

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
UMIR

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Housekeeping amendments to the provisions respecting Trading Supervision Obligations

Executive Summary

On May 24, 2018 IIROC's Board of Directors (**Board**) approved housekeeping amendments to the following parts of UMIR Policy 7.1:

- Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace
- Part 4 – Specific Procedures Respecting Client Priority and Best Execution

These housekeeping amendments (Collectively, the **Amendments**):

- change the best execution rule references in Parts 3 and 4 from Rule 5.1 to Dealer Member Rule (**DMR**) 3300
- delete the portions related to best execution in Part 4 that are now covered in DMR 3300

The Amendments are effective immediately.



1. Discussion of Amendments

1.1 Analysis

Amendments to UMIR Policy 7.1, Parts 3 and 4 were finalized¹ in September 2017 but do not reflect changes made under previous UMIR amendments respecting best execution² (**Best Execution Amendments**). These housekeeping changes update rule references and delete portions of Policy 7.1 that are now covered in DMR 3300.

Set out below is a brief description of the Amendments:

UMIR Reference	Nature of Amendment
Policy 7.1 – Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace	Rule reference correction
Policy 7.1 – Part 4 – Specific Procedures Respecting Client Priority and Best Execution	Typographical and Rule reference correction

Classification of the Amendments

We have classified the Amendments as “housekeeping” because they:

- do not represent a material change to IIROC rules
- have no material impact on investors, issuers, Participants or the capital markets in Canada as they:
 - correct inaccurate cross-referencing and typographical mistakes
 - make necessary changes of an editorial nature.

2. Impacts of the Amendments

We do not expect these Amendments to impact any stakeholders or IIROC.

Technological implications

We do not expect these amendments to impact a Participant’s systems, or the systems of its service providers.

¹ IIROC Notice [17-0189](#) – Rules Notice – *Amendments Respecting Trading Supervision Obligations* (September 28, 2017)

² IIROC Notice [17-0137](#) – Rules Notice – *Amendments Respecting Best Execution* (July 6, 2017)



3. Policy Development Process

Regulatory purpose

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

In deciding on the Amendments, IIROC identified a need to ensure UMIR is up-to-date by correcting inaccurate cross-referencing and typographical mistakes.

The Amendments are housekeeping in nature and not detrimental to the best interests of the capital markets. As a result, the Board has classified the Amendments as a "Housekeeping Rule" that is not contrary to the public interest.

4. Attachments

Attachment A – Housekeeping amendments to UMIR Policy 7.1

Attachment B – Text of UMIR to reflect housekeeping amendments to UMIR Policy 7.1



Attachment A – Housekeeping amendments to UMIR Policy 7.1

The Universal Market Integrity Rules are hereby amended as follows:

1. Part 3 of Policy 7.1 is amended by deleting “(Rule 5.1)” and replacing with “(Dealer Member Rule 3300)” in bullet 11 on best execution.
2. Part 4 of Policy 7.1 is amended by:
 - (a) deleting the phrase “and Best Execution” from the title of the part;
 - (b) adding “.” after the phrase “does not violate Rule 5.3”;
 - (c) deleting the following:

“or 5.1. A Participant must have policies and procedures in place to “diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances”. The policies and procedures must:

 - outline a process designed to achieve best execution;
 - require the Participant, subject to compliance by the Participant with any Requirement, to follow the instructions of the client and to consider the investment objectives of the client;
 - include the process for taking into account order and trade information from all appropriate marketplaces and foreign organized regulated markets; and
 - describe how the Participant evaluates whether “best execution” was obtained.

In order to demonstrate that a Participant has “diligently pursued” the best execution of a particular client order, the Participant must be able to demonstrate that it has abided by the policies and procedures. At a minimum, the written compliance procedures must address employee education and post-trade monitoring”;
 - (d) replacing “Rules 5.3” with “Rule 5.3” after the phrase “order handling is allowed under”;
 - (e) replacing “5.1” with “Dealer Member Rule 3300” before the phrase “as this is done to ensure that the client gets a good execution.”



Attachment B - Text of UMIR to reflect housekeeping amendments to UMIR Policy 7.1

Text of Provisions following Adoption of the Housekeeping Amendments	Text of Current Provisions Marked to Reflect Adoption of the Housekeeping Amendments
<p>Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace <i>Each Participant must develop, implement and maintain supervision and compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements. Participants must identify any high-risk areas and ensure that their policies and procedures are adequately designed to address these heightened risks. In developing supervision systems, Participants must identify any exception reports, trading data and any other relevant documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.</i></p> <p><i>Each Participant must develop written policies and procedures in relation to all Requirements that apply to their business activities. A Participant’s supervision system must at a minimum include the regular review of compliance with respect to the following provisions for trading on a marketplace where applicable to their lines of business:</i></p> <ul style="list-style-type: none"> • <i>Audit Trail requirements (Rule 10.11)</i> • <i>Electronic Access to Marketplaces (Rule 7.1)</i> 	<p>Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace <i>Each Participant must develop, implement and maintain supervision and compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements. Participants must identify any high-risk areas and ensure that their policies and procedures are adequately designed to address these heightened risks. In developing supervision systems, Participants must identify any exception reports, trading data and any other relevant documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.</i></p> <p><i>Each Participant must develop written policies and procedures in relation to all Requirements that apply to their business activities. A Participant’s supervision system must at a minimum include the regular review of compliance with respect to the following provisions for trading on a marketplace where applicable to their lines of business:</i></p> <ul style="list-style-type: none"> • <i>Audit Trail requirements (Rule 10.11)</i> • <i>Electronic Access to Marketplaces (Rule 7.1)</i>



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<ul style="list-style-type: none"> • <i>Specific Unacceptable Activities (Rule 2.1)</i> • <i>Manipulative and Deceptive Activities (Rule 2.2)</i> • <i>Trading in restricted securities (Rule 7.7)</i> • <i>Trading of grey list securities (Rule 2.2)</i> • <i>Disclosure requirements (Rule 10.1)</i> • <i>Frontrunning (Rule 4.1)</i> • <i>Client/Principal Trading (Rule 8.1)</i> • <i>Client Priority (Rule 5.3)</i> • <i>Best Execution (Dealer Member Rule 3300)</i> • <i>Order Exposure requirements (Rule 6.3)</i> • <i>Time synchronization requirements (Rule 10.14).</i> <p><i>Each Participant must develop, implement and maintain a risk-based supervision system that identifies and prioritizes those areas that pose the greatest risk of violations of Requirements. This enables the Participant to focus its review on the areas that pose a higher risk of non-compliance with Requirements. The frequency of review and sample size used in reviews must be commensurate with, among other things:</i></p> <ul style="list-style-type: none"> • <i>the Participant's size (considering factors such as revenue, market share, market exposure and volume of trades)</i> • <i>the Participant's organizational structure</i> • <i>number and location of the Participant's offices</i> • <i>the nature and complexity of the products and services offered by the Participant</i> • <i>the number of registrants assigned to a location</i> • <i>the disciplinary history of registered representatives or associated persons</i> 	<ul style="list-style-type: none"> • <i>Specific Unacceptable Activities (Rule 2.1)</i> • <i>Manipulative and Deceptive Activities (Rule 2.2)</i> • <i>Trading in restricted securities (Rule 7.7)</i> • <i>Trading of grey list securities (Rule 2.2)</i> • <i>Disclosure requirements (Rule 10.1)</i> • <i>Frontrunning (Rule 4.1)</i> • <i>Client/Principal Trading (Rule 8.1)</i> • <i>Client Priority (Rule 5.3)</i> • <i>Best Execution (Rule 5.4) (Dealer Member Rule 3300)</i> • <i>Order Exposure requirements (Rule 6.3)</i> • <i>Time synchronization requirements (Rule 10.14).</i> <p><i>Each Participant must develop, implement and maintain a risk-based supervision system that identifies and prioritizes those areas that pose the greatest risk of violations of Requirements. This enables the Participant to focus its review on the areas that pose a higher risk of non-compliance with Requirements. The frequency of review and sample size used in reviews must be commensurate with, among other things:</i></p> <ul style="list-style-type: none"> • <i>the Participant's size (considering factors such as revenue, market share, market exposure and volume of trades)</i> • <i>the Participant's organizational structure</i> • <i>number and location of the Participant's offices</i> • <i>the nature and complexity of the products and services offered by the Participant</i> • <i>the number of registrants assigned to a location</i> • <i>the disciplinary history of registered representatives or associated persons</i>



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<ul style="list-style-type: none"> the risk profile of the Participant’s business and any indicators of irregularities or misconduct i.e. “red flags”. 	<ul style="list-style-type: none"> the risk profile of the Participant’s business and any indicators of irregularities or misconduct i.e. “red flags”.
<p>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.</p> <p>The purpose of the Participant’s compliance review is to ensure that inventory or non-client 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. 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>Part 4 – Specific Procedures Respecting Client Priority and Best Execution Each Participant must develop, implement and maintain a supervision system to ensure its trading does not violate Rule 5.3. or 5.1.</p> <p>A Participant must have policies and procedures in place to “diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances”. The policies and procedures must:</p> <ul style="list-style-type: none"> outline a process designed to achieve best execution; require the Participant, subject to compliance by the Participant with any Requirement, to follow the instructions of the client and to consider the investment objectives of the client; include the process for taking into account order and trade information from all appropriate marketplaces and foreign organized regulated markets; and describe how the Participant evaluates whether “best execution” was obtained. <p>In order to demonstrate that a Participant has “diligently pursued” the best execution of a particular client order, the Participant must be able to demonstrate that it has abided by the policies and procedures. At a minimum, the written compliance procedures must address employee education and post-trade monitoring.</p>



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	<p><i>The purpose of the Participant’s compliance review is to ensure that inventory or non-client 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. Withholding an order for normal review and order handling is allowed under Rules 5.3 and 5.4 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.</i></p>