

Canadian Investment Regulatory Organization

Housekeeping Amendments to UMIR

Black-line copy of Amendments

A black-line comparison of the Amendments to Canadian Investment Regulatory Organization's Universal Market Integrity Rules (**UMIR**) follows:

UMIR 1.1 the definition for "short-marking exempt order" is amended as follows:

1.1 Definitions

"short-marking exempt order" means an order for the purchase or sale of a security from an account that is:

- (a) an arbitrage account;
- (b) the account of a person with Marketplace Trading Obligations in respect of a security for which that person has obligations;
- (c) a client [account](#), non-client [account](#) or principal account:
 - (i) for which order generation and entry is fully-automated, and
 - (ii) which, in the ordinary course, does not have, at the end of each trading day, more than a nominal position, whether short or long, in a particular security;
- (d) a principal account that has acquired during a trading day a position in a particular security in a transaction with a client that is unwound during the balance of the trading day such that, in the ordinary course, the account does not have, at the end of each trading day, more than a nominal position, whether short or long, in a particular security; or
- (e) a principal account for a Participant that has:
 - (i) Marketplace Trading Obligations in respect of an exempt Exchange-traded Fund, or
 - (ii) entered into an agreement for the continuous distribution of an Exempt Exchange-traded Fund;

if the order is for the Exempt Exchange-traded Fund security or one of its underlying securities to hedge a pre-existing position in the Exempt Exchange-traded Fund security or one of its underlying securities and in the normal course, the account does not have, at the end of each trading day, more than a minimal exposed risk.

Clause (2)(c) of UMIR Rule 2.1 is amended as follows:

2.1 Specific Unacceptable Activities

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(2) Without limiting the generality of any other Rule, a Participant shall not:

- (a) directly or indirectly use another person to effect a trade other than on a marketplace in circumstances when an exemption is not available for the Participant to complete the trade other than on a marketplace in accordance with Rule 6.4;
- (b) make a pattern of trading in a particular security with knowledge of an expression of interest by a client in that particular security; or
- (c) without the specific consent of the client, enter client orders and principal orders in such a manner as to attempt to obtain execution of a principal order in priority to the client order.

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Part 2 of UMIR Policy 2.2 is amended as follows:

Part 2 – False or Misleading Appearance of Trading Activity or Artificial Price

For the purposes of subsection (2) of Rule 2.2 and without limiting the generality of that subsection, if any of the following activities are undertaken on a marketplace and create or could reasonably be expected to create a false or misleading appearance of trading activity or interest in the purchase or sale of a security or a derivative or an artificial ask price, bid price or sale price, the entry of the order or the execution of the trade shall constitute a violation of subsection (2) of Rule 2.2:

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- (b.1) the prohibition in paragraphs (a) and (b) of Part 2 of Policy 2.2 does not apply to certain ~~prearranged~~pre-arranged trades as determined by ~~HRO~~the Corporation from time to time;*

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Part 2 of UMIR Policy 5.3 is amended as follows:

Part 2 – Prohibition on Intentional Trading Ahead

A Participant can never intentionally trade ahead of a client order that is either a market order or tradeable limit order received prior to the entry of the principal order or non-client order

except in accordance with an exemption from the requirements of Rule 5.3(1), which exemptions include obtaining the specific consent of the client. Examples of "intentional trades" include, but are not limited to:

- withholding a client order from entry on a marketplace (or removing an order already entered on a marketplace) to permit the entry of a competing principal order or non-client order ahead of the client order;
- entering a client order on a relatively illiquid market (other than on the instructions of the client) and entering a principal order or non-client order on a more liquid marketplace where the principal order or non-client order is likely to obtain faster execution;
- adding terms or conditions to a client order (other than on the instructions of the client) so that the client order ranks behind principal orders or non-client orders at that price;
- putting terms or conditions on a principal order or non-client order for the purpose of differentiating the principal order or non-client order from a client order that would otherwise have priority at that price; and
- entering a principal order or non-client order as an "anonymous order" (without the identifier of the Participant) which results in an execution in priority to a previously entered client order that discloses the identifier of the Participant.

Part 4 of UMIR Policy 5.3 is amended as follows:

Part 4 – Client Consent

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If the client order is part of a pre-arranged trade that is to be completed at a price below the best bid price or above the best ask price as indicated on a consolidated market display, the Participant will be under an obligation to ensure that "better-priced" orders on a protected marketplace are filled prior to the execution of the client order. Prior to executing the client order, the Participant must ensure that the client is aware of the better-priced orders and has consented to the Participant executing as against them in priority to the client order. The consent of the client must be noted on the order ticket.

If the client has given the Participant an order that is to be executed at various times during a trading day (e.g. an "over-the-day" order) or at various prices (e.g. at various prices in order to approximate a volume-weighted average price), the client is deemed to have consented to the entry of principal orders and non-client orders that may trade ahead of the balance of the client order. Unless the client has provided standing written instructions that all orders are to be executed at various times during the trading day or at various prices during the trading day, the client instructions should be treated as specific to a particular order and the details of the instructions by the client must be noted on the order ticket. However, if the un-entered portion of the client order would reasonably be expected to affect the market price of the security, the

Participant may be precluded from entering principal orders or non-client orders as a result of the application of the frontrunning rule.

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Part 1 of UMIR Policy 6.4 is amended as follows:

Part 1 - Trades Outside of Marketplace Hours

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Rule 6.4 states that all trades must be executed on a marketplace unless otherwise exempted from this requirement. Participants are reminded of the exemption in clause (2)(d) of Rule 6.4 that permits a trade on a foreign organized regulated market. Participants are also reminded of the exemption in clause (2)(e) of Rule 6.4 that permits them to trade as principal with non-Canadian accounts off of a marketplace provided that any unwinding trade with a Canadian account is made in accordance with Rule 6.4.

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Part 3 of UMIR Policy 6.4 is amended as follows:

Part 3 – Non-Canadian Accounts

Clause (2)(e) of Rule 6.4 permits a Participant to trade off of a marketplace either as principal with a non-Canadian account or as agent for the purchaser and seller both of whom are non-Canadian accounts. A "non-Canadian account" is defined as an account of a client of the Participant or a client of an affiliated entity of the Participant held by a Participant or an affiliated entity of a Participant and the client is considered to be a non-resident for the purposes of the Income Tax Act (Canada). There may be certain situations arising where a Participant is uncertain whether a particular account is a "non-Canadian account" for the purpose of this exemption. In these situations the account should be treated as a "Canadian account". The fact that an individual may be located temporarily outside of Canada, that a foreign location is used to place the order or as the address for settlement or confirmation of the trade does not alter the account's status as a Canadian account. Trades made by or on behalf of bona fide foreign subsidiaries of Canadian institutions are considered to be non-Canadian accounts, if the order is placed by the foreign subsidiary. For the purpose of this Policy, the relevant client of the Participant is the person to whom the order is confirmed.

Part 4 of UMIR Policy 6.4 is amended as follows:

Part 4 – Reporting Foreign Trades

Clause (2)(e) of Rule 6.4 requires a Participant to report to a marketplace any trade in a listed security or a quoted security that is made as principal with a non-Canadian account or as agent

if both the purchaser and seller are non-Canadian accounts, unless the trade is reported to a foreign organized regulated market. If such an “outside Canada” trade has not been reported to a foreign organized regulated market, a Participant shall report such trade to a marketplace no later than the close of business on the next trading day. The report shall identify the security, volume, price (in the currency of the trade and in Canadian dollars) and time of the trade.

Part 3 of UMIR Policy 8.1 is amended as follows:

Part 3 - Factors in Determining “Best Available Price”

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In determining the “best available price”, Participants should consider the price and size of orders displayed on marketplaces other than protected marketplaces if such information is available or known to the Participant. Specifically, we expect an employee of a Participant to use all order price information that is available or known to that employee when determining the “best available price”. For example, an employee that has access to price information from both protected and unprotected marketplaces would be in compliance with the requirement to determine the “best available price” only if all price information from both protected and unprotected marketplaces was considered when executing a principal order or non-client order with a client order. However, a Participant will be considered not to have complied with Rule 8.1 if an employee executes a principal order or non-client order with a client order at a better price which is inferior to the price that would have been available to the client on a displayed marketplace that is not a protected marketplace and the employee executes, in whole or in part, with the order displayed on the marketplace that is not a protected marketplace.

Subsection (1) of UMIR Rule 10.16 is amended as follows:

10.16 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 account, non-client account 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 Corporation Rule 3100 – Best Execution of Client Orders respecting best execution 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 Regulator for the purposes of this subsection.