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Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Request for Comments
UMIR and Dealer Member Rules

Please distribute internally to:
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13-0255
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Proposed Provisions Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Executive Summary

The proposed amendments are intended to address the policy objective of achieving consistency across all forms of third-party electronic access to marketplaces by ensuring that similar activity that occurs through different forms of third-party electronic access is subject to the same degree of supervision and regulatory oversight. The proposed amendments include:

- proposed amendments to the Dealer Member Rules ("DMR") respecting supervision requirements relating to Order Execution Service ("OES") account activity and the entry of orders to a marketplace ("Proposed DMR Amendments") that would introduce:
    - a requirement that a Dealer Member providing OES ("OES Dealer") include a client identifier ("ID") on each order entered for or on behalf of any client:

    - whose trading activity exceeds a daily average of 100 trades per trading day in any calendar month,
    - whose trading activity exceeds a daily average of 500 orders per trading day in any calendar month, or
    - that is not an individual and registered as a dealer or adviser in accordance with applicable securities legislation;
  - a requirement that a Dealer Member provide to IIROC the identification of the client associated with such client ID; and
  - supervision requirements for OES Dealers that require that the added risks associated with the lack of intermediation by staff of the OES Dealer are addressed in their policies and procedures and systems of supervision and control;
- a definition in the DMR of "Manipulative and Deceptive Activities"; and
- amendments to UMIR ("Proposed UMIR Amendments") that would require a Participant to include on orders sent to a marketplace the client ID, where applicable, on orders originating from an OES Dealer.

The Proposed DMR Amendments and Proposed UMIR Amendments (collectively, the "Proposed Amendments") are intended to build on the framework to regulate various forms of third-party electronic access to marketplaces and complement the amendments to National Instrument 23-103 – *Electronic Trading and Direct Electronic Access* dealing with direct electronic access to marketplaces[1] and the IIROC rules respecting third-party electronic access to marketplaces.[2]

OES Dealers will be impacted by the Proposed Amendments as they will be required to:

- develop a process to identify clients who meet or exceed the thresholds that require the application of a client ID;
- identify any OES client that is not an individual and registered as a dealer or adviser under applicable securities legislation; and
- develop a process to ensure that IIROC is provided each client ID and the identity of the client associated with each client ID.

IIROC expects that the technological implications of the Proposed Amendments on Dealer Members are primarily limited to any development required to establish the above processes, including the placement of client IDs on orders for the requisite OES clients.

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[1] See (2013) 36 OSCB 6771.

[2] See IIROC Notice 13-0184 – Rules Notice – Notice of Approval – UMIR and Dealer Member Rules - Provisions Respecting Third-Party Electronic Access to Marketplaces (July 4, 2013).

Participants that execute for OES Dealers would be required to:

- develop a procedure for obtaining and assigning client IDs to an OES Dealer as required, and
- make any necessary changes to their systems to accommodate the use of client IDs on orders originating from an OES Dealer.

IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the amendments would be implemented ***180 days following the publication of notice of approval of the amendments.***

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1. Policy Development Process

The Market Rules Advisory Committee ("MRAC") of IIROC considered this matter as proposed in concept by IIROC staff. MRAC is an advisory committee comprised of representatives of each of the marketplaces for which IIROC acts as a regulation services provider; Participants, institutional investors and subscribers, and the legal and compliance community. IIROC's Order Execution Sub-Committee ("OES Committee") was consulted during the formation of this proposal. The OES Committee is comprised of representatives of OES Dealers.[3]

The Proposed Amendments consider OES as a form of third-party electronic access to marketplaces and are designed to complement and supplement the provisions in NI 23-103 that regulate electronic trading and direct electronic access. For this reason, the Board of Directors of IIROC ("Board") has determined the Proposed Amendments to be in the public interest. On September 11, 2013, the Board approved the publication for comment of proposed amendments to both the Universal Market integrity Rules and the DMR.

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by ***January 14, 2014*** to:

Kevin McCoy,
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121 King Street West,
Toronto, Ontario. M5H 3T9
e-mail: kmccoy@iiroc.ca

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Suite 2000
121 King Street West,
Toronto, Ontario. M5H 3T9
e-mail: jbulnes@iiroc.ca

[3] Consideration by MRAC and consultation by IIROC staff with the OES Committee should not be construed as approval or endorsement of the Proposed Amendments. Members of MRAC and the OES Committee are expected to provide their personal advice on topics and that advice may not represent the views of their respective organizations as expressed during the public comment process.

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

Susan Greenglass
Director, Market Regulation
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario. M5H 3S8

Fax: (416) 595-8940
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 (www.iiroc.ca ***under the heading "Policy" and sub-heading "Market Proposals/Comments" and/or "Dealer Member Rules - Policy Proposals and Comment") upon receipt. A summary of the comments contained in each submission will also be included in a future IIROC Notice.***

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.

The text of the Proposed UMIR Amendments is set out in Appendix "A" and a blackline of the changes is set out in Appendix "D". The text of the Proposed DMR Amendments is set out in Appendix "B" and a blackline of the changes is set out in Appendix "C".

2. Background to the Proposed Amendments

2.1 Earlier Proposals to Regulate Electronic Access to Marketplaces

In October 2012, IIROC published proposed provisions ("Prior Proposed Provisions") respecting third-party electronic access to marketplaces.[4] The Prior Proposed Provisions recognized that OES was a component of the "closed-system" for the entry of orders to marketplaces. The only means to access a marketplace for the purpose of trading a listed or quoted security is as an Access Person, as a subscriber to an ATS or by or through a Participant as a member of an Exchange or subscriber to an ATS. Unless a client order is directly handled by staff at a Dealer Member, the only access that can be provided to a client falls under one of three options:

- OES,
- direct electronic access ("DEA"), or
- routing arrangement.

The Prior Proposed Provisions recognized that the use of OES may present risks similar to other methods of third-party electronic access. IIROC was of the view that OES was originally intended to provide a non-advised platform for electronic access to a marketplace to Retail Customers and it was inappropriate for OES Dealers to carry accounts of Institutional Customers. Thus, the Prior Proposed Provisions proposed to prohibit accounts for Institutional Customers from being carried by OES Dealers. The policy rationale for this prohibition was to ensure that all third-party electronic access to a marketplace was subject to a consistent level of oversight and compliance and to eliminate any potential regulatory arbitrage between platforms.

The Prior Proposed Provisions further recognized that an OES Dealer may determine that in limited circumstances knowledgeable and experienced Retail Customers, such as ex-professional traders, may be more appropriately serviced through DEA rather than OES.

The Prior Proposed Provisions also prohibited an OES client from:

- generating orders to the Dealer Member that exceed the threshold on the number of orders as set by IIROC from time to time, or
- using its own automated order system to transmit or generate orders for transmission to an OES Dealer for execution on a marketplace.

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[4] See IIROC Notice 12-0315 – Rules Notice – Request for Comments – UMIR and Dealer Member Rules – Proposed Provisions Respecting Third-Party Electronic Access to Marketplaces (October 25, 2012) http://www.iiroc.ca/Documents/2012/10a54816-2575-47c6-8865-ae57ad733663_en.pdf

2.2 Final Provisions Respecting Third-Party Electronic Access to Marketplaces

Following a review of comments received on the Prior Proposed Provisions, and further industry consultation, IIROC did not proceed with the prohibition against OES Institutional Customer accounts. On July 4, 2013 IIROC published final provisions respecting third-party electronic access to marketplaces.[5] The provisions respecting third-party electronic access to marketplaces, including certain provisions related to OES accounts, become effective on March 1, 2014.

2.3 Current DMR Retail Customer Supervision Requirements Respecting Market Integrity

DMR 38.1 and 2500 require each Dealer Member to implement systems of supervision and control and establish minimum standards for Retail Customer account supervision. Under these rules, a Dealer Member is required to establish and maintain policies and procedures designed to supervise account activity for compliance with the DMR and all other laws, regulations and policies applicable to the Dealer Member's securities business. The policies and procedures employed by the Dealer Member to supervise account activity must provide reasonable assurance that its obligations are being met both to its clients and to the market generally, including the prevention of market abuses.

2.4 Current DMR Institutional Customer Supervision Requirements Respecting Market Integrity

DMR 38.1 and DMR 2700 set out the minimum standards for the supervision of account activity for Institutional Customers. A Dealer Member is not precluded from imposing higher standards when warranted. As with the requirements under DMR 2500, the Dealer Member's policies and procedures and the design of the systems of supervision and control must take into consideration all factors necessary to ensure the adequacy of the supervision. The requirements set out in DMR 2700 include supervisory elements that are applicable to both the interests of the client and the interests of the market generally.

The supervisory procedures and compliance monitoring regime should be reasonably designed to detect account activity that may violate applicable securities legislation, requirements of any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place. The supervisory policies and procedures and the systems of supervision and control must be

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[5] See IIROC Notice 13-0184 - Rules Notice – Notice of Approval – UMIR and Dealer Member Rules – Provisions Respecting Third-Party Electronic Access to Marketplaces (July 4, 2013).

reasonably designed to detect account activity which may be harmful to market integrity including manipulative and deceptive activities.

2.5 UMIR Supervision Requirements Respecting Order Entry with Limited Direct Order Handling by Staff of the Participant

Part 1 of UMIR Policy 7.1 provides that a Participant has an obligation to supervise orders which are entered on a marketplace:

- by a trader employed by the Participant;
- by an employee of the Participant though an order routing system;
- directly by a client and routed to a marketplace through the trading system of the Participant; or
- by any other means.

The manner through which an order is entered on a marketplace does not relieve a Participant of responsibility for the supervision of such orders. The supervisory policies and procedures maintained by a Participant required under UMIR 7.1 must be designed to include all sources of order entry including orders that originate from retail full service brokerage and OES clients.

In meeting its supervisory obligations, a Participant is expected to act as "gatekeeper" to prevent and detect violations of applicable Requirements.[6] A Participant's supervision policies and procedures should adequately address the additional risk exposure which the Participant may have for orders that are not directly handled by staff of the Participant, such as OES, DEA or through a routing arrangement.

3. Discussion of the Proposed Amendments

The following is a summary of the principal components of the Proposed Amendments.

3.1 Requirement to Provide a Client Identifier

UMIR requires that each client, investment dealer or foreign dealer equivalent accessing a marketplace through DEA or through a routing arrangement is assigned a client ID and the identity of the client associated with each client ID be provided to IIROC. This information

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[6] "Requirements" means, collectively:
- UMIR;
- the Policies;
- the Trading Rules;
- the Marketplace Rules;
- any direction, order or decision of the Market Regulator or a Market Integrity Official; and
- securities legislation,

as amended, supplemented and in effect from time to time.

assists IIROC with monitoring and surveillance activities. Currently, the identity of clients trading though OES accounts is not provided to IIROC. IIROC believes that clients who trade actively through OES may pose similar risks to market integrity as clients who trade though DEA or through a routing arrangement. Inconsistent levels of transparency of client identity to IIROC can result in an incomplete regulatory framework by enabling an active OES client to avoid the amount of regulatory oversight that would otherwise be applied to the client if trading through DEA or a routing arrangement.

The Proposed Amendments generally focus on requiring client IDs on the basis of account activity rather than client type. The Proposed Amendments would introduce a threshold that would determine whether an OES client is considered "active" for the purpose of client ID. In the Proposed Amendments an OES client would be considered "active" if their account activity:

- exceeds an average of 100 trades per trading day in any calendar month, or
- exceeds an average of 500 orders per trading day in any calendar month.

Upon approval of the Proposed Amendments, IIROC would require that client IDs be assigned to any OES client that meets the threshold. In addition, IIROC would require that client IDs be assigned to any OES client that is not an individual and registered as a dealer or adviser under applicable securities legislation. The requirement that a client that is not an individual and registered as a dealer or adviser be assigned a client ID is consistent with the requirement if the same client were to access the marketplace though DEA or a routing arrangement. IIROC anticipates that assignment of the client ID will be the same process as currently followed for the assignment of client IDs under DEA. The ID of the OES client would be required to be included on each order entered through OES by or on behalf of that particular client and carried on the order by the executing Participant. This addresses the policy objective of consistency across all forms of third party electronic access by ensuring that similar trading activity that occurs on different platforms is subject to the same degree of regulatory oversight and supervision.

3.2 Definition of Manipulative and Deceptive Activities

The Proposed DMR Amendments introduce a definition of Manipulative and Deceptive Activities. This definition:

- clarifies a Dealer Member's supervision requirements for Retail Customer account activity under DMR 2500;
- clarifies a Dealer Member's supervision requirements for Institutional Customer account activity under DMR 2700; and

- conforms with UMIR 2.2 (2)[7] respecting manipulative and deceptive activities.

DMR 2500 and DMR 2700 require that a Dealer Member's supervisory policies and procedures are reasonably designed to detect account activity that is or may be a violation of requirements applicable to the Dealer Members business. Currently, both DMR 2500 and DMR 2700 require that a Dealer Member's supervision of account activity include a review for activity that may be manipulative or deceptive. DMR 2500 includes *"manipulative or deceptive trading"* in the requirements respecting daily reviews. DMR 2700 requires as part of the requirements relating to the supervision of accounts that a Dealer Member's policies and procedures are reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements of any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place. *"Manipulative or deceptive methods of trading"* is specifically included in these requirements. The proposed definition in the Proposed DMR Amendments clarifies that manipulate and deceptive activities are not limited only to trades, but extend to the entry of orders to a marketplace.

The Proposed DMR Amendments include wording changes in DMR 2500 and 2700 to align the rules to the proposed definition in the DMR of Manipulative and Deceptive Activities.

3.3 Supervision Requirements Specific to OES

IIROC believes that the entry to a marketplace of an order that is not directly handled by staff of the Dealer Member may introduce additional risk to the integrity of the market. Order entry through OES eliminates an opportunity for staff of a Dealer Member to identify and detect unusual orders or trading patterns prior to an order being entered on a marketplace. A Dealer Member must consider this heightened risk when developing its policies and procedures respecting the supervision of account activity and, in particular, activity that is or may be considered Manipulative or Deceptive Activity.

Currently, an OES Dealer that is also a Participant is required to consider the heightened risk exposure for orders that are not directly handled by staff of the Participant. UMIR Policy 7.1 Part 1 states:

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[7] UMIR 2.2 (2) provides:

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) a false or misleading appearance of trading activity in or interest in the purchase or sale of the security; or

(b) an artificial ask price, bid price, or sale price for the security or a related security.

> "In performing the trading supervision obligations, the Participant will act as a "gatekeeper" to help prevent and detect violation of applicable Requirements. When an order is entered on a marketplace by direct electronic access, under a routing arrangement or through an order execution service, the Participant retains responsibility for that order and the supervision policies and procedures should adequately address the additional risk exposure which the Participant may have for orders that are not directly handled by staff of the Participant..."[8]

The Proposed DMR Amendments introduce a requirement for an OES Dealer to consider the heightened risks associated with the entry of orders that are not directly handled by staff of the Dealer Member. Identifying and addressing these risks in its policies and procedures and its systems of supervision and control is consistent with the supervision requirements applicable to other forms of third-party electronic access.

4. Summary of the Impact of the Proposed Amendments

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

4.1 Client Identifier

The Proposed Amendments would:

- require that an OES Dealer include a client ID on each order entered for or on behalf of any client:
    - whose activity exceeds an average of 100 trades per trading day in any calendar month, or
    - whose activity exceeds an average of 500 orders per trading day in any calendar month, or
    - that is not an individual and is registered as a dealer or adviser under applicable securities legislation;
- require that an OES Dealer provide to IIROC each client ID and the client associated with it;

Participants that provide execution services for OES Dealers must:

- ensure that each order sent to a marketplace carries the client ID included in each order, as applicable, originating from an OES Dealer.

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[8] This language was approved as part of the Third-Party Electronic Access to Marketplaces amendments and becomes effective March 1, 2014

4.2 Manipulative and Deceptive Activities

While the Proposed DMR Amendments introduce a definition of Manipulative and Deceptive Activities, it is intended only to build on and clarify a Dealer Member's current supervisory and compliance requirements under DMR 38, 2500 and 2700 and to conform to the UMIR interpretation. Dealer Members, including OES Dealers, must review their current policies and procedures and their systems of supervision and control to ensure they are reasonably designed to detect account activity that is or may be considered manipulative and deceptive.

4.3 Supervision of OES Account Activity

Dealer Members that offer OES accounts must review their current policies and procedures and systems of supervision and control to ensure that the inherent risks of third-party electronic order entry and lack of intermediation by staff of the Dealer Member have been taken into account. This is particularly relevant to the detection of activity that may interfere with market integrity, such as activities that are or may be manipulate and deceptive. Steps must be taken to address any deficiencies identified.

5. Technological Implications and Implementation Plan

IIROC acknowledges that there would be effort required by each OES Dealer to achieve compliance with the Proposed Amendments. IIROC believes the required effort is proportionate to the benefit of achieving consistent oversight and supervision of similar activities through all forms of third-party electronic access, particularly given the risks associated with order entry that is not intermediated by staff of the OES Dealer.

OES Dealers will be required to develop a process to identify clients who meet or exceed the thresholds that require the application of a client ID and to identify any client that is not an individual and is registered as a dealer or adviser under applicable securities legislation. OES Dealers will also be required to develop a process to ensure that IIROC is provided each client ID and the identity of the client associated with each client ID.

The technological implications of the Proposed Amendments on Dealer Members are primarily limited to any development required to include client IDs on all orders for certain clients that trade through OES platforms. Participants that execute for OES Dealers would be required to:

- develop a procedure for obtaining and assigning client IDs to an OES Dealer as required, and
- make any necessary changes to their systems to accommodate the use of client IDs on orders originating from an OES Dealer.

IIROC does not expect the supervision requirements in the Proposed DMR Amendments to have significant implications as Dealer Members are currently required to have reasonable policies, procedures and systems of supervision and control in place that are reasonably designed to achieve compliance with the requirements applicable to the Dealer Member's business. The Proposed Amendments build on current supervision requirements and specifically require an OES Dealer, when developing its policies, procedures and systems of supervision and control, to consider the increased risk that arises when the methods used to enter orders limit the amount of "gatekeeping" that can be done directly by staff of the Dealer Member.

IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the amendments would be implemented ***180 days following the publication of notice of approval of the amendments.***

6. Questions

While comment is requested on all aspects of the Proposed Amendments, comment is also specifically requested on the following questions:

1. Are the proposed thresholds set at reasonable levels to facilitate the identification of OES clients that trade actively? Should the threshold for "orders" consider only parent orders as entered by the OES client?
2. Should IIROC retain the ability to adjust the thresholds at which client IDs are required?
3. To accommodate any development work that may be required in order to include a client ID on all order messages for certain active OES clients, is 180 days' notice prior to implementation sufficient time for OES Dealers to make any necessary changes?
4. Should IIROC have the ability to require that a particular client be identified to IIROC through the use of a client ID where that client does not meet the threshold?

Appendix A – Proposed UMIR Amendments

The Universal Market Integrity Rules are hereby amended as follows:

1. Clause (a) of subsection (1) of Rule 6.2 is amended by:
   (a) inserting the following subclause:

      (iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,

   (b) renumbering subclauses (iv) and (v), respectively, as (v) and (vi).

Appendix B – Proposed Dealer Member Rule Amendments

The Dealer Member Rules are hereby amended as follows:

1. Dealer Member Rule 1 is amended by:
   (a) inserting the following definition:

   "**Manipulative and Deceptive Activities**" means the entry of an order or the execution of a trade that would create or could reasonably be expected to create:

   a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or

   b) an artificial ask price, bid price or sale price for the security or a related security.

2. Dealer Member Rule 2500 is amended by:
   (a) In section IV subsection A., replacing "...deceptive trading" with "...Deceptive Activities"

3. Dealer Member Rule 2700 is amended by:
   (a) In section IV subsection B., replacing "... deceptive methods of trading" with "... Deceptive Activities"

4. Dealer Member Rule 3200 is amended by

   (a) Adding a new subsection (c) to section A. 4 as follows:

   (c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.

   (b) In section A.4, renumbering subsections (c) and (d),respectively, as (d) and (e)

   (c) Adding a new section A.5 as follows:

A. 5 Identification of Certain Clients

(a) The Dealer Member must ensure that a client identifier is assigned to each client:

(a) whose trading activity exceeds a daily average of 100 trades per day in any calendar month,

(b) whose trading activity exceeds a daily average of 500 orders per day in any calendar month, or

(c) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation.

(b) The client identifier and the name of the corresponding client must be provided to the Corporation.

(c) Each order entered by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client.

(d) Renumbering section A.5 as A.6

Appendix C – Text of Dealer Member Rules to Reflect Proposed DMR Amendments Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
RULE 1 **INTERPRETATION AND EFFECT** 1.1. **"Manipulative and Deceptive Activities"** means the entry of an order or the execution of a trade that would create or could reasonably be expected to create: a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or b) an artificial ask price, bid price or sale price for the security or a related security.	**RULE 1** **INTERPRETATION AND EFFECT** **2.1.** **"Manipulative and Deceptive Activities"** means the entry of an order or the execution of a trade that would create or could reasonably be expected to create: a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or b) an artificial ask price, bid price or sale price for the security or a related security.
RULE 2500 **MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION** IV A. First-Tier Daily Reviews A first-tier review examines the previous day's trading using means described in the Dealer Member's procedures to attempt to detect the following: • Unsuitable trading; • Undue concentration of securities in a single account or across accounts; • Excessive trade activity; • Trading in restricted securities; • Conflict of interest between Registered Representatives and client trading activity; • Excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading; • Inappropriate / high risk trading strategies; • Quality downgrading of client holdings; • Excessive / improper crosses of securities between clients; • Improper employee trading; • Front running; • Account number changes; • Late payment; • Outstanding margin calls; • Violation of any internal trading restrictions; • Undisclosed short sales; • Manipulative and Deceptive Activities;	**RULE 2500** **MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION** IV A. First-Tier Daily Reviews A first-tier review examines the previous day's trading using means described in the Dealer Member's procedures to attempt to detect the following: • Unsuitable trading; • Undue concentration of securities in a single account or across accounts; • Excessive trade activity; • Trading in restricted securities; • Conflict of interest between Registered Representatives and client trading activity; • Excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading; • Inappropriate / high risk trading strategies; • Quality downgrading of client holdings; • Excessive / improper crosses of securities between clients; • Improper employee trading; • Front running; • Account number changes; • Late payment; • Outstanding margin calls; • Violation of any internal trading restrictions; • Undisclosed short sales; • Manipulative and ~~deceptive trading~~ Deceptive Activities;

Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
• Insider trading	• Insider trading
RULE 2700 **MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION** IV B. Account Activity Detection The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements or any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following: 1. Manipulative and Deceptive Activities; 2. Trading in restricted list securities; 3. Employee or proprietary account front running; 4. Exceeding position or exercise limits on derivative products; and 5. Transactions raising a suspicion of money laundering or terrorist financing activity	**RULE 2700** **MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION** IV B. Account Activity Detection The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements or any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following: 1. Manipulative and ~~deceptive methods of trading~~ Deceptive Activities; 2. Trading in restricted list securities; 3. Employee or proprietary account front running; 4. Exceeding position or exercise limits on derivative products; and 5. Transactions raising a suspicion of money laundering or terrorist financing activity
RULE 3200 **MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER 1300.1(T) TO OFFER AN ORDER-EXECUTION ONLY SERVICE** A. 4 Supervision (a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate business unit of the Dealer Member or with the Dealer Member itself. (b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 and 2700 other than those related to solely to suitability. (c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member. (d) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as	**RULE 3200** **MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER 1300.1(T) TO OFFER AN ORDER-EXECUTION ONLY SERVICE** A. 4 Supervision (a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate business unit of the Dealer Member or with the Dealer Member itself. (b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 and 2700 other than those related to solely to suitability. (c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member. ~~(c)~~ (d) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as

Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
required in rule 2500 and 2700. (e) The Dealer Member or separate business unit of the Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule. A. 5 Identification of Certain Clients (a) The Dealer Member must ensure that a client identifier is assigned to each client: (a) whose trading activity exceeds a daily average of 100 trades per day in any calendar month, (b) whose trading activity exceeds a daily average of 500 orders per day in any calendar month, or (c) that is not an individual and registered as a dealer or adviser in accordance with applicable securities legislation. (b) The client identifier and the name of the corresponding client must be provided to the Corporation. (c) Each order entered by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client. A. 6 Systems and Books and Records ...	required in rule 2500 and 2700. ~~(d)~~ (e) The Dealer Member or separate business unit of the Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule. A. 5 Identification of Certain Clients (a) The Dealer Member must ensure that a client identifier is assigned to each client: (a) whose trading activity exceeds a daily average of 100 trades per day in any calendar month, (b) whose trading activity exceeds a daily average of 500 orders per day in any calendar month, or (c) that is not an individual and registered as a dealer or adviser in accordance with applicable securities legislation. (b) The client identifier and the name of the corresponding client must be provided to the Corporation. (c) Each order entered by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client. ~~A.5~~ A.6 Systems and Books and Records ...

Appendix D – Text of UMIR to Reflect Proposed UMIR Amendments Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Text of Provision Following Adoption of the Proposed UMIR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed UMIR Amendments
6.2 Designations and Identifiers (1) Each order entered on a marketplace shall contain: (a) the identifier of: (i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15, (ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15, (iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order, (iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200, (v) the client for or on behalf of whom the order is entered under direct electronic access, and (vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and ...	**6.2 Designations and Identifiers** (1) Each order entered on a marketplace shall contain: a) the identifier of: (i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15, (ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15, (iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order, (iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200, ~~(iv)~~ (v) the client for or on behalf of whom the order is entered under direct electronic access, and ~~(v)~~ (vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and ...