

## UMIR Transitional Amendments

### PART 1 – DEFINITIONS AND INTERPRETATION

#### 1.1 Definitions

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**“Acceptable Foreign Trade Reporting Facility”** means a trade reporting facility or similar facility outside Canada:

- (a) on which the reporting of trades is monitored for compliance with regulatory requirements at the time of reporting by a self-regulatory organization that is a member of the International Organization of Securities Commissions;
- (b) that displays and provides timely information of the price, volume and security identifier of each trade at the time of the reporting of the trade; and  
Included on a list of acceptable foreign trade reporting facilities published on the ~~IIROC~~ Corporation website.

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**“marketplace”** has the same meaning as set out in section 1.1 of ~~IIROC~~ Corporation By-law No. 1

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**“order execution service”** means a service that meets the requirements, from time to time, under Part D of ~~IIROC~~ Corporation Rule 3200 – *Order Execution Only Accounts*

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**“UMIR”** means those Rules adopted by the ~~Investment Industry Regulatory Organization of Canada~~ Corporation and designated by the ~~Investment Industry Regulatory Organization of Canada~~ Corporation as the Universal Market Integrity Rules as amended, supplemented and in effect from time to time.

#### 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:

1. in the form of a Legal Entity Identifier for:
  - (a) orders entered using direct electronic access
  - (b) orders entered using a routing arrangement
  - (c) an identified order execution only client that is eligible to receive a Legal Entity Identifier under the standards set by the Global Legal Entity Identifier System
  - (d) orders for accounts that are supervised under Part D of ~~IROC~~ Corporation Rule 3900 - Supervision of institutional client accounts
2. in the form of an account number for all other client orders not included under UMIR 6.2(1)(a)(iv)(1)

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#### POLICY 6.4 – Trades to be on a Marketplace

##### Part 5 – Application of UMIR to Orders Not Entered on a Marketplace

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 Exchange, a user of a QTRS or a subscriber to an ATS. 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 IROC Rules will apply to an order handled by a Participant notwithstanding that the order is not entered on a marketplace that has adopted UMIR:

- Rule 4.1 prohibits a Participant from frontrunning certain client orders;
- Part C of ~~IROC~~ Corporation 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.

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.

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## POLICY 7.1 – Trading Supervision Obligations

### Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace

Each Participant must develop, implement and maintain supervision and compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements. Participants must identify any high-risk areas and ensure that their policies and procedures are adequately designed to address these heightened risks.

In developing supervision systems, Participants must identify any exception reports, trading data and any other relevant documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

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:

- Audit Trail requirements (Rule 10.11)
- Electronic Access to Marketplaces (Rule 7.1)
- Specific Unacceptable Activities (Rule 2.1)
- Manipulative and Deceptive Activities (Rule 2.2)
- Trading in restricted securities (Rule 7.7)
- Trading of grey list securities (Rule 2.2)
- Disclosure requirements (Rule 10.1)
- Frontrunning (Rule 4.1)
- Client/Principal Trading (Rule 8.1)
- Client Priority (Rule 5.3)
- Best Execution (Part C of ~~HSBC~~ Corporation Rule 3100 - Best Execution of Client Orders)
- Order Exposure requirements (Rule 6.3)
- Time synchronization requirements (Rule 10.14).

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### Part 4 – Specific Procedures Respecting Client Priority

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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 **HROC Corporation** 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.

## Part 13– Specific Provisions Respecting Client Disclosures

Each Participant must develop, implement and maintain a supervision system to verify that appropriate trade disclosures are made on client confirmations. To comply with **HROC Corporation** rules, such disclosures must include:

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### 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 **HROC Corporation** 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.

### *POLICY 10.1 – COMPLIANCE REQUIREMENT*

#### *Part 1 – Monitoring for Compliance*

Rule 10.1 requires each Participant and Access Person to comply with applicable Requirements. The term “Requirements” is defined as meaning:

- 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.

The Market Regulator will monitor the activities of Subject Persons for compliance with each aspect of the definition of Requirements and use the powers under ~~Consolidated Corporation~~ Rule 8100 to conduct any enforcement investigation into possible non-compliance. If the Subject Person has not complied with:

- UMIR, the Policies or any direction, order or decision of the Market Regulator or a Market Integrity Official, the Market Regulator may undertake a disciplinary proceeding pursuant to ~~Consolidated Corporation~~ Rule 8200 or Rule 10.5 with respect to temporary restriction of access;
- the Trading Rules or securities legislation, the Market Regulator may, pursuant to the exchange of information provided for under Rule 10.13, refer the matter to the applicable securities regulatory authority to be dealt with in accordance with applicable securities legislation; and
- Marketplace Rules, the Market Regulator may undertake a disciplinary proceeding pursuant to ~~Consolidated Enforcement Corporation~~ Rule 8200 or Rule 10.5 with respect to temporary restriction of access, if the marketplace has retained the Market Regulator to conduct disciplinary proceedings on behalf of the marketplace in accordance with an agreement with the Market Regulator contemplated by Part 7 of the Trading Rules, otherwise the Market Regulator may refer the matter to the marketplace to be dealt with in accordance with the Marketplaces Rules of that marketplace.

#### 10.4 Suspension or Restriction of Access

- (1) If the Market Regulator has determined that a Subject Person, other than a marketplace for which the Market Regulator is or was the regulation services provider, has engaged in, or may engage in, any course of conduct that is or may be a contravention of a Requirement, the Market Regulator may, if the Market Regulator considers it is necessary for the protection of the public interest by an interim order without notice or hearing, order the restriction or suspension of access to the marketplace upon such terms and conditions, if any, considered appropriate provided such interim order shall expire 15 days after the date on which the interim order is made unless:
  - (a) a hearing is commenced pursuant to ~~Corporation~~ Rule 8200 (Enforcement Proceedings) within that period of time to confirm or set aside the interim order;
  - (b) the person against which the interim order is made consents to an extension of the interim order until a hearing of the matter is held; or
  - (c) an applicable securities regulatory authority directs that the interim order be rescinded or extended.

#### 10.15 Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons

- (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:
  - (a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities;
  - (b) Rule 2.2 respecting manipulative and deceptive activities;
  - (c) Rule 2.3 respecting improper orders and trades;
  - (d) Rule 4.1 respecting frontrunning;
  - (e) Part C of ~~IIROC~~ **IIROC Corporation** Rule 3100 - Best Execution of Client Orders respecting bestexecution of client orders;
  - (f) Rule 5.3 respecting client priority;
  - (g) Rule 6.4 respecting trades to be on a marketplace; and
  - (h) Any Requirement that has been designated by the Market Regulatory for the purposes of this subsection.