force, trading in the company's securities can resume.
- **Revoked CTO** means that the CTO has been lifted and that trading in the company's securities can resume.

## Where to find issuers that have cease trade orders?

The **Canadian Company Cease Trade Order Database** lists companies that have been issued CTO's and it also shows the status of an existing CTO's.

## Subscription Information

You can subscribe to the National CTO Database to receive automatic email alerts when securities regulators add new content to the database. After you subscribe, you'll also be able to login to view CUSIP numbers and exchange symbols for some companies.

To subscribe, email your contact information to the **CSA Secretariat**. You can contact the CSA Secretariat for further information at (514) 864-9510.

There is also a list on the web at:

<http://cto-iov.csa-acvm.ca/SearchArticles.asp?Instance=101&Form=1&Attr7=1&Attr3=1&Attr1=1&Attr2=2&Attr3=3&Attr4=4&Attr5=5&AttrSet4=1>

A quick link can be found on the IIROC (Investment Industry Regulatory Organization of Canada) at:

<http://www.iiroc.ca/English/Pages/home.aspx>

## Removing the CTO:

Some of the steps to remove the CTO:

1. Do the required filings on Sedar,
2. Pay any outstanding commissions fees, [applicable late fees](#) and in most jurisdictions make a formal written application;
3. Issue a press release that the required documents are filed
4. The respective provincial jurisdictions will issue a **Revocation Order** once they are satisfied with the filings are complete.
5. Issue press release that CTO has been lifted
6. IIROC – Investment Industry Regulatory Organization of Canada will be advised by the provincial jurisdictions that the CTO was removed
7. IIROC will liaise with TSX and trading of the issuer's shares will resume the next day.
8. Issue press release that trading has resumed.

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