Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 Notice of Commission Approval – IIROC UMIR Amendments Relating to Market Maker, Odd Lot and Other Marketplace Trading Obligations

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

PROVISIONS RESPECTING MARKET MAKER, ODD LOT AND OTHER MARKETPLACE TRADING OBLIGATIONS

NOTICE OF COMMISSION APPROVAL

The Ontario Securities Commission approved proposed amendments to the Universal Market Integrity Rules (UMIR). In addition, the British Columbia Securities Commission did not object to, and the Alberta Securities Commission, the Autorité des marchés financiers, the Saskatchewan Financial Services Commission, the Nova Scotia Securities Commission and the New Brunswick Securities Commission approved the proposed amendments. The objective of the amendments is to make changes to UMIR that would replace the definition of "Market Maker Obligations" with "Marketplace Trading Obligations". The new definition would differ from the current definition in two material respects.

The proposed amendments were published for comment on April 23, 2010, at (2010) 33 OSCB 3865, and one comment was received. A summary of the comment and IIROC's response and a copy of the approved amendments are included in Chapter 13 of this Bulletin.

NOTICE OF COMMISSION APPROVAL – PROVISIONS RESPECTING MARKET MAKER, ODD LOT AND OTHER MARKETPLACE TRADING OBLIGATIONS

11-0251
August 26, 2011

Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations

Summary

This IIROC Notice provides notice that, on August 26, 2011, the applicable securities regulatory authorities approved amendments ("Amendments") to the Universal Market Integrity Rules ("UMIR") respecting market maker, odd lot and other marketplace trading obligations ("Marketplace Trading Obligations").[1] In particular, the Amendments which are **effective August 26, 2011**:

- replace the definition of "Market Maker Obligations" with a definition of "Marketplace Trading Obligations" that:
    - o includes contractual arrangements between a marketplace and a member, user or subscriber to that marketplace to guarantee the execution of orders for purchase or sale of a security that are for less than one standard trading unit by means of orders for the member, user or subscriber being automatically generated by the trading system of the marketplace, and
    - o allows Exchanges and QTRSs to have Marketplace Rules that provide for either an obligation to maintain reasonably continuous two-sided market or a guarantee of execution of orders which are less than a minimum number of units of the security as designated by the marketplace; and
- make a number of editorial changes to various Rules to reflect the replacement of the definition of "Market Maker Obligations" with "Marketplace Trading Obligations".

Summary of the Amendments

The following is a summary of the principal components of the Amendments:

Definition of "Marketplace Trading Obligations"

The Amendments replace the definition of "Market Maker Obligations" with a definition of "Marketplace Trading Obligations". The new definition is different from the previous definition of "Market Maker Obligations" in two material respects.

The definition of "Market Maker Obligations" required that an Exchange or QTRS obligate the person to guarantee a two-sided market **and** guarantee the execution of any order which is less than a minimum number of units of the security as designated by the Exchange or QTRS. The Amendments allow more flexibility for an Exchange or a QTRS to structure their market maker system by permitting a market maker to be obligated to provide either one or both functions.

The Amendments recognize that a marketplace (be it an Exchange, QTRS or ATS) might introduce elements of a market making system by means of a contract between the marketplace and a member, user or subscriber to guarantee the execution of "odd lot" orders, being orders for less than one standard trading unit[2]. However, the "odd lot" orders for the member, user or subscriber must be automatically generated by the trading system of the marketplace.

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1 Reference should be made to IIROC Notice 10-0113 – Rules Notice – Request for Comments – UMIR – *Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations* (April 23, 2010) with which the proposed amendments were published for public comment. There has been no change in the text of the Amendments from the proposed amendments set out in that notice.

2 For the purposes of UMIR, a standard trading unit is: 100 units of a security trading at $1.00 or more per unit; 500 units of a security trade at $0.10 or more per unit and less than $1.00 per unit; and 1,000 units of a security trading at less than $0.10 per unit. An "odd lot" order qualifies as a "Special Terms Order" which does not establish the best ask price or the best bid price and, upon execution, does not establish the last sale price.

Protections and Exemptions for Persons with Marketplace Trading Obligations

The Amendments extend certain protections under UMIR and certain exemptions from the requirements of UMIR that were previously applicable to persons with "Market Maker Obligations" to persons with "Marketplace Trading Obligations". In particular:

Consequential Amendments

With the replacement of the definition of "Market Maker Obligations" with "Marketplace Trading Obligations", there was a need to conform the language used in various provisions of UMIR including:

- Rule 1.1 – Definitions (definition of "dealer-restricted person");
- Policy 2.1 – Just and Equitable Principles;
- Rule 2.2 – Manipulative and Deceptive Activities;
- Rule 3.1 – Restrictions on Short Selling;
- Rule 3.2 – Prohibition on Entry of Orders;
- Rule 5.3 – Client Priority; and
- Rule 7.7 and Policy 7.7 – Trading During Certain Securities Transactions.

Prior to the approval of the Amendments, IIROC had, on an informal basis, allowed subscribers with "odd lot" obligations to use various exemptions under UMIR which were available to persons with "Market Maker Obligations". IIROC permitted this since at least one ATS was allowed by the securities regulatory authorities to introduce an odd-lot arrangement which requires participating subscribers who are Participants to execute at the prevailing market price executable orders for less than one standard trading unit.

Rule 2.1 - Prohibition on the Abuse of Persons with Market Maker Obligations

Rule 2.1 of UMIR requires each Participant and Access Person to transact business openly and fairly when trading on a marketplace. Without limiting the generality of the Rule, Policy 2.1 sets out a number of examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly, including a provision to prevent "abuse of a person with Marketplace Trading Obligations". Under clause (d) of Part 1 of Policy 2.1, a Participant or Access Person may not, when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally enter on that marketplace on a particular trading day two or more orders which would impose an obligation on the person with Marketplace Trading Obligations to:

- execute with one or more of the orders, or
- purchase at a higher price or sell at a lower price with one or more of the orders

in accordance with the Marketplace Trading Obligations that would not be imposed on that person if the orders had been entered on the marketplace as a single order or entered at the same time. In essence, this provision stipulates that an order cannot be "shredded" to intentionally trigger the Marketplace Trading Obligation to fill the "shredded portions" of the order.

Rule 2.2 – Manipulative and Deceptive Activities

Rule 2.2 of UMIR provides that a Participant or Access Person shall not, directly or indirectly, engage in or participate in the use of any manipulative or deceptive method, act or practice in connection with any order or trade on a marketplace if the Participant or Access Person knows or ought reasonably to know the nature of the method, act or practice. In addition, a Participant or Access Person shall not, directly or indirectly, enter an order or execute a trade on a marketplace if the Participant or Access Person knows or ought reasonably to know that the entry of the order or the execution of the trade will create or could reasonably be expected to create:

- a false or misleading appearance of trading activity in or interest in the purchase or sale of the security; or
- an artificial ask price, bid price or sale price for the security or a related security.

The Rule also confirms that the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Marketplace Trading Obligations shall not be considered a violation of prohibitions on manipulative and deceptive activities provided such order or trade complies with applicable Marketplace Rules or marketplace requirements and the order or trade was required to fulfill applicable Marketplace Trading Obligations.

Rule 3.1 - Restrictions on Short Selling

Rule 3.1 provides that a short sale may not be made at a price which is less than the last sale price for that security.[3] A person with Marketplace Trading Obligations is exempt from this restriction in respect of a sale made in furtherance of their Marketplace Trading Obligations. The exemption is necessary to ensure that a person with an obligation to maintain a two-side market is able to do so. In addition, the trading system of the marketplace will automatically generate certain sell orders to match against orders to purchase less than a standard trading unit or other “minimum guaranteed size” and these automatically generated trades could be short sales. In these circumstances, the person with Marketplace Trading Obligations does not have any discretion in undertaking the trade and, as such, the trade is not being undertaken with the intent to negatively affect market prices. However, if a person with Marketplace Trading Obligations enters a short sale for a particular security that is outside their Marketplace Trading Obligations, the order will be subject to any applicable restrictions on the price at which the short sale may be made.

Rule 3.2 – Prohibition on Entry of Orders

Rule 3.2 of UMIR provides that an order may not be entered on a marketplace that would on execution be a short sale unless the order has been marked as a “short sale”. The Rule also prohibits the entry of a short sale order if the security has been designated as a “Short Sale Ineligible Security”.[4] Persons with Marketplace Trading Obligations are exempted from the marking requirement for orders which are automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace. Persons with Marketplace Trading Obligations are also given an exemption to be able to make a short sale in a security that has been designated as a “Short Sale Ineligible Security” provided such sale is made in furtherance of the Marketplace Trading Obligations.

Rule 5.3 – Client Priority

Rule 5.3 provides that a Participant may not knowingly execute a principal or non-client order in priority to a client order on the same side of the market at the same or better price than the client order. An exemption is provided for orders of a person with Marketplace Trading Obligations if the order is automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace. As the orders are being generated without the intervention of the Participant, such orders are not considered to be an attempt to trade ahead of a client order.

Rule 7.7 – Trading During Certain Securities Transactions

Rule 7.7 restricts the price at which a “dealer-restricted person”, generally a Participant involved in certain securities transactions that involve the issuance of treasury securities and for which the Participant acts as an underwriter, adviser or agent, may bid for or purchase a “restricted security” at various times during the transaction. An exemption is provided for persons with Marketplace Trading Obligations to allow them to fulfill their obligations as market makers, including their ability to cover a short position resulting from sales made under their Marketplace Trading Obligations.

Summary of the Impact of the Amendments

The following is a summary of the most significant impacts of the adoption of the Amendments:

- confirm that the “abuse” of an odd-lot dealer is a violation of the requirement to conduct trading openly and fairly;
- confirm that Participants with contractual odd-lot arrangements are able to rely on various exemptions in UMIR principally related to short selling, client priority and trading during certain securities transactions; and
- provide marketplaces with more flexibility in structuring their market making systems by:

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3 IIROC has proposed the repeal of Rule 3.1. See IIROC Notice 11-0075 – Rules Notice – Request for Comments – UMIR – *Provisions Respecting Regulation of Short Sales and Failed Trades* (February 25, 2011).

4 For more details on Rule 3.2, reference should be made to IIROC Notice 08-0143 – Rules Notice – Notice of Approval – UMIR – *Provisions Respecting Short Sales and Failed Trades* (October 15, 2008).

- o allowing Exchanges and QTRSs to have Marketplace Rules that provide for an obligation to maintain reasonably continuous two-sided market and/or a guarantee of execution of orders which are less than a minimum number of units, or

- o allowing marketplaces (including an Exchange or QTRS) to provide for an odd-lot arrangement by a contract.

Exemption from the Payment of Regulation Fees

IIROC has provided an exemption of trades made on a marketplace pursuant to Market Maker Obligations from the payment of the Market Regulation Fee charged by IIROC (the "Exemption").[5] Since October 1, 2004, the Exemption provides a 70% reduction of the Market Regulation Fee that would otherwise be payable by market makers in respect of such trades.

The exemption is limited to market makers who are:

- obligated to provide both a reasonably continuous two-sided market **and** to execute trades in amounts less than a specified minimum number;[6] and

- required to perform a regulatory function which relates principally to the "gatekeeper" obligations to monitor for unusual trading patterns in their securities of responsibility and a positive obligation to report such anomalous trading activity to IIROC and to provide assistance to IIROC in the review and investigation of the trading.

The presence of the obligation to provide a continuous or reasonably continuous two-sided market assists in maintaining a fair and orderly market which is one of the cornerstones of market integrity. The inclusion of the requirement of maintaining a two-sided market contributes to a reduction of the overall cost of regulating trading on that marketplace and to minimizing the cost of regulation of all marketplaces on which the security is traded.

The replacement of the definition of "Market Maker Obligations" with "Marketplace Trading Obligations" will not extend the Exemption to trades involving odd-lot arrangements on an ATS as Participants undertaking odd-lot arrangements on a marketplace are not required to perform a regulatory function. Market Makers who perform a regulatory function and who also have other market maker obligations, including responsibilities for odd-lot trades, will continue to qualify for the Exemption in respect of such odd-lot trades.

IIROC has proposed to replace the existing Market Regulation Fee model which allocates the costs of market regulation based on volume traded with a new model that will recover information technology costs of the surveillance system based on the number of messages processed by the surveillance system and recover other market regulation costs based on the number of trades.[7] Under the proposed new Market Regulation Fee model, which is subject to approval by the applicable securities regulatory authorities and has a proposed effective date of April 1, 2012, there would be no discount in the number of messages generated by market makers for the purpose of calculating the recovery of information technology costs but the number of trades by market makers would be discounted by 70% for the purposes of calculating the recovery of other market regulation costs. Under the proposed Regulation Fee Model, there is no change in the qualifications which a market maker must meet in order to be entitled to the discount.

Appendices

- Appendix "A" sets out the text of the Amendments to UMIR respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations; and

- Appendix "B" sets out a summary of the comment letter received in response to the Request for Comments on the proposed amendments as set out in IIROC Notice 10-0113 – Rules Notice – Request for Comments – UMIR – *Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations* (April 23, 2010). Appendix "B" also sets out the response of IIROC to the comment received and provides additional commentary on the Amendments. Appendix "B" contains the text of the relevant provisions of the Rules and Policies as they read following the adoption of the Amendments. There have been no changes in the text of the Amendments from the proposed amendments set out in IIROC Notice 10-0113

[5] Market Integrity Notice 2004-028 – Guidance - *Revised Exemption of Trades Pursuant to Market Maker Obligations from Payment of Regulation Fees* (October 6, 2004).

[6] Under the Amendments, a "market maker" in accordance with the rules of an Exchange or QTRS who performs only one of the functions of providing a reasonably continuous two-sided market and execution of trades in amounts less than a specified minimum number will be entitled to protections and exemptions available under UMIR for persons with Marketplace Trading Obligations but such persons will not receive the Exemption.

[7] For more information on the proposed new model, see IIROC Notice 11-0125 – Administrative Notice – Request for Comments – *Republication of Market Regulation Fee Model* (April 14, 2011).

Appendix "A"

Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations

The Universal Market Integrity Rules are hereby amended as follows:

1. Rule 1.1 is amended by:

   (a) in the definition of "dealer-restricted person", deleting the phrase "Market Maker Obligations" and substituting "Marketplace Trading Obligations";

   (b) deleting the definition of "Market Maker Obligations"; and

   (c) inserting the following definition of "Marketplace Trading Obligations":
   "Marketplace Trading Obligations" means obligations imposed by:

      (a) Marketplace Rules on a member or user or a person employed by a member or user to guarantee:

         (i) a two-sided market for a particular security on a continuous or reasonably continuous basis, or

         (ii) the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace; or

      (b) contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one standard trading unit and the orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.

2. Subsection (3) of Rule 2.2 is amended by:

   (a) inserting after the phrase "Marketplace Rules" the phrase "or terms of the contract with the marketplace"; and

   (b) deleting each occurrence of the phrase "Market Maker Obligations" and substituting "Marketplace Trading Obligations".

3. Clause (b) of subsection (2) of Rule 3.1 is deleted and the following substituted:

      (b) made in furtherance of the Marketplace Trading Obligations of that marketplace.

4. Subsection (2) of Rule 3.2 is amended by:

   (a) deleting the phrase "an Exchange or QTRS in accordance with the Marketplace Rules" and inserting "a marketplace"; and

   (b) deleting the phrase "applicable Market Maker Obligations" and substituting "Marketplace Trading Obligations of that marketplace".

5. Clause (a) of subsection (3) of Rule 3.2 is deleted and the following substituted:

      (a) in furtherance of the Marketplace Trading Obligations of that marketplace.

6. Subclause (i) of clause (b) of subsection (2) of Rule 5.3 is deleted and the following substituted:

      (i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace.

7. Subsection (7) of Rule 7.7 is deleted and the following substituted:

      (7) **Transactions by Person with Marketplace Trading Obligations -** Despite subsection (1), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in respect of such Marketplace Trading Obligations:

(a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level;

(b) purchase a restricted security pursuant to their Marketplace Trading Obligations; and

(c) bid for or purchase a restricted security:

(i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market,

(ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and

(d) to cover a short position resulting from sales made under their Marketplace Trading Obligations.

The Policies to the Universal Market Integrity Rules are hereby amended as follows:

1. Clause (d) of Part 1 of Policy 2.1 is deleted and the following substituted:

(d) when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the person subject to the Marketplace Trading Obligations:

(i) execute with one or more of the orders, or

(ii) purchase at a higher price or sell at a lower price with one or more of the orders

In accordance with the Marketplace Trading Obligations that would not be imposed if the orders had been entered on the marketplace as a single order or entered at the same time.

2. Policy 7.7 is amended by:

(a) in Part 3, deleting each occurrence of the phrase “Market Maker Obligations” and substituting “Marketplace Trading Obligations”; and

(b) deleting Part 5 and substituting the following:

Part 5 – Trading Pursuant to Marketplace Trading Obligations
Under Rule 7.7(7)(b), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in connection with such Marketplace Trading Obligations, purchase a restricted security pursuant to their Marketplace Trading Obligations. Not every purchase of a restricted security by a person with Marketplace Trading Obligations will be considered to undertaken pursuant to their Marketplace Trading Obligations. For example, if a market making system of an Exchange or QTRS permits a market maker to voluntarily participate in trades that participation may only result in purchases that are:

- made at prices which are permitted by Rule 7.7(4)(a); or
- to cover a short position resulting from sales made under their Marketplace Trading Obligations.

Use of a voluntary participation feature in other circumstances, may result in the market maker not complying with the prohibitions or restrictions on trading under Rule 7.7.

Appendix "B"

Comments Received in Response to Rules Notice 10-0113 – Request For Comments – UMIR *Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations*

On April 23, 2010, the Investment Industry Regulatory Organization of Canada ("IIROC") issued Rules Notice 10-0113 requesting comments on Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations ("Proposed Amendments"). IIROC received comments on the Proposed Amendments from:

QJ Trader Software ("QJ")

A copy of the comment letter in response to the Proposed Amendments is publicly available on the website of IIROC (www.iiroc.ca under the heading "Policy" and sub-heading "Market Proposals/Comments"). The following table presents a summary of the comments received on the Proposed Amendments together with the responses of IIROC to those comments. There has been no change in the text of the Amendments from the Proposed Amendments set out in IIROC Notice 10-0113.

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
1.1 Definitions **"dealer-restricted person"** means, in respect of a particular offered security: … (b) a related entity of the Participant referred to in clause (a) but does not include such related entity, or any separate and distinct department or division of the Participant if: (i) the Participant maintains and enforces written policies and procedures in accordance with Rule 7.1 that are reasonably designed to prevent the flow of information from the Participant regarding the offered security and the related transaction, (ii) the Participant has no officers or employees that solicit client orders or recommend transactions in securities in common with the related entity, department or division, and (iii) the related entity, department or division does not during the restricted period in connection with the restricted security: (A) act as a market maker (other than pursuant to Market Maker Obligations), (B) solicit client orders, or (C) enter principal orders or otherwise engage in proprietary trading; …		
1.1 Definitions **"Marketplace Trading Obligations"** means obligations imposed by: (a) Marketplace Rules on a member or user or a person employed by a member or user to guarantee: (i) a two-sided market for a particular security	**QJ** - Recommends that contractual users should be limited to the predominant marketplace on a particular stock and that such contract should have predetermined limits	The Amendments do not provide any "benefits" relating to a marketplace entering into contractual relationships with a member, user or subscriber as it relates to "Marketplace Trading Obligations". Any marketplace which intends to introduce "Marketplace Trading

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
on a continuous or reasonably continuous basis, or (ii) the execution of orders for the purchase or sale of a particular security which are less thana minimum number of units of the security as designated by the marketplace; or (b) contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one standard trading unit and the orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.	fixed by IIROC in the trading facilities offered by the marketplace to such user.	Obligations" would be subject to all applicable CSA approvals and any applicable public comment periods. If the activity is governed by "contract", the maximum obligation must be less than one standard trading unit (100 shares if the security trades for $1.00 or more; 500 shares for securities trading at $0.10 or more and less than $1.00; and 1,000 shares for securities trading at less than $0.10). In essence, persons with contractual obligations are limited to acting as "Odd Lot" Dealers.
2.2 Manipulative and Deceptive Activities (3) For greater certainty, the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Marketplace Trading Obligations shall not be considered a violation of subsection (1) or (2) provided such order or trade complies with applicable Marketplace Rules or terms of the contract with the marketplace and the order or trade was required to fulfill applicable Marketplace Trading Obligations.		
3.1 Restrictions on Short Selling (2) A short sale of a security may be made on a marketplace at a price below the last sale price if the sale is: …. (b) made in furtherance of the Marketplace Trading Obligations of that marketplace; ….		
3.2 Prohibition on Entry of Orders (1) A Participant or Access Person shall not enter an order to sell a security on a marketplace that on execution would be a short sale: (a) unless the order is marked as a short sale in accordance with subclause 6.2(1)(b)(viii) or subclause 6.2(1)(b)(ix); or (b) if the security is a Short Sale Ineligible Security at the time of the entry of the order. (2) Clause (a) of subsection (1) does not apply to an order automatically generated by the trading system of a marketplace in respect of		

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
the Marketplace Trading Obligations of that marketplace. (3) Clause (b) of subsection (1) does not apply to an order entered on a marketplace: (a) in furtherance of the Marketplace Trading Obligations of that marketplace; ….		
5.3 Client Priority (2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if: …. (b) the principal order or non-client order is: (i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace, ….		
7.7 Trading During Certain Securities Transactions (7) **Transactions by Person with Marketplace Trading Obligations –** Despite subsection (1), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in respect of such Marketplace Trading Obligations: (a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level; (b) purchase a restricted security pursuant to their Marketplace Trading Obligations; and (c) bid for or purchase a restricted security: (i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market, (ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and		

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
(iii) to cover a short position resulting from sales made under their Marketplace Trading Obligations.		
Policy 2.1 - Just and Equitable Principles **Part 1 – Examples of Unacceptable Activity** …. Without limiting the generality of the Rule, the following are examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly or in accordance with just and equitable principles of trade: …. (d) when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the person subject to the Marketplace Trading Obligations: (i) execute with one or more of the orders, or (ii) purchase at a higher price or sell at a lower price with one or more of the orders in accordance with the Marketplace Trading Obligations that would not be imposed if the orders had been entered on the marketplace as a single order or entered at the same time.		
Policy 7.7- Trading During Certain Securities Transactions **Part 3 – Short Position Exemption** Rule 7.7(4)(h) provides an exemption from the prohibitions in subsection (1) for a dealer-restricted person in connection with a bid for or purchase to cover a short position provided that short position was entered into before the commencement of the restricted period. Short positions entered into during the restricted period may be covered by purchases made in reliance upon the market stabilization exemption in Rule 7.7(4)(a), subject to the price limits set out in that exemption. (See “Part 5 – Trading Pursuant to Market Maker Obligations” for a discussion of the ability of persons with Market Maker Obligations to cover short positions arising during the restricted period pursuant to their Market Maker Obligations.)		
Policy 7.7- Trading During Certain Securities Transactions **Part 5 – Trading Pursuant to Marketplace Trading Obligations** Under Rule 7.7(7)(b), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in connection with such Marketplace		

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
Trading Obligations, purchase a restricted security pursuant to their Marketplace Trading Obligations. Not every purchase of a restricted security by a person with Marketplace Trading Obligations will be considered to undertaken pursuant to their Marketplace Trading Obligations. For example, if a market making system of an Exchange or QTRS permits a market maker to voluntarily participate in trades that participation may only result in purchases that are: • made at prices which are permitted by Rule 7.7(4)(a); or • to cover a short position resulting from sales made under their Marketplace Trading Obligations. Use of a voluntary participation feature in other circumstances, may result in the market maker not complying with the prohibitions or restrictions on trading under Rule 7.7.		