

IIROC NOTICE

Rules Notice

Request for Comments

UMIR and the IIROC Rules

Comments due by: December 4, 2019

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19-0157

September 5, 2019

Proposed Amendments Respecting Non-Clients

Executive Summary

IIROC is publishing for comment proposed amendments (**Proposed Amendments**) to IIROC's Universal Market Integrity Rules (**UMIR**) and the IIROC Rules¹ that would:

- replace the definition of a “non-client order” or “non-client account”² with new definitions of “Dealer Related Person order” and “Dealer Related Person account”

¹ As described in Notice [19-0144](#), the Dealer Member Plain Language Rule Book is now known as the IIROC Rules.

² IIROC Notice No. [16-0052](#) – Rules Notice – Request for Comments – DMR - *Re-Publication of Proposed IIROC Dealer Member Plain Language Rule Book* (March 10, 2016) proposed a new definition of non-client orders or non-client accounts to mean:

“non-client accounts” or “non-client orders” mean accounts or orders in which the *Dealer Member* or an *Approved Person* has a direct or indirect interest other than the commission charged.

UMIR 1.1 defines a “non-client order” to mean an order for the purchase or sale of a security received or originated by a Participant for an account:

- (a) for a partner, director, officer or a person holding a similar position or acting in a similar capacity of the Participant or of a related entity of the Participant;



- introduce a new definition of “Dealer Member account” into the IIROC Rules.

By implementing the Proposed Amendments, we would ensure consistency:

- between the terminology used in UMIR and the IIROC Rules
- in how Dealer members identify non-client accounts and orders.

A special working group of industry stakeholders and IIROC staff provided their input on the drafting of the Proposed Amendments. We sincerely thank these individuals for their time and valuable contribution.

We are also publishing accompanying proposed guidance³ (**Proposed Guidance**) for comment in conjunction with the Proposed Amendments.

Impacts

If implemented, IIROC expects that the most significant impacts of the Proposed Amendments on Dealer Members would be:

- identifying all Dealer Related Person accounts
- making any necessary systems and operational changes to accommodate the new definitions of “Dealer Related Person account” and “Dealer Member account”, such as possible changes to:
 - account documentation and/or account ranges
 - order routing arrangements
- reviewing supervision and compliance policies to ensure they continue to be appropriate in light of the new definitions.

If approved, the Proposed Amendments would be effective at least 180 days after the publication of the Notice of Approval.

Clean and blacklined copies of the Proposed Amendments to UMIR and the IIROC Rules are provided in Appendices A and B.

(b) for an employee of the Participant or of a related entity of the Participant who holds approval from an Exchange or a self-regulatory entity; or

(c) which is considered to be an employee account or a non-client account by a self-regulatory entity, but does not include a principal account.

³ IIROC Notice 19-0158 - Rule Notice – UMIR and the IIROC Rules – *Proposed Guidance Respecting Non-Clients* (September 5, 2019).



How to Submit Comments

We request comments on all aspects of the Proposed Amendments, including any matter that they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by no later than **December 4, 2019** to:

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A copy should also be provided to the CSA by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiroc.ca. A summary of the comments contained in each submission will also be included in a future IIROC Notice.



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1. Discussion of Proposed Amendments

We propose to replace the definition of a “non-client order” or “non-client account” with:

“Dealer Related Person account” means an account that is controlled or directed by:

- (a) an employee or Approved Person of a Dealer Member,
- (b) an employee of an affiliate of a Dealer Member,
- or
- (c) an employee of a related entity of a Participant

whose role or function would have access to:

- (i) a material fact or material change with respect to an issuer that is in the Dealer Member’s possession and has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer,
- or
- (ii) trading-related information that is in the Dealer Member’s possession that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade where the control or direction is exercised by the employee or Approved Person outside of his or her required role or function.

“Dealer Related Person order” means an order for the purchase or sale of a security for a Dealer Related Person account.

The proposed “Dealer Related Person account” definition would focus on two key components:

- access to non-public information, and
- control or direction over the account.

Both components must be present to constitute a “Dealer Related Person account”.

2. Analysis

2.1. Background

The UMIR definitions of “non-client order” and “principal order” have been in place since before 2002. “Non-client order” and “principal order” are separate definitions in UMIR 1.1, and there have been no amendments to these definitions since their implementation.



In January 2012, IIROC introduced a proposed definition of “non-client orders” in the IIROC Rules.⁴ This “non-client orders” definition was carried forward in the subsequent re-publications of the IIROC Rules in 2016⁵, 2017⁶ and 2018⁷.

2.2. Increase consistency between the IIROC Rule definition and UMIR definition

There was a lack of consistency between the IIROC Rule definition of “non-client orders” / “non-client accounts” and the UMIR definitions of “non-client order” and “principal order” because:

- the IIROC Rule definition combines the orders from both a Dealer Member’s proprietary account and an Approved Person’s⁸ account together as “non-client orders”

⁴ IIROC Notice No. [12-0005](#) – Rules Notice – Request for Comments – DMR – *Plain language re-write project – Interpretation and standards; Proposed Rules 1100 through 1400* (January 6, 2012). [Attachment A](#) of IIROC Notice 12-0005 proposed a new definition in IIROC Rule 1201(2) of “non-client orders” to mean “Orders from the accounts in which the *Dealer Member* or an *approved person* has an interest other than the commission charged.”

⁵ IIROC Notice No. [16-0052](#) – Rules Notice – Request for Comments – DMR - *Re-Publication of Proposed IIROC Dealer Member Plain Language Rule Book* (March 10, 2016). There was a slight change to the proposed definition in the 2016 re-publication as follows:
“non-client accounts” or “non-client orders” mean accounts or orders in which the *Dealer Member* or an *Approved Person* has a direct or indirect interest other than the commission charged.

⁶ IIROC Notice No. [17-0054](#) – Rules Notice – Request for Comments – DMR - *Re-Publication of Proposed IIROC Dealer Member Plain Language Rule Book* (March 7, 2017).

⁷ IIROC Notice No. [18-0014](#) – Rules Notice – Request for Comments – DMR - *Re-Publication of Proposed IIROC Dealer Member Plain Language Rule Book* (January 18, 2018).

⁸ IIROC Rule 1201(2) defines “Approved Persons” to mean individuals approved by IIROC under the IIROC requirements to carry out a function for a Dealer Member, namely, the following individuals:

- (i) Associate Portfolio Manager
- (ii) Chief Compliance Officer
- (iii) Chief Financial Officer
- (iv) Director
- (v) Executive
- (vi) Investment Representative
- (vii) Portfolio Manager
- (viii) Registered Representative
- (ix) Supervisor
- (x) Trader
- (xi) Ultimate Designated Person.



- UMIR distinguishes an employee’s order separately from an order for a Participant’s own account.⁹ Generally speaking, orders from employee accounts are “non-client orders”, whereas orders for a Participant’s proprietary accounts are “principal orders”¹⁰.

The Proposed Amendments would replace the inconsistent definitions of “non-client orders” with a new, consistent definition of “Dealer Related Person order”, which would apply to employees and Approved Persons of Dealer Members, employees of affiliates of Dealer Members and related entities of a Participant.

2.2.1. Introducing a new definition of “Dealer Member account”

The Proposed Amendments would also introduce a new definition of “Dealer Member account” to the IIROC Rules. Similar to the approach taken in UMIR, the IIROC Rules would distinguish an account of an employee or Approved Person from a Dealer Member’s proprietary account as follows:

“Dealer Member account” means an account in which a Dealer Member holds a direct or indirect interest other than an interest in the commission charged on a transaction.

2.2.1.1. Impacts to the IIROC Rules from the new definition of a “Dealer Member account”

Under the IIROC Rules, “non-client account” and “non-client order” include the accounts and orders of employees, Approved Persons and Dealer Members. Under the Proposed Amendments, Dealer Members would not be included in the defined term “Dealer Related Person account”. Rather, we are proposing the defined term “Dealer Member account” to refer to a Dealer Member’s account. We are proposing these changes for consistency with UMIR, which distinguishes between:

⁹ UMIR 1.1 defines a “non-client order” to mean an order for the purchase or sale of a security received or originated by a Participant for an account:

- (a) for a partner, director, officer or a person holding a similar position or acting in a similar capacity of the Participant or of a related entity of the Participant;
- (b) for an employee of the Participant or of a related entity of the Participant who holds approval from an Exchange or a self-regulatory entity; or
- (c) which is considered to be an employee account or a non-client account by a self-regulatory entity, but does not include a principal account.

¹⁰ UMIR 1.1 defines a “principal order” to mean an order for the purchase or sale of a security received or originated by a Participant for a principal account. A “principal account” is defined to mean “an account in which a Participant or a related entity of the Participant holds a direct or indirect interest other than an interest in the commission charged on a transaction.”



- “non-client orders”, which captures orders from accounts held by employees , and
- “principal order”, which captures orders from a Participant’s (the registered entity) account.

Since Participants are also Dealer Members, a Participant’s “principal account” under UMIR would also be considered a “Dealer Member account” under the IIROC Rules. By having separate definitions for “Dealer Related Person account” and “Dealer Member account”, the IIROC Rules can be more precise as to which types of accounts a given requirement applies to.

We replaced the “non-client account” or “non-client order” terms in the IIROC Rules with the “Dealer Related Person” and/or the “Dealer Member account” terms, depending on the policy intent of that section.

We also replaced references to “proprietary”, “principal trading account” and other similar terms in the IIROC Rules with the defined term “Dealer Member account” where we intend to capture the Dealer Member’s account. For example, in clause 2410(19)(ii), we replaced the term “principal trading account” with the term “Dealer Member account” because we are referring to the introducing broker’s (a Dealer Member) account. Please see Appendices A and B for more details on these changes.

2.3. Increase Consistency in Identification of Non-Client Accounts

We heard from certain Dealer Members that there is currently some confusion over how to mark orders or accounts as “non-client”. Industry stakeholders recommended that we update the “non-client orders” definition to reflect different corporate structures and business arrangements of Dealer Members and household relationships.

The Proposed Amendments would:

- clarify the scope of accounts that should be captured within the non-client definition
- provide Dealer Members with greater flexibility using a principles-based approach to classify accounts based on the type of information access or controls that are in place at their firm.

3. Consultation with Working Group

IIROC struck a Working Group to provide input on the Proposed Amendments. The Working Group was composed of 19 representatives from a range of Dealer Members that included both Participants and non-Participants, such as bank-owned dealers, dealers providing order-execution only services, dealers that are full service providers for retail accounts, institutional dealers, an independent dealer, and a carrying broker. We surveyed our Working Group Members to better understand how Dealer Members



currently identify who is a “pro” and use the “pro” group in their practice. The survey results and consultation with the Working Group helped inform the proposed changes.

4. Changes to the Non-Client Definition

4.1. Replacing “non-client” with “Dealer Related Person”

The identification of a “non-client” under our rules is important as it relates to, among other things, client priority. However, the term “non-client” may be confusing as “non-clients” are in fact clients of the Dealer Member. Accordingly, rules such as suitability and best execution apply with respect to “non-clients”. We propose to move away from the term “non-client” in order to eliminate any confusion. We also considered the term “pro” which is often used by Dealer Members; however, “pro” can have different meanings in various contexts and as a consequence may cause confusion. Accordingly, as suggested by the Working Group, we propose to use the term “Dealer Related Person” in place of “non-client”.

4.2. Employee

4.2.1. Employee of the “affiliate”¹¹ of a Dealer Member

We propose including accounts controlled by employees of an “affiliate” of a Dealer Member in the “Dealer Related Person account” definition where the affiliate employee has access to confidential information at the Dealer Member. This is because we heard that services of certain groups (information technology, compliance, administrative, credit, etc.) may be shared between an affiliate and the Dealer Member. In some cases, these groups perform certain functions for the Dealer Member (and may have access to confidential information), but are considered employees of the affiliate (not the Dealer Member).

¹¹ We would rely on the definition of “affiliate” in IIROC Rule 1201(2), which in our view is consistent with the meaning of “affiliated entity” in section 1.3(1) of NI 21-101.

- IIROC Rule 1201(2) definition of “affiliate” provides that where it is used to indicate a relationship between two corporations, means:
 - (i) one corporation is a *subsidiary* of the other corporation;
 - (ii) both corporations are *subsidiaries* of the same corporation; or
 - (iii) both corporations are *controlled* by the same *person*.
- Section 1.3(1) of NI 21-101 provides that a person or company is considered to be an affiliated entity of another person or company if one is a subsidiary entity of the other or if both are subsidiary entities of the same person or company, or if each of them is a controlled entity of the same person or company.



“Affiliates” can include entities that are not IIROC Dealer Members, such as banks, exempt market dealers or foreign affiliates. By referring to the “affiliate” of the Dealer Member, we intend to capture those employees that also provide services to the Dealer Member and have access to confidential information that are in the possession of the Dealer Member.

4.2.2. Employee of a “related entity” of a Participant

The Proposed Amendments carry over the reference to “related entity” from the UMIR 1.1 definition of a “non-client order” to the proposed “Dealer Related Person account” definition. A “related entity” includes a client of an affiliate of a Participant that is a registered dealer or adviser in Canada and has been deemed by IIROC to act in conjunction with that Participant under UMIR 10.4(3)¹².

4.3. Confidential information

4.3.1. Access to confidential information

We propose limiting the scope of the “Dealer Related Person account” definition to accounts controlled or directed by employees or Approved Persons that have access to confidential information. While we would provide guidance¹³ on the meaning of access to confidential information, Dealer Members would have the flexibility under a principles-based approach to decide which employees or Approved Persons have the ability to access confidential information pursuant to the firm’s structure, controls and policies.

4.3.2. In the possession of the Dealer Member

The proposed “Dealer Related Person account” definition would focus on confidential information that is within the possession of the Dealer Member. For example, if a Dealer Member’s affiliate has confidential information about an issuer listed on a Canadian exchange and the Dealer Member’s employee has access to that information – that employee would not be considered a Dealer Related Person by virtue of access to the affiliate’s information alone. Since the confidential information is not

¹² UMIR 10.4(3) provides that “(i)f, in the opinion of a Market Regulator, a particular person to whom UMIR applies, including any particular person to whom UMIR has been extended in accordance with subsection (1) and (2), has organized their business and affairs for the purpose of avoiding the application of any provision of UMIR, the Market Regulator may designate any person involved in such business and affairs as a person acting in conjunction with the particular person.”

¹³ IIROC Notice 19-0158 - Rules Notice – Request for Comments – UMIR and the IIROC Rules – *Proposed Guidance Respecting Non-Clients* (September 5, 2019).



in the Dealer Member's possession, the Dealer Member could not be expected to track the flow of this confidential information at its affiliate or related entity for the purpose of marking an account as a Dealer Related Person account. The affiliate employee at issue would continue to be subject to other requirements prohibiting him or her from acting on confidential information.¹⁴

On the other hand, if a Dealer Member has confidential information and an employee of the Dealer Member's affiliate has access to that information – then that affiliate employee would be considered a Dealer Related Person under clause (i) or (ii) of the proposed "Dealer Related Person account" definition.

4.3.3. Scope of confidential information

We intend to capture individuals with access to confidential information under the proposed "Dealer Related Person account" definition. However, we have proposed a more specific term than "confidential information" to focus on information that would affect the price or trading of a security, and not other types of information that may also be considered confidential (e.g. a client's personal information such as their date of birth or social security number, etc.).

- a. "material fact or material change with respect to an issuer that has not been generally disclosed and could reasonably be expected to affect the price of a security of that issuer"**

The scope of confidential information with respect to an issuer referred to in clause (i) of the proposed "Dealer Related Person account" definition would be based on securities legislation, and we would rely on the definitions and interpretations of these terms under the applicable statute.¹⁵

¹⁴ For example, subsection 76(1) of the *Securities Act* (Ontario) provides that "(n)o person or company in a special relationship with an issuer shall purchase or sell securities of the issuer with the knowledge of a material fact or material change with respect to the issuer that has not been generally disclosed."

¹⁵ Subsection 1(1) of the *Securities Act* (Ontario) defines "material change" and "material fact" to mean:

- Definition of "material change":
 - (a) when used in relation to an issuer other than an investment fund, means,
 - (i) a change in the business, operations or capital of the issuer that would reasonably be expected to have a significant effect on the market price or value of any of the securities of the issuer, or
 - (ii) a decision to implement a change referred to in subclause (i) made by the board of directors or other persons acting in a similar capacity or by senior management of the issuer who believe that confirmation of the decision by the board of directors or such other persons acting in a similar capacity is probable, and
 - (b) when used in relation to an issuer that is an investment fund, means,



For example, the statutory definition of “security” includes both listed and unlisted securities.¹⁶ By relying on the statutory definition, we would include individuals with access to material non-public information related to new issues (e.g. those in corporate finance or investment banking groups) as well as secondary offerings. For the same reason, the reference to “issuer” includes both an issuer that has outstanding issues, or proposes to issue, a security.¹⁷

b. “trading-related information that is in possession of the Dealer Member that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade”

Clause (ii) of the proposed “Dealer Related Person account” definition is meant to capture confidential information about trading, in addition to confidential information about issuers (from subsection 5.3.3(a) above). Information about trading (e.g. existence of client or principal orders, indications of interest, historical trade and position data, trading strategies) is highly confidential and employees or Approved Persons are prohibited from acting on that information outside of their work capacity.

(i) a change in the business, operations or affairs of the issuer that would be considered important by a reasonable investor in determining whether to purchase or continue to hold securities of the issuer, or

(ii) a decision to implement a change referred to in subclause (i) made,

(A) by the board of directors of the issuer or the board of directors of the investment fund manager of the issuer or other persons acting in a similar capacity,

(B) by senior management of the issuer who believe that confirmation of the decision by the board of directors or such other persons acting in a similar capacity is probable, or

(C) by senior management of the investment fund manager of the issuer who believe that confirmation of the decision by the board of directors of the investment fund manager of the issuer or such other persons acting in a similar capacity is probable;

- Definition of “material fact”:

When used in relation to securities issued or proposed to be issued, means a fact that would reasonably be expected to have a significant effect on the market price or value of the securities.

¹⁶ Subsection 1(1) of the *Securities Act* (Ontario) provides that the meaning of “security” includes securities relating to an issuer or proposed issuer.

¹⁷ Subsection 1(1) of the *Securities Act* (Ontario) defines an “issuer” to mean “a person or company who has outstanding, issues or proposes to issue, a security.”



4.4. Control or direction

4.4.1. Control or direction exercised outside of the employee's or Approved Person's required role or function

The proposed “Dealer Related Person account” definition would include accounts controlled or directed by an employee or Approved Person that can access confidential information. The “control or direction” over an account relates to an employee's or Approved Person's ability to affect trading in accounts outside of his or her required role or function. For example, a trader that handles client orders would have control over client accounts in the normal course of their employment, however those client accounts would not be considered Dealer Related Person accounts. Similarly, a proprietary trader would have the ability to direct trading for a Dealer Member's principal accounts, however those principal accounts would not be considered Dealer Related Person accounts. The definition only captures situations where an employee or Approved Person exercises control or direction over an account outside of his or her required role or function, which could be held by the employee or Approved Person directly or by someone else.

4.4.2. Accounts held by individuals other than the employee or Approved Person

Our survey results indicated that while Dealer Members mainly rely on the concept of “household” when considering whether individuals are connected to a “pro”, they defined or applied the term “household” differently.

To provide clarity to the proposed “Dealer Related Person account” definition, we are moving away from the concept of household and instead focus on “control or direction” over an account. This approach would avoid capturing accounts of individuals who hold and operate their accounts independently from a non-client, regardless of their relationship or common address. A Dealer Member could determine whether an employee or Approved Person has “control or direction” over an account by looking at whether the person, directly or indirectly, through a contract, arrangement, understanding or relationship or otherwise has or shares investment power. This investment power includes the power to acquire or dispose, or to direct the acquisition or disposition of securities. An example of “control or direction” would be when a trading authorization for an account is in place. This approach also aligns with Dealer Members' current practice as our survey results indicated that a



majority of Working Group Members deem accounts over which an employee has trading authority as “pro” accounts.

4.4.3. Accounts over which the employee or Approved Person has no control or direction

We intend to exclude accounts over which the employee or Approved Person has no ability to influence investment decisions (regardless of whether the account is held directly or indirectly by an employee or Approved Person, or by a person that is connected to the employee or Approved Person). Our survey results indicated that some Dealer Members mark certain types of accounts as “pro”, regardless of whether an employee at the Dealer Member has control or direction over the account.¹⁸ We propose to use ‘control or direction’ as a way to limit the scope of the proposed “Dealer Related Person account” definition. One example is a fully managed account¹⁹ that is held directly by an employee, where the employee has no control or influence over the trading conducted by that account.

Based on the above, we propose to only include accounts:

- that are held directly or indirectly by:
 - an employee or Approved Person that has access to confidential information, or
 - a person²⁰ connected to the employee or Approved Person that has access to confidential information

¹⁸ Survey results indicate that some Dealer Members would mark these types of accounts as “pro”, regardless of whether the pro had control or direction over the account:

- Accounts held directly or indirectly by the pro:
 - accounts over which the pro has a financial interest or beneficial ownership
 - joint accounts or family accounts
 - accounts for personal holding companies, joint companies, estates, trusts etc.
- Accounts held by persons connected to the pro, such as:
 - individuals living at the same physical household
 - individuals for which the pro provides material financial support
 - spouse or domestic partner, minor children or children that are financially dependent on the pro.

¹⁹ A “managed account” is defined in IROC Rule 1201(2) to mean “(a)n account which is subject to a suitability obligation where:

- (i) investment decisions are made on a continuing basis by a *Portfolio Manager* or an *Associate Portfolio Manager* or a third party hired by the *Dealer Member*, and
- (ii) the *Dealer Member*, or a third party hired by the *Dealer Member*, and the *Portfolio Manager* or *Associate Portfolio Manager* are responsible for all investment decisions made.”

²⁰ A “person” is defined in IROC Rule 1201(2) as “An *individual*, a partnership, a corporation, a government or any of its



- over which that employee or Approved Person has control or direction.

To exclude accounts from the proposed “Dealer Related Person account” definition, the Dealer Member must be able to document controls that restrict the employee or Approved Person from trading or influencing the trading for the account in question. This may include the execution of a trading authorization or power of attorney. In reviewing whether an account is accurately marked as a “Dealer Related Person account”, IIROC would focus on formal controls and account documentation at the Dealer Member. (Sections 4 and 5 of the Proposed Guidance also provide clarification on how Dealer Members should determine control or direction.)

5. Additional changes to the IIROC Rules

In the IIROC Rules, we propose replacing all references to “non-client account” or “non-client order” with either “Dealer Related Person account” and/or “Dealer Member account”, depending on the policy intent of the applicable requirement. We are also proposing to replace other terms, such as “proprietary”, “pro”, “principal trading”, and certain phrases²¹ with the “Dealer Related Person account” and/or “Dealer Member account” defined terms, where consistent with the policy intent of the applicable requirement. For example, in clause 3960(2)(iii), we replaced “employee or proprietary accounts” with “Dealer Related Person account or Dealer Member account”. Likewise, in subsection 4424(6), we replaced the term “pro” with “Dealer Related Person account or Dealer Member account”. We are making these changes for consistency with our policy intent and to make our rules clearer and more precise. We included a blackline of all such changes in Appendix B.

6. Updating accounts

The proposed “Dealer Related Person account” definition would require Dealer Members to:

- determine the level of information that their employees or Approved Persons, or employees of their affiliates or related entities, have the ability to access

departments or agencies, a trustee, an incorporated or unincorporated organization, an incorporated or unincorporated syndicate or an *individual's* heirs, executors, administrators or other legal representatives”.

²¹ See for example the proposed amendments to section 3503 of the IIROC Rules in Appendix B. We propose replacing the phrase “account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged” with “*Dealer Related Person account* or *Dealer Member account*”.



and

- identify any account(s) over which an individual in the above bullet may have control or direction.

Under the proposed “Dealer Related Person account” definition, a Dealer Member would need to perform and document the above analysis and retain the records for seven years. If an employee’s or Approved Person’s role changes, or if their control or direction over an account changes, then the Dealer Member would need to update its records, including account documentation, accordingly and within a reasonable period of time after becoming aware of the change. (Sections 7 and 8 of the Proposed Guidance provides clarification on IIROC’s expectations in relation to updating the status of accounts.)

7. Comparison with other jurisdictions

Other jurisdictions have also recognized the potential conflict between an employee in possession of confidential information and a client without possession of such confidential information, and imposed rules to address this conflict, including restrictions on an employee’s personal trading.

7.1. United States

The Financial Industry Regulatory Authority (**FINRA**) and the Securities and Exchange Commission (**SEC**) in the United States require firms to supervise against insider trading or manipulative trading by “associated persons”.²² An “associated person” is defined to include individuals such as registered representatives, partners, directors and officers of a broker.²³ When reviewing the personal accounts

²² Section 15(g) of the [Exchange Act](#) requires registered broker or dealer to have written policies and procedures to prevent the misuse of material non-public information by an associated person.

FINRA Rule 3100(d) also requires firms, when reviewing securities transactions, to have processes that are reasonably designed to identify trades that may violate the Exchange Act or FINRA rules prohibiting insider trading and manipulative and deceptive devices that are effected for accounts subject to FINRA Rule 3210. (See FINRA Regulatory Notice [14-10](#), Consolidated Supervision Rules (March 2014).)

²³ Paragraph (rr) of Article I of the [FINRA By-Laws](#) defines a “person associated with a member” or “associated person of a member” to mean:

- (1) a natural person who is registered or has applied for registration under the Rules of the Corporation;
- (2) a sole proprietor, partner, officer, director, or branch manager of a member, or other natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a member, whether or not any such person is registered or exempt from registration with the Corporation under these By-Laws or the Rules of the Corporation; and
- (3) for purposes of Rule 8210, any other person listed in Schedule A of Form BD of a member.



of “associated persons”, FINRA Rule 3210²⁴ broadens the category of affected accounts and presumes that associated persons have a beneficial interest in the following accounts (regardless of direct ownership):

- spouse
- child that lives in the same household, or is financially dependent on the associated person.

The associated person can rebut the presumption of beneficial interest by demonstrating that he or she has no economic benefit and no control over the account.

However, wherever the associated person has control over an account, the presumption of beneficial interest cannot be refuted, such as accounts held by:

- A related individual whose account is controlled by the associated person.
- Any other person whose account the associated person has control and whose financial support the associated person materially contributes to.

While the FINRA rules and our proposed “Dealer Related Person account” definition both use “control” as a way to identify relevant accounts, the FINRA rules also presume that associated persons have a beneficial interest in certain accounts. Because our goal is to simplify the proposed “Dealer Related Person account” definition using control, we would not embed a presumption of beneficial interest.

7.2. European Union

The Financial Conduct Authority (**FCA**) and MiFID have rules on client order handling, which include rules on an employee’s personal account dealing. The rules apply to a “relevant person”, who is prohibited from, among other things, misusing confidential information in their personal transactions.²⁵ A “relevant person” is defined to include an employee or person involved in providing

²⁴ FINRA Regulatory Notice [16-22](#), Accounts At Other Broker-Dealers and Financial Institutions (June 2016).

²⁵ [COBS 11.3.5A](#) of the FCA Handbook and Article 67(3) of the MiFID Org Regulation ([Commission Delegated Regulation \(EU\) 2017/565 of 25 April 2016 supplementing MiFID of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive](#)) sets out requirements concerning the use of information relating to pending client orders.

Article 67(3) provides that “(a)n investment firm shall not misuse information relating to pending client orders, and shall take all reasonable steps to prevent the misuse of such information by any of its relevant persons.”



services to the firm.²⁶ When reviewing “personal transactions”²⁷ of a relevant person, the rules²⁸ also apply to accounts not directly held by the relevant person, such as those held by:

- a spouse, child, relative living at the same household for one year, or
- a person with whom they have “close links”.

An example of a “close link”²⁹ would be where the relevant person has a 20% ownership of the voting rights or capital of an undertaking.

The FCA and MiFID rules focus on the ownership of the account, whether it is held directly or indirectly by the employee or someone connected to the employee. Based on consultation with the Working Group, we propose to focus on who has investment authority in the account (in the form of control or direction), rather than the ownership of the account.

²⁶ The FCA Handbook defines a “[relevant person](#)” to include:

- director, partner or equivalent, manager or appointed representative of the firm,
- employee of the firm
- natural person that is directly involved in the provision of services to the firm or to its appointed representative.

²⁷ The FCA Handbook defines a “[personal transaction](#)” to include a trade in a designated investment for a relevant person’s own account, or an account held by:

- a spouse
- a dependent child
- a relative with whom the relevant person has shared the same household for at least one year on the date of the personal transaction
- any person with whom he has close links.

²⁸ [COBS 11.7.1](#) of the FCA Handbook is the rule on personal account dealing, which provides:

A firm that conducts designated investment business must establish, implement and maintain adequate arrangements aimed at preventing the following activities in the case of any relevant person who is involved in activities that may give rise to a conflict of interest, or who has access to inside information as defined in the Market Abuse Regulation³ or to other confidential information relating to clients or transactions with or for clients by virtue of an activity carried out by him or her on behalf of the firm:

(1) entering into a personal transaction which meets at least one of the following criteria:

(a) that person is prohibited from entering into it under the Market Abuse Regulation;

(b) it involves the misuse or improper disclosure of that confidential information;

(c) it conflicts or is likely to conflict with an obligation of the firm to a customer under the regulatory system or any other obligation of the firm under MiFID or the UCITS Directive;

(2) advising or procuring, other than in the proper course of his employment or contract for services, any other person to enter into a transaction in designated investments which, if a personal transaction of the relevant person, would be covered by (1) or a relevant provision;

(3) disclosing, other than in the normal course of his or her employment or contract for services, any information or opinion to any other person if the relevant person knows, or reasonably ought to know, that as a result of that disclosure that other person will or would be likely to take either of the following steps:

(a) to enter into a transaction in designated investments⁴ which, if a personal transaction of the relevant person, would be covered by (1) or a relevant provision;

(b) to advise or procure another person to enter into such a transaction.

²⁹ See definition of “[close links](#)” in FCA Handbook.



8. Technological Implications and Implementation Plan

Dealer Members and vendors may be required to undergo the following changes to support the Proposed Amendments:

- make any necessary systems and operational changes to accommodate the new definitions of “Dealer Related Person account” and “Dealer Member account”, such as possible changes to:
 - account documentation and/or ranges
 - order routing arrangements
- review supervision and compliance policies to ensure they continue to be appropriate in light of the new definitions.

If approved, the Proposed Amendments would be effective at least **180 days** after the publication of the Notice of Approval.

9. Policy Development Process

9.1. Regulatory Purpose

The Proposed Amendments would establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC’s functions and responsibilities as a self-regulatory entity.

9.2. Regulatory Process

The Board has determined the Proposed Amendments to be in the public interest and on June 25, 2019 approved them for public comment.

IIROC Staff has consulted with the Non-Client Working Group, the Market Rules Advisory Committee, the CCLS Order Execution Only Sub-Committee and the CCLS Institutional Sub-Committee regarding the Proposed Amendments.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend that revisions be made to the applicable proposed amendments. If the revisions are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the applicable proposed amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions are material, the applicable proposed amendments as revised will be submitted to the Board for approval for republication.



10. Questions

We welcome comments on all aspects of the Proposed Amendments but specifically request comments on the following questions:

- a. Would replacing the “non-client orders” definition with an alternate term, such as “Dealer Related Person order”, be helpful to Dealer Members in clarifying the meaning and scope of the Proposed Amendments?
- b. What are the impacts to Dealer Members in terms of implementing the Proposed Amendments?
- c. IIROC is proposing that the implementation date be at least 180 days following the publication of the Notice of Approval. Is this time period sufficient to make any necessary operational and technological changes? Are there any specific considerations which IIROC should take into account in establishing an implementation deadline?
- d. To minimize the impact on Dealer Members, should IIROC take a phased approach to the implementation of the Proposed Amendments, such as having separate phases for new and existing accounts? For example, Phase 1 would apply to new accounts opened on or after the publication of the Notice of Approval, and Phase 2 would apply to all other accounts. What specific considerations should IIROC take into account in establishing the implementation period for each phase?
- e. Should the requirement to update with respect to the status of Dealer Related Person accounts be specific to the type of account, or should there be one standard for all accounts?
If we set one standard for all accounts at an annual basis, would this align with Dealer Members’ current practices?



Appendix A - Text of Amendments to Universal Market Integrity Rules and the IROC Rules

The Universal Market Integrity Rules are hereby amended as follows:

1. The definition of “bundled order” in UMIR 1.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
2. The definition of “client order” in UMIR 1.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
3. Deleting the definition of “non-client order” in UMIR 1.1.
4. Adding the definition of “Dealer Related Person account” in UMIR 1.1 as follows:

“Dealer Related Person account” means an account that is controlled or directed by:

 - (a) an employee or Approved Person of a Dealer Member,
 - (b) an employee of an affiliate of a Dealer Member,

or

 - (c) an employee of a related entity of a Participant

whose role or function would have access to:

 - (i) a material fact or material change with respect to an issuer that is in the Dealer Member’s possession and has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer,

or

 - (ii) trading-related information that is in the Dealer Member’s possession that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade

where the control or direction is exercised by the employee or Approved Person outside of his or her role or function.
5. Adding the definition of “Dealer Related Person order” in UMIR 1.1 as follows:

“Dealer Related Person order” means an order for the purchase or sale of a security for a Dealer Related Person account.
6. The definition of “short-marking exempt order” in UMIR 1.1 is amended by:
 - a. Replacing “non-client” with “Dealer Related Person”.
7. Subparagraph (1)(a) of UMIR 4.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
8. Subparagraph (2)(a) of UMIR 4.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.



9. Part 2 of Policy 4.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
10. UMIR 5.3 and Policy 5.3 are amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
 - b. Replacing “non-client orders” with “Dealer Related Person orders”.
11. Part 2 of Policy 5.3 is amended by:
 - a. Adding “orders” after “so that the client ranks behind principal” in the third bullet
 - b. Adding “order” after “putting terms or conditions on a principal” in the fourth bullet
12. Part 4 of Policy 5.3 is amended by:
 - a. In the last sentence of the third paragraph, adding “orders” after “principal”.
13. UMIR 6.1 is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
 - b. Replacing “non-client” with “Dealer Related Person”.
14. Subparagraph (b)(x) of UMIR 6.2(1) is amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
15. UMIR 6.3 and Policy 6.3 are amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
16. Part 4 of Policy 7.1 is amended by:
 - a. Replacing “non-client orders” with “Dealer Related Person orders”.
17. UMIR 8.1 and Policy 8.1 are amended by:
 - a. Replacing “non-client order” with “Dealer Related Person order”.
18. Policy 8.1 is amended by:
 - a. Replacing “non-client” with “Dealer Related Person”.
19. Part 3 of Policy 8.1 is amended by:
 - a. In the fourth paragraph, adding “order” after “For example, an employee that has access to price information from both protected and unprotected marketplaces would be in compliance with the requirement to determine the “best available price” only if all price information from both protected and unprotected marketplaces was considered when executing a principal”.



- b. In the fourth paragraph, adding “order” after “However, a Participant will be considered not to have complied with Rule 8.1 if an employee executes a principal”.
- c. Replacing “non-client order” with “Dealer Related Person order”.

20. Subparagraph (1)(g.1) of UMIR 10.9 is amended by:

- a. Replacing “non-client order” with “Dealer Related Person order”.

21. Paragraph (1) of UMIR 10.16 is amended by:

- a. Adding “account” after “activity in a principal”.
- b. Replacing “non-client” with “Dealer Related Person account”.



The IIROC Rules are hereby amended as follows:

1. Subsection 1201(2) is amended by:

- a. Deleting the definition of “non-client accounts” or “non-client orders”
- b. Adding the definition of “Dealer Related Person account” as follows:

“Dealer Related Person account”

An account that is controlled or directed by:

- (a) an *employee* or *Approved Person* of a *Dealer Member*,
 - (b) an *employee* of an *affiliate* of a *Dealer Member*,
- or
- (c) an *employee* of a *related entity* of a *Participant*

whose role or function would have access to:

- (i) a material fact or material change with respect to an issuer that is in the *Dealer Member’s* possession and has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer,
- or
- (ii) trading-related information that is in the *Dealer Member’s* possession that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade

where the control or direction is exercised by the *employee* or *Approved Person* outside of his or her required role or function.

- c. Adding the definition of “Dealer Related Person order” as follows:

“Dealer Related Person order”

An order for the purchase or sale of a security for a *Dealer Related Person account*.

- d. Adding the definition of “Dealer Member account” as follows:

“Dealer Member account”

An account in which a *Dealer Member* has a direct or indirect interest other than the commission charged.

- e. Adding the definition of “Participant” as follows:

“Participant”

The same meaning as set out in the Universal Market Integrity Rules, section 1.1.

- f. Adding the definition of “related entity” as follows:

“related entity”

The same meaning as set out in the Universal Market Integrity Rules, section 1.1.



2. Clause 2410(19)(ii) is amended by:
 - a. Replacing “principal trading account” with “*Dealer Member account*”.
3. Clause 2415(19)(ii) is amended by:
 - a. Replacing “principal trading account” with “*Dealer Member account*”.
4. Clause 2420(19)(ii) is amended by:
 - a. Replacing “principal trading account” with “*Dealer Member account*”.
5. Clause 2425(19)(ii) is amended by:
 - a. Replacing “principal trading account” with “*Dealer Member account*”.
6. Subsection 3214(6) is amended by:
 - a. Replacing “*non-client account*” with “*Dealer Related Person account*”.
 - b. Removing “must” and adding “if applicable”.
7. Subsection 3503(2) is amended by:
 - a. Replacing “orders for an account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged” with “*Dealer Related Person orders* or orders for *Dealer Member accounts*”.
8. Subsection 3503(3) is amended by:
 - a. Replacing “partners, *Directors*, *officers*, *employees* or *Approved Persons* of a *Dealer Member*” with “*Dealer Related Person accounts*”.
9. Subsection 3945(4) is amended by:
 - a. Replacing “*non-client accounts*” with “*Dealer Related Person accounts*”
10. Clause 3946(1)(iii) is amended by:
 - a. Replacing “*non-client accounts*” with “*Dealer Related Person accounts*”.
11. Clause 3950(2)(iii) is amended by:
 - a. Replacing “employee or propriety accounts” with “*Dealer Related Person accounts* or *Dealer Member accounts*”.
12. Subsection 4424(6) is amended by:
 - a. Replacing ““pro”” with “*Dealer Related Person accounts* or *Dealer Member accounts*”.



13. Clause 4912(3)(i) is amended by:
 - a. Replacing “proprietary” with “*Dealer Member account*”.
14. Clause 5110(1)(ii) is amended by:
 - a. Replacing “proprietary” with “*Dealer Member account*”.
15. Clause 7103(2)(i) is amended by:
 - a. Replacing “*non-client accounts*” with “*Dealer Related Person accounts*”.



Appendix B – Blackline of Proposed Amendments to UMIR and the IIROC Rules

Text of UMIR to Reflect the Proposed Amendments

Text of UMIR Marked to Reflect Adoption of the Proposed Amendments	Text of UMIR Following Adoption of the Proposed Amendments
<p>1.1 Definitions In UMIR, unless the subject matter or context otherwise requires: ... “bundled order” means an order that includes a client order as well as a non-client order Dealer Person Related order or principal order, or both.</p>	<p>1.1 Definitions In UMIR, unless the subject matter or context otherwise requires: ... “bundled order” means an order that includes a client order as well as a Dealer Related Person order or principal order, or both.</p>
...	...
<p>“client order” means an order for the purchase or sale of a security received or originated by a Participant for the account of a client of the Participant or a client of an affiliated entity of the Participant, but does not include a principal order or a non-client order Dealer Related Person order.</p>	<p>“client order” means an order for the purchase or sale of a security received or originated by a Participant for the account of a client of the Participant or a client of an affiliated entity of the Participant, but does not include a principal order or a Dealer Related Person order.</p>
...	...
<p>“non-client order” means an order for the purchase or sale of a security received or originated by a Participant for an account: (a) for a partner, director, officer or a person holding a similar position or acting in a similar capacity of the Participant or of a related entity of the Participant; (b) for an employee of the Participant or of a related entity of the Participant who holds approval from an Exchange or a self-regulatory entity; or (c) which is considered to be an employee account or a non-client account by a self-regulatory entity, but does not include a principal account.</p> <p>“Dealer Related Person account” means an account that is controlled or directed by:</p> <ul style="list-style-type: none"> (a) <u>an employee or Approved Person of a Dealer Member,</u> (b) <u>an employee of an affiliate of a Dealer Member,</u> or (c) <u>an employee of a related entity of a Participant</u> <p><u>whose role or function would access to:</u></p>	<p>“Dealer Related Person account” means an account that is controlled or directed by: an employee of:</p> <ul style="list-style-type: none"> (a) an employee or Approved Person of a Dealer Member, (b) an employee of an affiliate of a Dealer Member, or (c) an employee of a related entity of a Participant <p>whose role or function would have access to:</p> <ul style="list-style-type: none"> (i) a material fact or material change with respect to an issuer that is in possession of the Dealer Member and that has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer, or (ii) trading-related information that is in possession of the Dealer Member that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade <p>where the control or direction is exercised by the employee or Approved Person outside of his or her required role or function.</p>



Text of UMIR Marked to Reflect Adoption of the Proposed Amendments	Text of UMIR Following Adoption of the Proposed Amendments
<p><u>(i) a material fact or material change with respect to an issuer that is in possession of the Dealer Member and that has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer,</u> <u>or</u> <u>(ii) trading-related information that is in possession of the Dealer Member that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade</u> <u>where the control or direction is exercised by the employee or Approved Person outside of his or her required role or function.</u></p>	
...	...
<p><u>“Dealer Related Person order” means an order for the purchase or sale of a security for a Dealer Related Person account.</u></p>	<p>“Dealer Related Person order” means an order for the purchase or sale of a security for a Dealer Related Person account.</p>
...	...
<p>“short-marking exempt order” means an order for the purchase or sale of a security from an account that is:</p> <ul style="list-style-type: none"> (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 <u>Dealer Related Person</u> or principal account: <ul style="list-style-type: none"> (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; (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 	<p>“short-marking exempt order” means an order for the purchase or sale of a security from an account that is:</p> <ul style="list-style-type: none"> (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, Dealer Related Person or principal account: <ul style="list-style-type: none"> (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; (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



Text of UMIR Marked to Reflect Adoption of the Proposed Amendments	Text of UMIR Following Adoption of the Proposed Amendments
<p>position, whether short or long, in a particular security; or</p> <p>(e) a principal account for a Participant that has:</p> <ul style="list-style-type: none"> (i) Marketplace Trading Obligations in respect of an exempt Exchange-traded Fund, or (ii) entered into an agreement for the continuous distribution of an Exempt Exchange-traded Fund; <p>If the order is for the Exempt Exchange-traded Fund security or one of its underlying securities to hedge a pre-existing position in the Exempt Exchange-traded Fund security or one of its underlying securities and in the normal course, the account does not have, at the end of each trading day, more than a minimal exposed risk.</p>	<p>position, whether short or long, in a particular security; or</p> <p>(e) a principal account for a Participant that has:</p> <ul style="list-style-type: none"> (i) Marketplace Trading Obligations in respect of an exempt Exchange-traded Fund, or (ii) entered into an agreement for the continuous distribution of an Exempt Exchange-traded Fund; <p>If the order is for the Exempt Exchange-traded Fund security or one of its underlying securities to hedge a pre-existing position in the Exempt Exchange-traded Fund security or one of its underlying securities and in the normal course, the account does not have, at the end of each trading day, more than a minimal exposed risk.</p>
<p>...</p>	<p>...</p>
<p>PART 4 – FRONTRUNNING</p> <p>4.1 Frontrunning</p> <p>(1) A Participant with knowledge of a client order that on entry could reasonably be expected to affect the market price of a security, shall not, prior to the entry of such client order,</p> <ul style="list-style-type: none"> (a) enter a principal order or a non-client order Dealer Related Person order on a marketplace, foreign organized regulated market or other market, including any over-the-counter market, for the purchase or sale of the security or any related security; (b) solicit an order from any other person for the purchase or sale of the security or any related security; or (c) inform any other person, other than in the necessary course of business, of the client order. <p>(2) A Participant does not contravene subsection (1) if:</p> <ul style="list-style-type: none"> (a) no director, officer, partner, employee or agent of the Participant who made or participated in making the decision to enter a principal order or non-client order Dealer Related Person order or to solicit an order had actual knowledge of the client order; 	<p>PART 4 – FRONTRUNNING</p> <p>4.1 Frontrunning</p> <p>(1) A Participant with knowledge of a client order that on entry could reasonably be expected to affect the market price of a security, shall not, prior to the entry of such client order,</p> <ul style="list-style-type: none"> (a) enter a principal order or a Dealer Related Person order on a marketplace, foreign organized regulated market or other market, including any over-the-counter market, for the purchase or sale of the security or any related security; (b) solicit an order from any other person for the purchase or sale of the security or any related security; or (c) inform any other person, other than in the necessary course of business, of the client order. <p>(2) A Participant does not contravene subsection (1) if:</p> <ul style="list-style-type: none"> (a) no director, officer, partner, employee or agent of the Participant who made or participated in making the decision to enter a principal order or Dealer Related Person order or to solicit an order had actual knowledge of the client order; (b) an order is entered or trade made for the benefit of the client for whose account the order is to be made;



Text of UMIR Marked to Reflect Adoption of the Proposed Amendments	Text of UMIR Following Adoption of the Proposed Amendments
<p>(b) an order is entered or trade made for the benefit of the client for whose account the order is to be made;</p> <p>(c) an order is solicited to facilitate the trade of the client order;</p> <p>(d) a principal order is entered to hedge a position that the Participant had assumed or agreed to assume before having actual knowledge of the client order provided the hedge is:</p> <ul style="list-style-type: none"> (i) commensurate with the risk assumed by the Participant, and (ii) entered into in accordance with the ordinary practice of the Participant when assuming or agreeing to assume a position in the security; <p>(e) a principal order is made to fulfil a legally binding obligation entered into by the Participant before having actual knowledge of the client order; or</p> <p>(f) the order is entered for an arbitrage account.</p>	<p>(c) an order is solicited to facilitate the trade of the client order;</p> <p>(d) a principal order is entered to hedge a position that the Participant had assumed or agreed to assume before having actual knowledge of the client order provided the hedge is:</p> <ul style="list-style-type: none"> (i) commensurate with the risk assumed by the Participant, and (ii) entered into in accordance with the ordinary practice of the Participant when assuming or agreeing to assume a position in the security; <p>(e) a principal order is made to fulfil a legally binding obligation entered into by the Participant before having actual knowledge of the client order; or</p> <p>(f) the order is entered for an arbitrage account.</p>
<p>POLICY 4.1 – FRONTRUNNING</p> <p>...</p> <p>Part 2 – Specific Knowledge Required</p> <p>In order to constitute frontrunning contrary to Rule 4.1, the person must have specific knowledge concerning the client order that, on entry, could reasonably be expected to affect the market price of a security. A person with knowledge of such a client order must insure that the client order has been entered on a marketplace before that person can:</p> <ul style="list-style-type: none"> • enter a principal order or non-client order Dealer Related Person order for the security or any related security; • solicit an order for the security or any related security; or • inform any other person about the client order, other than in the necessary of course of business. <p>Trading based on non-specific pieces of market information, including rumours, does not constitute frontrunning.</p>	<p>POLICY 4.1 – FRONTRUNNING</p> <p>...</p> <p>Part 2 – Specific Knowledge Required</p> <p>In order to constitute frontrunning contrary to Rule 4.1, the person must have specific knowledge concerning the client order that, on entry, could reasonably be expected to affect the market price of a security. A person with knowledge of such a client order must insure that the client order has been entered on a marketplace before that person can:</p> <ul style="list-style-type: none"> • enter a principal order or Dealer Related Person order for the security or any related security; • solicit an order for the security or any related security; or • inform any other person about the client order, other than in the necessary of course of business. <p>Trading based on non-specific pieces of market information, including rumours, does not constitute frontrunning.</p>
<p>...</p>	<p>...</p>



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<p>5.3 Client Priority</p> <p>(1) A Participant shall not enter on a marketplace or an organized regulated market a principal order or a non-client order <u>Dealer Related Person order</u> of the Participant that, based on the information known or reasonably available to the person or persons originating or entering the principal order or non-client order <u>Dealer Related Person order</u>, the Participant knows or should have known will execute or have a reasonable likelihood of executing in priority to a client order received by the Participant prior to the entry of the principal order or non-client order <u>Dealer Related Person order</u> for the same security that is:</p> <ul style="list-style-type: none"> (a) at the same price or a lower price than the client order in the case of a purchase or the same or a higher price than the client order in the case of a sale; and (b) on the same side of the market. <p>(2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:</p> <ul style="list-style-type: none"> (a) the client specifically has consented to the Participant entering principal orders and non-client orders <u>Dealer Related Person orders</u> for the same security at the same price on the same side of the market on the same settlement terms; (b) the principal order or non-client order <u>Dealer Related Person order</u> is: <ul style="list-style-type: none"> (i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace, (ii) automatically generated by a system operated by the Participant or on behalf of the Participant based on pre-determined order and trading parameters established, programmed and enabled for trading prior to the receipt of the client order, (iii) for a managed account and the client order is for a managed account under the direction of the same person and in respect of which executions are allocated between the various managed accounts on an equitable basis in 	<p>5.3 Client Priority</p> <p>(1) A Participant shall not enter on a marketplace or an organized regulated market a principal order or a Dealer Related Person order of the Participant that, based on the information known or reasonably available to the person or persons originating or entering the principal order or Dealer Related Person order, the Participant knows or should have known will execute or have a reasonable likelihood of executing in priority to a client order received by the Participant prior to the entry of the principal order or Dealer Related Person order for the same security that is:</p> <ul style="list-style-type: none"> (a) at the same price or a lower price than the client order in the case of a purchase or the same or a higher price than the client order in the case of a sale; and (b) on the same side of the market. <p>(2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:</p> <ul style="list-style-type: none"> (a) the client specifically has consented to the Participant entering principal orders and Dealer Related Person orders for the same security at the same price on the same side of the market on the same settlement terms; (b) the principal order or Dealer Related Person order is: <ul style="list-style-type: none"> (i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace, (ii) automatically generated by a system operated by the Participant or on behalf of the Participant based on pre-determined order and trading parameters established, programmed and enabled for trading prior to the receipt of the client order, (iii) for a managed account and the client order is for a managed account under the direction of the same person and in respect of which executions are allocated between the various managed accounts on an equitable basis in



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<p>accordance with the established practices of the Participant, or</p> <p>(iv) a Basis Order;</p> <p>(c) the client order has been entered directly by the client of the Participant on a marketplace;</p> <p>(d) the principal order or non-client order Dealer Related Person order is executed pursuant to an allocation by the trading system of a marketplace and:</p> <p>(i) either:</p> <p>(A) the security which is the subject of the order trades on no marketplace other than that marketplace,</p> <p>(B) the principal order or non-client order Dealer Related Person order is a Call Market Order, an Opening Order, a Market-on-Close Order or a Volume-Weighted Average Price Order,</p> <p>(C) each of the client order and the principal order or non-client order Dealer Related Person order was entered on the same marketplace,</p> <p>(D) the client has instructed the Participant to enter the client order on a particular marketplace, or</p> <p>(E) the client has instructed the Participant to enter the client order in a manner that does not disclose the identifier of the Participant in a consolidated market display,</p> <p>(ii) the client order was entered by the Participant on that marketplace immediately upon receipt by the Participant, and</p> <p>(iii) if the client order was varied or changed by the Participant at any time after entry, the variation or change was on the specific instructions of the client;</p> <p>(e) either the client order or the principal order or non-client order Dealer Related Person order is a Special Terms Order and the client order would not have executed in the transaction or transactions involving the principal order or non-client order Dealer Related Person order due to</p>	<p>accordance with the established practices of the Participant, or</p> <p>(iv) a Basis Order;</p> <p>(c) the client order has been entered directly by the client of the Participant on a marketplace;</p> <p>(d) the principal order or Dealer Related Person order is executed pursuant to an allocation by the trading system of a marketplace and:</p> <p>(i) either:</p> <p>(A) the security which is the subject of the order trades on no marketplace other than that marketplace,</p> <p>(B) the principal order or Dealer Related Person order is a Call Market Order, an Opening Order, a Market-on-Close Order or a Volume-Weighted Average Price Order,</p> <p>(C) each of the client order and the principal order or Dealer Related Person order was entered on the same marketplace,</p> <p>(D) the client has instructed the Participant to enter the client order on a particular marketplace, or</p> <p>(E) the client has instructed the Participant to enter the client order in a manner that does not disclose the identifier of the Participant in a consolidated market display,</p> <p>(ii) the client order was entered by the Participant on that marketplace immediately upon receipt by the Participant, and</p> <p>(iii) if the client order was varied or changed by the Participant at any time after entry, the variation or change was on the specific instructions of the client;</p> <p>(e) either the client order or the principal order or Dealer Related Person order is a Special Terms Order and the client order would not have executed in the transaction or transactions involving the principal order or Dealer Related Person order due to the terms and conditions of at least one Special Terms Order; or</p>



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<p>the terms and conditions of at least one Special Terms Order; or</p> <p>(f) a Market Integrity Official requires or permits the principal order or non-client order <u>Dealer Related Person order</u> to be executed in priority to a client order.</p> <p>(3) For the purposes of clause (2)(a), a client shall be deemed to have consented to the Participant entering principal orders and non-client orders <u>Dealer Related Person orders</u> for the same security at the same price on the same side of the market on the same conditions and settlement terms if the client order, in accordance with the specific instructions of the client, is to be executed in part at various times during the trading day or at various prices during the trading day.</p>	<p>(f) a Market Integrity Official requires or permits the principal order or Dealer Related Person order to be executed in priority to a client order.</p> <p>(3) For the purposes of clause (2)(a), a client shall be deemed to have consented to the Participant entering principal orders and Dealer Related Person orders for the same security at the same price on the same side of the market on the same conditions and settlement terms if the client order, in accordance with the specific instructions of the client, is to be executed in part at various times during the trading day or at various prices during the trading day.</p>
<p>POLICY 5.3 – CLIENT PRIORITY</p> <p>...</p> <p>Part 2 – Prohibition on Intentional Trading Ahead</p> <p>A Participant can never intentionally trade ahead of a client order that is either a market order or tradeable limit order received prior to the entry of the principal order or non-client order <u>Dealer Related Person order</u> except in accordance with an exemption from the requirements of Rule 5.3(1), which exemptions include obtaining the specific consent of the client. Examples of "intentional trades" include, but are not limited to:</p> <ul style="list-style-type: none"> withholding a client order from entry on a marketplace (or removing an order already entered on a marketplace) to permit the entry of a competing principal or non-client order <u>Dealer Related Person order</u> ahead of the client order; entering a client order on a relatively illiquid market (other than on the instructions of the client) and entering a principal or non-client order <u>Dealer Related Person order</u> on a more liquid marketplace where the principal or non-client order <u>Dealer Related Person order</u> is likely to obtain faster execution; adding terms or conditions to a client order (other than on the instructions of the client) so that the client order ranks behind principal 	<p>POLICY 5.3 – CLIENT PRIORITY</p> <p>...</p> <p>Part 2 – Prohibition on Intentional Trading Ahead</p> <p>A Participant can never intentionally trade ahead of a client order that is either a market order or tradeable limit order received prior to the entry of the principal order or Dealer Related Person order except in accordance with an exemption from the requirements of Rule 5.3(1), which exemptions include obtaining the specific consent of the client. Examples of "intentional trades" include, but are not limited to:</p> <ul style="list-style-type: none"> withholding a client order from entry on a marketplace (or removing an order already entered on a marketplace) to permit the entry of a competing principal or Dealer Related Person order ahead of the client order; entering a client order on a relatively illiquid market (other than on the instructions of the client) and entering a principal or Dealer Related Person order on a more liquid marketplace where the principal or Dealer Related Person order is likely to obtain faster execution; adding terms or conditions to a client order (other than on the instructions of the client) so that the client order ranks behind principal



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<p>orders or non-client orders Dealer Related Person orders at that price;</p> <ul style="list-style-type: none"> • putting terms or conditions on a principal order or non-client order Dealer Related Person order for the purpose of differentiating the principal order or non-client order Dealer Related Person order from a client order that would otherwise have priority at that price; and • entering a principal order or non-client order Dealer Related Person order as an “anonymous order” (without the identifier of the Participant) which results in an execution in priority to a previously entered client order that discloses the identifier of the Participant. 	<p>orders or Dealer Related Person orders at that price;</p> <ul style="list-style-type: none"> • putting terms or conditions on a principal order or Dealer Related Person order for the purpose of differentiating the principal order or Dealer Related Person order from a client order that would otherwise have priority at that price; and • entering a principal order or Dealer Related Person order as an “anonymous order” (without the identifier of the Participant) which results in an execution in priority to a previously entered client order that discloses the identifier of the Participant.
...	...
<p>Part 4 – Client Consent</p> <p>A Participant does not have to provide priority to a client order if the client specifically consents to the Participant trading alongside or ahead of the client. The consent of the client must be specific to a particular order and details of the agreement with the client must be noted on the order ticket. A client cannot give a blanket form of consent to permit the Participant to trade alongside or ahead of any future orders the client may give the Participant.</p> <p>If the client order is part of a pre-arranged trade that is to be completed at a price below the best bid price or above the best ask price as indicated on a consolidated market display, the Participant will be under an obligation to ensure that “better-priced” orders on a protected marketplace are filled prior to the execution of the client order. Prior to executing the client order, the Participant must ensure that the client is aware of the better-priced orders and has consented to the Participant executing as against them in priority to the client order. The consent of the client must be noted on the order ticket.</p> <p>If the client has given the Participant an order that is to be executed at various times during a trading day (e.g. an “over-the-day” order) or at various prices (e.g. at various prices in order to approximate a</p>	<p>Part 4 – Client Consent</p> <p>A Participant does not have to provide priority to a client order if the client specifically consents to the Participant trading alongside or ahead of the client. The consent of the client must be specific to a particular order and details of the agreement with the client must be noted on the order ticket. A client cannot give a blanket form of consent to permit the Participant to trade alongside or ahead of any future orders the client may give the Participant.</p> <p>If the client order is part of a pre-arranged trade that is to be completed at a price below the best bid price or above the best ask price as indicated on a consolidated market display, the Participant will be under an obligation to ensure that “better-priced” orders on a protected marketplace are filled prior to the execution of the client order. Prior to executing the client order, the Participant must ensure that the client is aware of the better-priced orders and has consented to the Participant executing as against them in priority to the client order. The consent of the client must be noted on the order ticket.</p> <p>If the client has given the Participant an order that is to be executed at various times during a trading day (e.g. an “over-the-day” order) or at various prices (e.g. at various prices in order to approximate a</p>



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<p>volume-weighted average price), the client is deemed to have consented to the entry of principal <u>orders</u> and <u>non-client orders Dealer Related Person orders</u> that may trade ahead of the balance of the client order. Unless the client has provided standing written instructions that all orders are to be executed at various times during the trading day or a various prices during the trading day, the client instructions should be treated as specific to a particular order and the details of the instructions by the client must be noted on the order ticket. However, if the un-entered portion of the client order would reasonably be expected to affect the market price of the security, the Participant may be precluded from entering principal <u>orders</u> or <u>non-client orders Dealer Related Person orders</u> as a result of the application of the frontrunning rule.</p> <p>In certain circumstances, a client may provide a conditional consent for the Participant to trade alongside or ahead of the client order. For example, a client may consent to a principal order of Participant sharing fills with the client order provided the client order is fully executed by the end of the trading day. If the client's order is not fully executed, the client may expect that the Participant "give up" its fills to the extent necessary to complete the client order. In this situation, the Participant should mark its orders as "principal" throughout the day. Any part of the execution which is given up to the client should not be re-crossed on a marketplace but should simply be journalled to the client (since the condition of the consent has not been met, the fills in question could be viewed as properly belonging to the client rather than the principal order). To the extent that a Participant "gives up" part of a fill of a principal order to a client based on the conditional consent, the Participant shall report the particulars of the "give up" to the Market Regulator not later than the opening of trading on marketplaces on the next trading day. The conditional consent of the client must be specific to a particular order. The details of the agreement with the client must be noted on the order ticket.</p>	<p>volume-weighted average price), the client is deemed to have consented to the entry of principal orders and Dealer Related Person orders that may trade ahead of the balance of the client order. Unless the client has provided standing written instructions that all orders are to be executed at various times during the trading day or a various prices during the trading day, the client instructions should be treated as specific to a particular order and the details of the instructions by the client must be noted on the order ticket. However, if the un-entered portion of the client order would reasonably be expected to affect the market price of the security, the Participant may be precluded from entering principal orders or Dealer Related Person orders as a result of the application of the frontrunning rule.</p> <p>In certain circumstances, a client may provide a conditional consent for the Participant to trade alongside or ahead of the client order. For example, a client may consent to a principal order of Participant sharing fills with the client order provided the client order is fully executed by the end of the trading day. If the client's order is not fully executed, the client may expect that the Participant "give up" its fills to the extent necessary to complete the client order. In this situation, the Participant should mark its orders as "principal" throughout the day. Any part of the execution which is given up to the client should not be re-crossed on a marketplace but should simply be journalled to the client (since the condition of the consent has not been met, the fills in question could be viewed as properly belonging to the client rather than the principal order). To the extent that a Participant "gives up" part of a fill of a principal order to a client based on the conditional consent, the Participant shall report the particulars of the "give up" to the Market Regulator not later than the opening of trading on marketplaces on the next trading day. The conditional consent of the client must be specific to a particular order. The details of the agreement with the client must be noted on the order ticket.</p>



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<p>PART 6 – ORDER ENTRY AND EXPOSURE 6.1 Entry of Orders to a Marketplace ... (6) A Participant acting as agent shall not enter a client order or a non-client order <u>Dealer Related Person order</u> on a marketplace that would, if executed, be a short sale if the client or non-client <u>Dealer Related Person</u> 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:</p> <ul style="list-style-type: none"> (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 <u>Dealer Related Person</u>. 	<p>PART 6 – ORDER ENTRY AND EXPOSURE 6.1 Entry of Orders to a Marketplace ... (6) A Participant acting as agent shall not enter a client order or a Dealer Related Person order on a marketplace that would, if executed, be a short sale if the client or Dealer Related Person 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:</p> <ul style="list-style-type: none"> (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 Dealer Related Person.
...	...
<p>6.2 Designations and Identifiers (1) Each order entered on a marketplace shall contain: ... (b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <ul style="list-style-type: none"> ... (x) a non-client order <u>Dealer Related Person order</u>, ... 	<p>6.2 Designations and Identifiers (1) Each order entered on a marketplace shall contain: ... (b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <ul style="list-style-type: none"> ... (x) a Dealer Related Person order, ...
...	...
<p>6.3 Exposure of Client Orders ... (2) If a Participant withholds a client order from entry on a marketplace based on market conditions in accordance with clause (1)(e), the Participant may enter the order in parts over a period of time or</p>	<p>6.3 Exposure of Client Orders ... (2) If a Participant withholds a client order from entry on a marketplace based on market conditions in accordance with clause (1)(e), the Participant may enter the order in parts over a period of time or</p>



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<p>adjust the terms of the order prior to entry but the Participant must guarantee that the client receives:</p> <p>(a) a price at least as good as the price the client would have received if the client order had been executed on receipt by the Participant; and</p> <p>(b) if the Participant executes the client order against a principal order or non-client order <u>Dealer Related Person order</u>, a better price than the price the client would have received if the client order had been executed on receipt by the Participant.</p>	<p>adjust the terms of the order prior to entry but the Participant must guarantee that the client receives:</p> <p>(a) a price at least as good as the price the client would have received if the client order had been executed on receipt by the Participant; and</p> <p>(b) if the Participant executes the client order against a principal order or Dealer Related Person order, a better price than the price the client would have received if the client order had been executed on receipt by the Participant.</p>
<p>POLICY 6.3 – EXPOSURE OF CLIENT ORDERS Part 1 – Reviewing Small Orders for Market Impact Rule 6.3 requires a Participant to immediately enter client orders for the purchase or sale of 50 standard trading units or less on a marketplace. This requirement is subject to certain exceptions. The Participant may withhold the order based on a determination that market conditions were such that immediate entry of the order would not be in the best interests of the client. If the order is withhold the Participant must guarantee that the client receives a price at least as good as the price the client would have received had the client order been executed on receipt by the Participant. If the order is executed against a principal order or non-client order <u>Dealer Related Person order</u> the client must receive a better price.</p>	<p>POLICY 6.3 – EXPOSURE OF CLIENT ORDERS Part 1 – Reviewing Small Orders for Market Impact Rule 6.3 requires a Participant to immediately enter client orders for the purchase or sale of 50 standard trading units or less on a marketplace. This requirement is subject to certain exceptions. The Participant may withhold the order based on a determination that market conditions were such that immediate entry of the order would not be in the best interests of the client. If the order is withhold the Participant must guarantee that the client receives a price at least as good as the price the client would have received had the client order been executed on receipt by the Participant. If the order is executed against a principal order or Dealer Related Person order the client must receive a better price.</p>
<p>...</p>	<p>...</p>
<p>POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS Part 4 – Specific Procedures Respecting Client Priority Each Participant must develop, implement and maintain a supervision system to ensure its trading does not violate Rule 5.3-2. The purpose of the Participant’s compliance review is to ensure that inventory or non-client orders <u>Dealer Related Person orders</u> are not knowingly traded ahead of client orders. This would occur if a client order is withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the</p>	<p>POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS Part 4 – Specific Procedures Respecting Client Priority Each Participant must develop, implement and maintain a supervision system to ensure its trading does not violate Rule 5.3. The purpose of the Participant’s compliance review is to ensure that inventory or Dealer Related Person orders are not knowingly traded ahead of client orders. This would occur if a client order is withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the client.</p>



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<p>client. Withholding an order for normal review and order handling is allowed under Rule 5.3 and Dealer Member Rule 3300, as this is done to ensure that the client gets a good execution. To ensure that a supervision system is effective it must address potential problem situations where trading opportunities may be taken away from clients.</p>	<p>Withholding an order for normal review and order handling is allowed under Rule 5.3 and Dealer Member Rule 3300, as this is done to ensure that the client gets a good execution. To ensure that a supervision system is effective it must address potential problem situations where trading opportunities may be taken away from clients.</p>
<p>...</p>	<p>...</p>
<p>PART 8 – PRINCIPAL TRADING 8.1 Client-Principal Trading (1) A Participant that receives a client order for 50 standard trading units or less of a security with a value of \$100,000 or less may execute the client order against a principal order or <u>non-client order Dealer Related Person order</u> at a better price provided the Participant has taken reasonable steps to ensure that the price is the best available price for the client under prevailing market conditions. ... (3) Subsection (1) does not apply if the client order has been entered directly by the client of the Participant on a marketplace that does not require the disclosure of the identifier of the Participant in a consolidated market display and the director, officer, partner, employee or agent of the Participant who enters a principal order or a <u>non-client order Dealer Related Person order</u> does not have knowledge that the client order is from a client of the Participant until the execution of the client order.</p>	<p>PART 8 – PRINCIPAL TRADING 8.1 Client-Principal Trading (1) A Participant that receives a client order for 50 standard trading units or less of a security with a value of \$100,000 or less may execute the client order against a principal order or Dealer Related Person order at a better price provided the Participant has taken reasonable steps to ensure that the price is the best available price for the client under prevailing market conditions. ... (3) Subsection (1) does not apply if the client order has been entered directly by the client of the Participant on a marketplace that does not require the disclosure of the identifier of the Participant in a consolidated market display and the director, officer, partner, employee or agent of the Participant who enters a principal order or a Dealer Related Person order does not have knowledge that the client order is from a client of the Participant until the execution of the client order.</p>
<p>POLICY 8.1 – CLIENT PRINCIPAL TRADING ... Part 2 – Legal Aspects of the Client-Principal Relationship A Participant owes a fiduciary duty to its clients. This duty and investors’ trust in our Participants are fundamental to investor confidence in the integrity of the market. In the Market Regulator’s view, this relationship of trust arises where there is reliance by the client on the Participant’s expertise in securities matters. From the point of view of both the client and the Participant, the fiduciary responsibility exists regardless of the legal form of the transaction. In other words, an investor who relies on the expertise</p>	<p>POLICY 8.1 – CLIENT PRINCIPAL TRADING ... Part 2 – Legal Aspects of the Client-Principal Relationship A Participant owes a fiduciary duty to its clients. This duty and investors’ trust in our Participants are fundamental to investor confidence in the integrity of the market. In the Market Regulator’s view, this relationship of trust arises where there is reliance by the client on the Participant’s expertise in securities matters. From the point of view of both the client and the Participant, the fiduciary responsibility exists regardless of the legal form of the transaction. In other words, an investor who relies on the expertise</p>



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<p>of a Participant expects the Participant to act in the investor's best interests regardless of whether the Participant is acting as agent or as principal. The legal framework underpinning client-principal trades was stated in the 1965 report of the Royal Commission on the Windfall Co. scandal:</p> <p>An agent must conduct himself so that the interest of the person in whose behalf he is acting is not brought into conflict with his personal interest. An agent may not make for himself any deal which could have been made for his client within the scope of the client's instructions; if he does, he is assumed to have been acting on his client's behalf and the client is entitled to the benefit of the transaction. An agent must disclose to the client any fact known to the agent which would be likely to operate on the client's judgment. An agent may not, in connection with his client's business, make a secret profit for himself. These restrictions flow from the recognition of the serious conflicts inseparable from the agency relationship, and from a corresponding recognition that every such conflict must be resolved in favour of the client. A principal trade may be subject to attack if it appears that the Participant did not act to the best advantage of its client even if the Participant complies with the technical requirements of the Rule. For example, if the principal account profited from the trade by unwinding the position again soon after the principal trade was made, or if the Registered Representative receives a higher commission than for agency transactions of a similar size involving similar securities, the Participant will find it more difficult to justify its actions. Participants should obtain their own legal advice as to the propriety of their client-principal trading practices. The following are considerations in any client-principal trade:</p> <p>Consent — At common law, the prior informed consent of the client must be obtained before the agent may act as principal. This is impractical in the context of trading securities on a marketplace, where at the time of receipt of the client's order the Participant will likely not know who will be on the other side. If the Participant, through the Registered</p>	<p>of a Participant expects the Participant to act in the investor's best interests regardless of whether the Participant is acting as agent or as principal. The legal framework underpinning client-principal trades was stated in the 1965 report of the Royal Commission on the Windfall Co. scandal:</p> <p>An agent must conduct himself so that the interest of the person in whose behalf he is acting is not brought into conflict with his personal interest. An agent may not make for himself any deal which could have been made for his client within the scope of the client's instructions; if he does, he is assumed to have been acting on his client's behalf and the client is entitled to the benefit of the transaction. An agent must disclose to the client any fact known to the agent which would be likely to operate on the client's judgment. An agent may not, in connection with his client's business, make a secret profit for himself. These restrictions flow from the recognition of the serious conflicts inseparable from the agency relationship, and from a corresponding recognition that every such conflict must be resolved in favour of the client. A principal trade may be subject to attack if it appears that the Participant did not act to the best advantage of its client even if the Participant complies with the technical requirements of the Rule. For example, if the principal account profited from the trade by unwinding the position again soon after the principal trade was made, or if the Registered Representative receives a higher commission than for agency transactions of a similar size involving similar securities, the Participant will find it more difficult to justify its actions. Participants should obtain their own legal advice as to the propriety of their client-principal trading practices. The following are considerations in any client-principal trade:</p> <p>Consent — At common law, the prior informed consent of the client must be obtained before the agent may act as principal. This is impractical in the context of trading securities on a marketplace, where at the time of receipt of the client's order the Participant will likely not know who will be on the other side. If the Participant, through the Registered</p>



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<p>Representative or other employee knows that the firm or a non-client-Dealer Related Person of the firm will or probably will take the other side, the client's consent should be obtained. In particular, if the Registered Representative wishes to take the other side of the trade with their client, the client must be informed and consent to the trade in advance. Such consent must be specific to that trade and cannot be in a general consent to any future trades with the Registered Representative. As promptly as possible following the execution of a principal trade, the client should be advised that all or part of the securities taken or supplied were from an account in which the Participant or a non-client-Dealer Related Person of the Participant has an interest. This advice would form part of the usual discussion that occurs when a Registered Representative confirms to the client that the client's order has been filled. In addition, the written confirmation must disclose that the order has been filled in a principal transaction.</p> <p>...</p>	<p>Representative or other employee knows that the firm or a Dealer Related Person of the firm will or probably will take the other side, the client's consent should be obtained. In particular, if the Registered Representative wishes to take the other side of the trade with their client, the client must be informed and consent to the trade in advance. Such consent must be specific to that trade and cannot be in a general consent to any future trades with the Registered Representative. As promptly as possible following the execution of a principal trade, the client should be advised that all or part of the securities taken or supplied were from an account in which the Participant or a Dealer Related Person of the Participant has an interest. This advice would form part of the usual discussion that occurs when a Registered Representative confirms to the client that the client's order has been filled. In addition, the written confirmation must disclose that the order has been filled in a principal transaction.</p> <p>...</p>
<p>...</p>	<p>...</p>
<p>Part 3 - Factors in Determining “Best Available Price”</p> <p>The price of the principal transaction must also be justified by prevailing market conditions. Participants should consider such factors as:</p> <ul style="list-style-type: none"> • prices and volumes of the last sale and previous trades; • direction of the market for the security; • posted size on the bid and offer; • the size of the spread; and • liquidity of the security. <p>For example, if the market is \$10 bid and \$10.50 asked and a client wants to sell 1,000 shares, it would be inappropriate for a Participant to do a principal trade at \$10.05 if the security has been trading heavily at \$10.50 and there is strong bidding for the security at \$10 compared to the number of securities being offered at \$10.50. The condition of the market suggests that the client should be able to sell at a better price than \$10.05. Accordingly, the Participant as agent for the client should post an offer at \$10.45</p>	<p>Part 3 - Factors in Determining “Best Available Price”</p> <p>The price of the principal transaction must also be justified by prevailing market conditions. Participants should consider such factors as:</p> <ul style="list-style-type: none"> • prices and volumes of the last sale and previous trades; • direction of the market for the security; • posted size on the bid and offer; • the size of the spread; and • liquidity of the security. <p>For example, if the market is \$10 bid and \$10.50 asked and a client wants to sell 1,000 shares, it would be inappropriate for a Participant to do a principal trade at \$10.05 if the security has been trading heavily at \$10.50 and there is strong bidding for the security at \$10 compared to the number of securities being offered at \$10.50. The condition of the market suggests that the client should be able to sell at a better price than \$10.05. Accordingly, the Participant as agent for the client should post an offer at \$10.45</p>



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<p>or even \$10.50, depending on the circumstances. The desire of the client to obtain a fill quickly is always a consideration.</p> <p>Of course, if a client expressly consents to a principal trade on a fully-informed basis, following the client’s instructions will be reasonable.</p> <p>In determining the “best available price”, Participants should consider the price and size of orders displayed on marketplaces other than protected marketplaces if such information is available or known to the Participant. Specifically, we expect an employee of a Participant to use all order price information that is available or known to that employee when determining the “best available price”. For example, an employee that has access to price information from both protected and unprotected marketplaces would be in compliance with the requirement to determine the “best available price” only if all price information from both protected and unprotected marketplaces was considered when executing a principal order or non-client order <u>Dealer Related Person order</u> with a client order. However, a Participant will be considered not to have complied with Rule 8.1 if an employee executes a principal order or non-client order <u>Dealer Related Person order</u> with a client order at a better price which is inferior to the price that would have been available to the client on a displayed marketplace that is not a protected marketplace and the employee executes, in whole or in part, with the order displayed on the marketplace that is not a protected marketplace.</p>	<p>or even \$10.50, depending on the circumstances. The desire of the client to obtain a fill quickly is always a consideration.</p> <p>Of course, if a client expressly consents to a principal trade on a fully-informed basis, following the client’s instructions will be reasonable.</p> <p>In determining the “best available price”, Participants should consider the price and size of orders displayed on marketplaces other than protected marketplaces if such information is available or known to the Participant. Specifically, we expect an employee of a Participant to use all order price information that is available or known to that employee when determining the “best available price”. For example, an employee that has access to price information from both protected and unprotected marketplaces would be in compliance with the requirement to determine the “best available price” only if all price information from both protected and unprotected marketplaces was considered when executing a principal order or Dealer Related Person order with a client order. However, a Participant will be considered not to have complied with Rule 8.1 if an employee executes a principal order or Dealer Related Person order with a client order at a better price which is inferior to the price that would have been available to the client on a displayed marketplace that is not a protected marketplace and the employee executes, in whole or in part, with the order displayed on the marketplace that is not a protected marketplace.</p>
<p>...</p>	<p>...</p>
<p>10.9 Power of Market Integrity Officials (1) A Market Integrity Official may, in governing trading in securities on the marketplace: ... (g.1) in respect of any trade of a principal order or non-client order <u>Dealer Related Person order</u> that has not complied with the requirements of Rule 5.3, require the Participant to satisfy the client order at the price and up to the volume of the</p>	<p>10.9 Power of Market Integrity Officials (1) A Market Integrity Official may, in governing trading in securities on the marketplace: ... (g.1) in respect of any trade of a principal order or Dealer Related Person order that has not complied with the requirements of Rule 5.3, require the Participant to satisfy the client order at the price and up to the volume of the trade</p>



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trade which failed to comply with the requirements of Rule 5.3 ;	which failed to comply with the requirements of Rule 5.3;
...	...
<p>10.16 Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons</p> <p>(1) An officer, director, partner or employee of a Participant shall forthwith report to their supervisor or the compliance department of the Participant upon becoming aware of activity in a principal account, non-client-Dealer Related Person account or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:</p> <ul style="list-style-type: none"> (a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities; (b) Rule 2.2 respecting manipulative and deceptive activities; (c) Rule 2.3 respecting improper orders and trades; (d) Rule 4.1 respecting frontrunning; (e) Dealer Member Rule 3300 respecting best execution of client orders; (f) Rule 5.3 respecting client priority; (g) Rule 6.4 respecting trades to be on a marketplace; and (h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection. 	<p>10.16 Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons</p> <p>(1) An officer, director, partner or employee of a Participant shall forthwith report to their supervisor or the compliance department of the Participant upon becoming aware of activity in a principal account, Dealer Related Person account or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:</p> <ul style="list-style-type: none"> (a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities; (b) Rule 2.2 respecting manipulative and deceptive activities; (c) Rule 2.3 respecting improper orders and trades; (d) Rule 4.1 respecting frontrunning; (e) Dealer Member Rule 3300 respecting best execution of client orders; (f) Rule 5.3 respecting client priority; (g) Rule 6.4 respecting trades to be on a marketplace; and (h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection.



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<p>1201(2) “non-client accounts” or “non-client orders” Accounts or orders in which the <i>Dealer Member</i> or an <i>Approved Person</i> has a direct or indirect interest other than the commission charged.</p> <p>“Dealer Related Person account” An account that is controlled or directed by:</p> <ul style="list-style-type: none"> (a) <u>an employee or <i>Approved Person</i> of a <i>Dealer Member</i>,</u> (b) <u>an employee of an affiliate of a <i>Dealer Member</i>,</u> or (c) <u>an employee of a related entity of a <i>Participant</i></u> <p>whose role or function would have access to:</p> <ul style="list-style-type: none"> (i) <u>a material fact or material change with respect to an issuer that is in possession of the <i>Dealer Member</i> and that has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer,</u> or (ii) <u>trading-related information that is in possession of the <i>Dealer Member</i> that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade</u> <p>where the control or direction is exercised by the <u>employee or <i>Approved Person</i> outside of his or her required role or function.</u></p>	<p>1201(2)</p> <p>“Dealer Related Person account” An account that is controlled or directed by:</p> <ul style="list-style-type: none"> (a) an <i>employee</i> or <i>Approved Person</i> of a <i>Dealer Member</i>, (b) an <i>employee</i> of an affiliate of a <i>Dealer Member</i>, or (c) an <i>employee</i> of a related entity of a <i>Participant</i> <p>whose role or function would access to:</p> <ul style="list-style-type: none"> (i) a material fact or material change with respect to an issuer that is in possession of the <i>Dealer Member</i> and that has not been generally disclosed and would reasonably be expected to affect the price of a security of that issuer, or (ii) trading-related information that is in possession of the <i>Dealer Member</i> that could reasonably be expected to affect interest in the purchase or sale of a security or the execution of a trade <p>where the control or direction is exercised by the <i>employee</i> or <i>Approved Person</i> outside of his or her required role or function.</p>
<p>1201(2) “Dealer Related Person order” An order for the purchase or sale of a security for a <i>Dealer Related Person account</i>.</p>	<p>1201(2) “Dealer Related Person order” An order for the purchase or sale of a security for a <i>Dealer Related Person account</i>.</p>
<p>...</p>	<p>...</p>
<p>1201(2) “Dealer Member account” Account in which a <i>Dealer Member</i> holds a direct or indirect interest other than the commission charged.</p>	<p>1201(2) “Dealer Member account” Account in which a <i>Dealer Member</i> holds a direct or indirect interest other than the commission charged.</p>
<p>...</p>	<p>...</p>



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<p>1201(2) <u>“Participant”</u> <u>The same meaning as set out in the Universal Market Integrity Rules, section 1.1.</u></p>	<p>1201(2) “Participant” The same meaning as set out in the Universal Market Integrity Rules, section 1.1.</p>
<p>...</p>	<p>...</p>
<p>1201(2) <u>“related entity”</u> <u>The same meaning as set out in the Universal Market Integrity Rules, section 1.1.</u></p>	<p>1201(2) “related entity” The same meaning as set out in the Universal Market Integrity Rules, section 1.1.</p>
<p>...</p>	<p>...</p>
<p>2410. Type 1 introducing broker/carrying broker arrangement – requirements ... (19) Reporting of <i>introducing broker</i> principal positions (i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report. (ii) The <i>carrying broker</i> must report the balance of the principal trading account <u>Dealer Member account</u> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>	<p>2410. Type 1 introducing broker/carrying broker arrangement – requirements ... (19) Reporting of <i>introducing broker</i> principal positions (i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report. (ii) The <i>carrying broker</i> must report the balance of the <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>
<p>...</p>	<p>...</p>
<p>2415. Type 2 introducing broker/carrying broker arrangement – requirements ... (19) Reporting of <i>introducing broker</i> principal positions (i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report. (ii) The <i>carrying broker</i> must report the balance of the principal trading account <u>Dealer Member account</u> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>	<p>2415. Type 2 introducing broker/carrying broker arrangement – requirements ... (19) Reporting of <i>introducing broker</i> principal positions (i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report. (ii) The <i>carrying broker</i> must report the balance of the <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>
<p>...</p>	<p>...</p>



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<p>2420. Type 3 introducing broker/carrying broker arrangement – requirements</p> <p>...</p> <p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The <i>carrying broker</i> must report the balance of the principal trading account <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>	<p>2420. Type 3 introducing broker/carrying broker arrangement – requirements</p> <p>...</p> <p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The <i>carrying broker</i> must report the balance of the <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>
...	...
<p>2425. Type 4 introducing broker/carrying broker arrangement – requirements</p> <p>...</p> <p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The <i>carrying broker</i> must report the balance of the principal trading account <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>	<p>2425. Type 4 introducing broker/carrying broker arrangement – requirements</p> <p>...</p> <p>(19) Reporting of <i>introducing broker</i> principal positions</p> <p>(i) The <i>introducing broker</i> must report all its principal positions carried by a <i>carrying broker</i> as inventory on its Form 1 and Monthly Financial Report.</p> <p>(ii) The <i>carrying broker</i> must report the balance of the <i>Dealer Member account</i> the <i>introducing broker</i> has with the <i>carrying broker</i> on its Form 1 and Monthly Financial Report.</p>
...	...
<p>3214. Opening new client accounts</p> <p>...</p> <p>(6) Before opening an account for an <i>employee</i> of another <i>Dealer Member</i>, the <i>Dealer Member</i> must:</p> <p>(i) obtain written approval from the other <i>Dealer Member</i>, and</p> <p>(ii) must designate the account as non-client account <i>a Dealer Related Person account if applicable</i>.</p>	<p>3214. Opening new client accounts</p> <p>...</p> <p>(6) Before opening an account for an <i>employee</i> of another <i>Dealer Member</i>, the <i>Dealer Member</i> must:</p> <p>(i) obtain written approval from the other <i>Dealer Member</i>, and</p> <p>(ii) designate the account as <i>a Dealer Related Person account</i> if applicable.</p>
...	...



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<p>3503. Client Priority</p> <p>...</p> <p>(2) The <i>Dealer Member</i> must not give priority to <i>Dealer Related Person orders or orders for Dealer Member accounts orders for an account in which the Dealer Member or an employee or Approved Person of the Dealer Member has a direct or indirect interest, other than an interest in the commission charged.</i></p> <p>(3) Where investment decisions are made centrally and applied across a number of <i>managed accounts</i>, subsections 3503(1) and 3503(2) do not apply to <i>Dealer Related Person accounts</i> that are <i>the managed accounts of partners, Directors, officers, employees or Approved Persons of a Dealer Member</i> <i>who and</i> participate in a <i>managed account</i> program on the same basis as client accounts.</p>	<p>3503. Client Priority</p> <p>...</p> <p>(2) The <i>Dealer Member</i> must not give priority to <i>Dealer Related Person orders</i> or orders for <i>Dealer Member accounts</i>.</p> <p>(3) Where investment decisions are made centrally and applied across a number of <i>managed accounts</i>, subsections 3503(1) and 3503(2) do not apply to <i>Dealer Related Person accounts</i> that are <i>managed accounts</i> and participate in a <i>managed account</i> program on the same basis as client accounts.</p>
<p>...</p>	<p>...</p>
<p>3945. Daily and monthly trade supervision</p> <p>...</p> <p>(4) The <i>Dealer Member</i> must specifically designate the following <i>retail client</i> accounts for supervision purposes:</p> <ul style="list-style-type: none"> (i) <i>non-client accounts Dealer Related Person accounts;</i> (ii) <i>discretionary accounts;</i> (iii) <i>managed accounts;</i> (iv) registered accounts; and (v) restricted accounts. 	<p>3945. Daily and monthly trade supervision</p> <p>...</p> <p>(4) The <i>Dealer Member</i> must specifically designate the following <i>retail client</i> accounts for supervision purposes:</p> <ul style="list-style-type: none"> (i) <i>Dealer Related Person accounts;</i> (ii) <i>discretionary accounts;</i> (iii) <i>managed accounts;</i> (iv) registered accounts; and (v) restricted accounts.
<p>...</p>	<p>...</p>
<p>3946. Additional supervisory responsibilities</p> <p>(1) In addition to transactional activity, the <i>Dealer Member's</i> policies and procedures must specifically address identifying, dealing with and informing the appropriate <i>Supervisors</i> of other client related matters, including:</p> <ul style="list-style-type: none"> (i) client complaints, (ii) cash account violations, (iii) transfers of funds and securities between unrelated accounts or between 	<p>3946. Additional supervisory responsibilities</p> <p>(1) In addition to transactional activity, the <i>Dealer Member's</i> policies and procedures must specifically address identifying, dealing with and informing the appropriate <i>Supervisors</i> of other client related matters, including:</p> <ul style="list-style-type: none"> (i) client complaints, (ii) cash account violations, (iii) transfers of funds and securities between unrelated accounts or between



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<p>non-client accounts Dealer Related Person accounts and client accounts or deposits from non-client accounts Dealer Related Person accounts to client accounts, and (iv) trading while the account is under margined.</p>	<p>Dealer Related Person accounts and client accounts or deposits from Dealer Related Person accounts to client accounts, and (iv) trading while the account is under margined.</p>
<p>...</p>	<p>...</p>
<p>3950: Supervisory policies and procedures for institutional client accounts</p> <p>...</p> <p>(2) In addition to meeting the Dealer Member’s general supervisory obligations, including any relevant obligations relating to trading in securities, debt securities, options, futures contracts and futures contract options, the policies and procedures relating to the supervision of institutional client accounts must specifically address detecting improper or suspicious account activity including:</p> <p>(i) manipulative and deceptive activities,</p> <p>(ii) trading in securities on the Dealer Member’s restricted list,</p> <p>(iii) front running by Dealer Related Person accounts or Dealer Member accounts employee or proprietary accounts,</p> <p>(iv) trading in securities that have restrictions on their transfer, and</p> <p>(v) exceeding position or exercise limits on derivative products.</p>	<p>3950: Supervisory policies and procedures for institutional client accounts</p> <p>...</p> <p>(2) In addition to meeting the Dealer Member’s general supervisory obligations, including any relevant obligations relating to trading in securities, debt securities, options, futures contracts and futures contract options, the policies and procedures relating to the supervision of institutional client accounts must specifically address detecting improper or suspicious account activity including:</p> <p>(i) manipulative and deceptive activities,</p> <p>(ii) trading in securities on the Dealer Member’s restricted list,</p> <p>(iii) front running by Dealer Related Person accounts or Dealer Member accounts,</p> <p>(iv) trading in securities that have restrictions on their transfer, and</p> <p>(v) exceeding position or exercise limits on derivative products.</p>
<p>...</p>	<p>...</p>
<p>4424: Clearing</p> <p>...</p> <p>(6) A Dealer Member must not use a client account security position to settle a short Dealer Related Person account or Dealer Member account “pre” sales unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:</p> <p>(i) a margin account agreement, or</p>	<p>4424: Clearing</p> <p>...</p> <p>(6) A Dealer Member must not use a client account security position to settle a short Dealer Related Person account or Dealer Member account sales unless it has obtained written permission from, and provided appropriate collateral to, the client pursuant to:</p> <p>(i) a margin account agreement, or</p>



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(ii) a cash and security loan agreement, that has been executed in accordance with <i>IIROC requirements</i> .	(ii) a cash and security loan agreement, that has been executed in accordance with <i>IIROC requirements</i> .
...	...
<p>4912: Risk management process</p> <p>...</p> <p>(3) The risk management process has two parts:</p> <p>(i) An appropriate <i>Executive</i> must be knowledgeable of the nature and risks of all <i>derivative</i> products used in treasury, <i>Dealer Member proprietary accounts</i>, institutional and retail activities, and</p> <p>(ii) The <i>Dealer Member's</i> policies and procedures must clearly outline risk management guidance for <i>derivatives</i> activities.</p>	<p>4912: Risk management process</p> <p>...</p> <p>(3) The risk management process has two parts:</p> <p>(i) An appropriate <i>Executive</i> must be knowledgeable of the nature and risks of all <i>derivative</i> products used in treasury, <i>Dealer Member accounts</i>, institutional and retail activities, and</p> <p>(ii) The <i>Dealer Member's</i> policies and procedures must clearly outline risk management guidance for <i>derivatives</i> activities.</p>
...	...
<p>5110: Margin requirements – purposes</p> <p>(1) The purposes of margin requirements are to:</p> <p>(i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate, and</p> <p>(ii) set base line market and credit risk requirements that a <i>Dealer Member</i> must adhere to when engaging in <i>Dealer Member account proprietary</i> trading or client account margin lending.</p>	<p>5110: Margin requirements – purposes</p> <p>(1) The purposes of margin requirements are to:</p> <p>(i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate, and</p> <p>(ii) set base line market and credit risk requirements that a <i>Dealer Member</i> must adhere to when engaging in <i>Dealer Member account</i> trading or client account margin lending.</p>
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<p>7103. Policies and procedures</p> <p>...</p> <p>(2) A <i>Dealer Member's</i> policies and procedures must specifically address the following items for the <i>debt securities</i> markets:</p> <p>(i) restrictions of, and <i>controls over</i>, trading in <i>non-client accounts Dealer Related Person accounts</i>,</p>	<p>7103. Policies and procedures</p> <p>...</p> <p>(2) A <i>Dealer Member's</i> policies and procedures must specifically address the following items for the <i>debt securities</i> markets:</p> <p>(i) restrictions of, and <i>controls over</i>, trading in <i>Dealer Related Person accounts</i>,</p>