

IIROC NOTICE

Rules Note
Notice of Approval / Implementation
UMIR

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Housekeeping amendments to UMIR Following Implementation of IIROC Rules

Executive Summary

On January 29, 2020, IIROC's Board of Directors approved housekeeping amendments (**Amendments**) to the following provisions of the Universal Market Integrity Rules (**UMIR**):

- UMIR 1.1 – Definition of “order execution service”
- Subparagraph (a)(iv) of subsection 6.2(1) – Designations and Identifiers
- Part 5 of Policy 6.4 – Application of UMIR to Orders Not Entered on a Marketplace
- Part 3 of Policy 7.1 – Supervision and Compliance Procedures for Trading on a Marketplace
- Part 4 of Policy 7.1 – Specific Procedures Respecting Client Priority
- Part 1 of Policy 8.1 – General Requirements for Client-Principal Trading
- Paragraph (e) of subsection 10.16(1) – Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons.



The Amendments replace rule references to the Dealer Member Rules with provisions of the IIROC Rules¹ as follows:

- Dealer Member Rule 3200 – *Minimum Requirements for Dealer Members Seeking Approval under Rule 1300.1(t) to offer an Order-Execution Only Service* with Part D of IIROC Rule 3200 – *Order Execution Only Accounts* in the definition of “order execution service” of UMIR 1.1
- Dealer Member Rule 3200 with IIROC Rule 3241 in paragraph (1)(a) of section 6.2
- Dealer Member Rule 3300 with Part C of IIROC Rule 3100 – *Best Execution of Client Orders* in Part 5 of Policy 6.4, Parts 3 and 4 of Policy 7.1, Part 1 of Policy 8.1, and paragraph (e) of subsection UMIR 10.16(1).

The Amendments will become effective on June 1, 2020.

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¹ IIROC Notice [19-0144](#) – Rules Notice – Notice of Approval/Implementation – *Implementation of IIROC Dealer Member Plain Language Rule Book* (August 22, 2019).



1. Discussion of the Amendments

Analysis

The Canadian Securities Administrators approved the plain language rewrite of the Dealer Member Rules (collectively as the **IIROC Rules**) on August 22, 2019. As a result, we need to make housekeeping changes to UMIR to update rule references from the previous Dealer Member Rules with the current provisions in IIROC Rules.

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 the Amendments to impact any stakeholders.

Technological implications

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

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 – Text of Amendments to UMIR

Attachment B – Blacklined text of UMIR to reflect the Amendments



Appendix A - Text of Amendments to Universal Market Integrity Rules

The Universal Market Integrity Rules are hereby amended as follows:

1. Definition of “order execution service” in UMIR 1.1 is amended by:
 - a. Replacing “Dealer Member Rule 3200 – *Minimum Requirements for Dealer Members Seeking Approval under Rule 1300.1(t) to offer an Order-Execution Only Service*” with “Part D of IIROC Rule 3200 – *Order Execution Only Accounts*”.
2. Subparagraph (a)(iv) of subsection 6.2(1) is amended by:
 - a. Replacing “Dealer Member Rule 3200” with “IIROC Rule 3241”.
3. Part 5 of Policy 6.4 is amended by:
 - a. Replacing “Dealer Member Rules” with “IIROC Rules”
 - b. Replacing “Dealer Member Rule 3300” with “*Part C of IIROC Rule 3100 – Best Execution of Client Orders*”.
4. Part 3 of Policy 7.1 is amended by:
 - a. Replacing “Dealer Member Rule 3300” with “*Part C of IIROC Rule 3100 – Best Execution of Client Orders*”.
5. Part 4 of Policy 7.1 is amended by:
 - a. Replacing “and Dealer Member Rule 3300” with “and *Part C of IIROC Rule 3100 – Best Execution of Client Orders*”.
6. Part 1 of Policy 8.1 is amended by:
 - a. Replacing “Dealer Member Rule 3300” with “*Part C of IIROC Rule 3100 – Best Execution of Client Orders*”.
7. Paragraph (e) of subsection 10.16(1) is amended by:
 - a. Replacing “Dealer Member Rule 3300” with “*Part C of IIROC Rule 3100 – Best Execution of Client Orders*”.



Appendix B – Blackline of Amendments to UMIR

Text of UMIR Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p>UMIR 1.1</p> <p>...</p> <p>“order execution service” means a service that meets the requirements, from time to time, under Dealer Member Rule 3200 – Minimum Requirements for Dealer Members Seeking Approval under Rule 1300.1(t) to offer an Order Execution Only Service-Part D of IIROC Rule 3200 – Order Execution Only Accounts.</p>	<p>UMIR 1.1</p> <p>...</p> <p>“order execution service” means a service that meets the requirements, from time to time, under Part D of IIROC Rule 3200 – <i>Order Execution Only Accounts.</i></p>
<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p style="padding-left: 20px;">(a) the identifier of:</p> <p style="padding-left: 40px;">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p style="padding-left: 40px;">(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 IIROC Rule 3241,</p> <p>...</p>	<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p style="padding-left: 20px;">(a) the identifier of:</p> <p style="padding-left: 40px;">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p style="padding-left: 40px;">(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 IIROC Rule 3241,</p> <p>...</p>
<p>POLICY 6.4</p> <p><i>Part 5 – Application of UMIR to Orders Not Entered on a Marketplace</i></p> <p><i>Under Rule 6.4, a Participant, when acting as principal or agent, may not trade nor participate in a trade in a security by means other than the entry of an order on a marketplace except in accordance with an exemption specifically enumerated within Rule 6.4. For the purposes of UMIR, a “marketplace” is defined as an Exchange, QTRS or an ATS and a “Participant” is defined essentially as a dealer registered in accordance with securities legislation of any jurisdiction and who is a member of an</i></p>	<p>POLICY 6.4</p> <p><i>Part 5 – Application of UMIR to Orders Not Entered on a Marketplace</i></p> <p><i>Under Rule 6.4, a Participant, when acting as principal or agent, may not trade nor participate in a trade in a security by means other than the entry of an order on a marketplace except in accordance with an exemption specifically enumerated within Rule 6.4. For the purposes of UMIR, a “marketplace” is defined as an Exchange, QTRS or an ATS and a “Participant” is defined essentially as a dealer registered in accordance with securities legislation of any jurisdiction and who is a member of an</i></p>



Text of UMIR Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p>Exchange, a user of a QTRS or a subscriber to an ATS.</p> <p>If a person is a Participant, certain provisions of UMIR will apply to every order handled by that Participant even if the order is entered or executed on a marketplace that has not adopted UMIR as its market integrity rules or if the order is executed over-the-counter. In particular, the following provisions of UMIR and the Dealer Member IIROC Rules will apply to an order handled by a Participant notwithstanding that the order is not entered on a marketplace that has adopted UMIR:</p> <ul style="list-style-type: none"> • Rule 4.1 prohibits a Participant from frontrunning certain client orders; • Dealer Member Rule 3300 Part C of IIROC Rule 3100 – Best Execution of Client Orders with respect to the “best execution obligation” of a client order; • Rule 8.1 governing client-principal trading; and • Rule 9.1 governing regulatory halts, delays and suspensions of trading. <p>In accordance with Rule 11.9, UMIR will not apply to an order that is entered or executed on a marketplace in accordance with the Marketplace Rules of that marketplace as adopted in accordance with Part 7 of the Trading Rules or if the order is entered and executed on a marketplace or otherwise in accordance with the rules of an applicable regulation services provider or in accordance with the terms of an exemption from the application of the Trading Rules.</p> <p>...</p>	<p>Exchange, a user of a QTRS or a subscriber to an ATS.</p> <p>If a person is a Participant, certain provisions of UMIR will apply to every order handled by that Participant even if the order is entered or executed on a marketplace that has not adopted UMIR as its market integrity rules or if the order is executed over-the-counter. In particular, the following provisions of UMIR and the IIROC Rules will apply to an order handled by a Participant notwithstanding that the order is not entered on a marketplace that has adopted UMIR:</p> <ul style="list-style-type: none"> • Rule 4.1 prohibits a Participant from frontrunning certain client orders; • Part C of IIROC Rule 3100 – Best Execution of Client Orders with respect to the “best execution obligation” of a client order; • Rule 8.1 governing client-principal trading; and • Rule 9.1 governing regulatory halts, delays and suspensions of trading. <p>In accordance with Rule 11.9, UMIR will not apply to an order that is entered or executed on a marketplace in accordance with the Marketplace Rules of that marketplace as adopted in accordance with Part 7 of the Trading Rules or if the order is entered and executed on a marketplace or otherwise in accordance with the rules of an applicable regulation services provider or in accordance with the terms of an exemption from the application of the Trading Rules.</p> <p>...</p>
<p>POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS</p> <p>...</p> <p>Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace</p> <p>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</p>	<p>POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS</p> <p>...</p> <p>Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace</p> <p>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</p>



Text of UMIR Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p><i>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.</i></p> <p><i>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> • <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 Part C of IIROC Rule 3100 – Best Execution of Client Orders)</i> • <i>Order Exposure requirements (Rule 6.3)</i> • <i>Time synchronization requirements (Rule 10.14).</i> <p>...</p>	<p><i>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.</i></p> <p><i>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> • <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 (Part C of IIROC Rule 3100 – Best Execution of Client Orders)</i> • <i>Order Exposure requirements (Rule 6.3)</i> • <i>Time synchronization requirements (Rule 10.14).</i> <p>...</p>
<p>Part 4 – Specific Procedures Respecting Client Priority</p>	<p>Part 4 – Specific Procedures Respecting Client Priority</p>



Text of UMIR Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p>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 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 and Part C of IIROC Rule 3100 – Best Execution of Client Orders, 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>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 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 Part C of IIROC Rule 3100 – Best Execution of Client Orders, 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>POLICY 8.1 – CLIENT PRINCIPAL TRADING Part 1 - General Requirements Rule 8.1 governs client-principal trades. It provides that, for trades of 50 standard trading units or less, a Participant trading with one of its clients as principal must give the client a better price than the client could obtain on a marketplace. A Participant must take reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market. If the security is traded on more than one marketplace, the client must receive, when the Participant is buying, a higher price than the best bid price, and, if the Participant is selling, the client must pay a lower price than the best ask price. For client-principal trades greater than 50 standard trading units, the Participant may do the trade provided the client could not obtain a better price on a marketplace in accordance with its best execution obligation under Dealer Member Rule 3300-Part C of IIROC Rule 3100 – Best Execution of Client Orders. The Participant must take reasonable steps to ensure that the best price is obtained and the price to the client is justified by the condition of the market.</p> <p>...</p>	<p>POLICY 8.1 – CLIENT PRINCIPAL TRADING Part 1 - General Requirements Rule 8.1 governs client-principal trades. It provides that, for trades of 50 standard trading units or less, a Participant trading with one of its clients as principal must give the client a better price than the client could obtain on a marketplace. A Participant must take reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market. If the security is traded on more than one marketplace, the client must receive, when the Participant is buying, a higher price than the best bid price, and, if the Participant is selling, the client must pay a lower price than the best ask price. For client-principal trades greater than 50 standard trading units, the Participant may do the trade provided the client could not obtain a better price on a marketplace in accordance with its best execution obligation under Part C of IIROC Rule 3100 – Best Execution of Client Orders. The Participant must take reasonable steps to ensure that the best price is obtained and the price to the client is justified by the condition of the market.</p> <p>...</p>



Text of UMIR Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<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, non-client or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:</p> <p>(a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities;</p> <p>(b) Rule 2.2 respecting manipulative and deceptive activities;</p> <p>(c) Rule 2.3 respecting improper orders and trades;</p> <p>(d) Rule 4.1 respecting frontrunning;</p> <p>(e) Dealer Member Rule 3300 <u>Part C of IIROC Rule 3100 – Best Execution of Client Orders</u> respecting best execution of client orders;</p> <p>(f) Rule 5.3 respecting client priority;</p> <p>(g) Rule 6.4 respecting trades to be on a marketplace; and</p> <p>(h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection.</p>	<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, non-client or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:</p> <p>(a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities;</p> <p>(b) Rule 2.2 respecting manipulative and deceptive activities;</p> <p>(c) Rule 2.3 respecting improper orders and trades;</p> <p>(d) Rule 4.1 respecting frontrunning;</p> <p>(e) Part C of IIROC Rule 3100 – <i>Best Execution of Client Orders</i> respecting best execution of client orders;</p> <p>(f) Rule 5.3 respecting client priority;</p> <p>(g) Rule 6.4 respecting trades to be on a marketplace; and</p> <p>(h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection.</p>