

Rules Bulletin**Request for Comments**

UMIR

*Rule**Connection:*

UMIR Rules 1.1, 5.3, 6.2, 6.3, 6.6 and 8.1

24-0363**December 12, 2024**

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Comments Due By: January 27, 2025

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Proposed Amendments Respecting Trading Increments**Executive Summary**

The Canadian Investment Regulatory Organization (**CIRO**) is proposing to amend the Universal Market Integrity Rules (**UMIR**) to:

- distinguish between the applicable trading increment for a “U.S. inter-listed security” and a security that is not a “U.S. inter-listed security”, and
- establish that the applicable trading increment for a “U.S. inter-listed security” will be designated by CIRO from time to time (**Proposed Amendments**).

The Proposed Amendments are being published concurrently with [proposed guidance](#) that clarifies the rationale for, and the process by which trading increments for U.S. inter-listed securities will be determined and communicated by CIRO on an ongoing basis (**Proposed Guidance**).

The Proposed Amendments would:

- add a definition of a “U.S. inter-listed security” in UMIR 1.1, and

- amend UMIR 6.1 to prohibit the entry of an order to purchase or sell a U.S. inter-listed security at a price that is smaller than the applicable trading increment established by CIRO from time to time.

How to Submit Comments

Comments on the Proposed Amendments should be in writing and delivered by January 27, 2025 (45 days from the publication date of this Bulletin) to:

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Comments should also be delivered to the Canadian Securities Administrators (**CSA**):

Trading & Markets Division Ontario Securities Commission 22 nd Floor 20 Queen Street West, Toronto, Ontario, M5H 3S8 e-mail: tradingandmarkets@osc.gov.on.ca	Capital Markets Regulation B.C. Securities Commission P.O. Box 10142, Pacific Centre 701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2 e-mail: CMRdistributionofSROdocuments@bcsc.bc.ca
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Commenters should be aware that a copy of their comment letter will be made publicly available on the CIRO website at www.ciro.ca.

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1. Background

1.1 Trading Increments (Canada) and Minimum Pricing Increments (United States)

“Trading increment” is defined in UMIR 1.1¹ with reference to UMIR 6.1 *Entry of Orders to a Marketplace*. Correspondingly, UMIR 6.1 establishes the minimum increment at which an order can be entered to trade on a marketplace.

In the United States, the comparable requirements to UMIR 6.1 are set out in Rule 612 of Regulation NMS (**Rule 612**), which establishes minimum pricing increments for NMS stocks². Like the definition of trading increment in Canada, the minimum pricing increment in the United States establishes the smallest pricing increment at which an order can be displayed, entered or accepted.

1.2 Amendments to minimum pricing increments in the United States

On December 14, 2022, the United States Securities and Exchange Commission (**SEC**) published several proposed amendments to Regulation NMS, including proposed amendments to Rule 612 that would establish variable minimum pricing increments for the quoting of NMS stocks with a price equal to or greater than \$1.00 (**SEC Market Structure Proposals**). On September 18, 2024, the SEC adopted final rule amendments to Rule 612 with notable changes to what was initially proposed.

Effective November 3, 2025, for NMS stocks priced equal to or greater than \$1.00 per share, the minimum pricing increment will be based on a measurement of the time weighted average quoted spread (as defined in Rule 612), and as calculated on a semi-annual basis by the primary listing exchange for the particular NMS stock during a 3-month evaluation period (as defined in Rule 612). Based on data measured during the evaluation period, the minimum pricing increment for each NMS stock may change every 6 months.

1.2.1 Evaluation period

In Rule 612 the evaluation period is defined to mean:

- (i) the three months from January through March of a calendar year, and
- (ii) the three months from July through September of a calendar year

during which the time weighted average quoted spread of an NMS stock shall be measured by the primary listing exchange to determine the minimum pricing increment for each NMS stock. The minimum pricing increments determined by reference to data from each evaluation period become effective on:

- (i) the first business day of May for the evaluation period from January through March and continue through the last business day of October of the calendar year, and

¹ UMIR 1.1 defines a “trading increment” to mean “... the minimum difference in price at which orders may be entered in accordance with Rule 6.1”.

² See 17 CFR 242.600(b)(55) (defining “NMS stock”).

- (ii) the first business day of November for the evaluation period from July through September and continue through the last business day of April of the next calendar year.

As previously noted, the new minimum pricing increments under the amended Rule 612 will come into effect on November 3, 2025, and will be based on the evaluation period of July through September 2025.

1.2.2 Minimum pricing increments

There are 2 potential minimum pricing increments for an NMS stock depending on the time weighted average quoted spread:

- (i) \$0.01, if the time weighted average quoted spread for the NMS stock during the evaluation period was greater than \$0.015; or
- (ii) \$0.005, if the time weighted average quoted spread for the NMS stock during the evaluation period was equal to or less than \$0.015.

1.3 The importance of co-ordination with the United States for inter-listed securities

The Canadian and United States equity markets are highly integrated, notably due to the significant trading activity in securities that are listed on both a Canadian exchange and an exchange in the United States. Given the degree of interconnectivity and the ease with which a U.S. inter-listed security can be traded in either Canada or the United States, it is important that the Canadian market remains competitive relative to the United States.

In response to the SEC Market Structure Proposals, the CSA and CIRO published joint Staff Notice 23-331 *Request for Feedback on December 2022 SEC Market Structure Proposals and Potential Impact on Canadian Capital Markets* (the **Joint Notice**).³ The Joint Notice sought feedback on all aspects of the SEC Market Structure Proposals, including in relation to the proposed amendments to Rule 612 (now adopted). Where the minimum pricing increment in the United States might change (i.e., for NMS stocks priced equal to or greater than \$1.00), the feedback⁴ received in response to the Joint Notice indicated strong support for harmonization of Canadian trading increments for U.S. inter-listed securities with the equivalent minimum pricing increments in the United States. Feedback suggested that a failure to harmonize trading increments with the United States for U.S. inter-listed securities would likely result in better available prices in the United States, and the potential for a loss of trading activity on Canadian marketplaces.

The Proposed Amendments are being published for a 45-day public comment period and are designed to address concerns about the potential loss of trading activity in Canada in U.S. inter-listed securities should we fail to harmonize our trading increments.

The Proposed Amendments take the public interest into account by:

³ [CSA/CIRO Staff Notice 23 – 331 – Request for Feedback on December 2022 SEC Market Structure Proposals and Potential Impact on Canadian Capital Markets](#)

⁴ See summary of feedback received at: [Summary of Comments to CSA/CIRO Staff Notice 23-331 Request for Feedback on December 2022 SEC Market Structure Proposals and Potential Impact on Canadian Capital Markets](#)

- fostering public confidence and fair and efficient Canadian capital markets by updating UMIR to respond to competitive concerns regarding the trading of U.S. inter-listed securities.

2. Proposed Amendments

CIRO is proposing to amend UMIR to:

- distinguish between the applicable trading increment for a U.S. inter-listed security and a security that is not a U.S. inter-listed security, and
- establish that the applicable trading increment for a U.S. inter-listed security will be designated by CIRO from time to time.

The text of the Proposed Amendments is set out in **Appendix 1** and a blackline of the changes is set out in **Appendix 2**.

2.1 Amending UMIR to support harmonization with the United States

To harmonize trading increments in Canada for certain U.S. inter-listed securities (those with a price in the United States that is equal to or greater than \$1.00 USD) with the corresponding minimum pricing increments established in the United States pursuant to Rule 612, we are proposing to match the minimum pricing increment where applicable. For example, where the minimum pricing increment for a U.S. inter-listed security is determined to be \$0.005 USD, the corresponding trading increment in Canada for that security will be \$0.005 CAD.

The applicable minimum pricing increments in the United States for securities priced equal to or greater than \$1.00 USD, are determined through the application of Rule 612 and are dependent on the time weighted average quoted spread as determined by United States trading data and published by United States exchanges. It is not practical to amend UMIR in a way that references SEC rules and associated definitions that relate to trading in the United States. As such, the specific trading increment for U.S. inter-listed securities would no longer be set out in UMIR 6.1. Instead, UMIR 6.1 would set out that the applicable trading increment for these securities will be determined by CIRO from time to time. As described in the Proposed Guidance being published concurrently with this Rules Bulletin, CIRO will publish a technical rules bulletin on a semi-annual basis that will establish the applicable trading increment for U.S. inter-listed securities to match the trading increment as determined and communicated by United States exchanges pursuant to Rule 612. These trading increments would become effective on the same date as in the United States as set out in Rule 612.

The Proposed Amendments would not amend the applicable trading increment for securities that are not U.S. inter-listed securities, and the applicable trading increment for these securities will continue to be specifically set out in UMIR 6.1.

2.2 New definition of “U.S. inter-listed security”

The Proposed Amendments to UMIR 1.1 would define a “U.S. inter-listed security” to mean a listed security⁵ (meaning, a Canadian-listed security) that is also listed on an exchange that is

⁵ UMIR 1.1 defines a “listed security” to mean “a security listed on an Exchange”.

registered as a “national securities exchange” in the United States of America under section 6 of the Securities Exchange Act of 1934.

2.3 UMIR 6.1 – Trading increments for non-U.S. inter-listed securities

The Proposed Amendments would not change the applicable trading increment for securities that are not U.S. inter-listed securities. For these securities, UMIR 6.1 would continue to prohibit the entry of an order to trade on a marketplace that is in an increment smaller than:

- \$0.01 for orders with a price equal to or greater than \$0.50
- \$0.005 for orders with a price less than \$0.50

2.4 UMIR 6.1 – Trading increments for U.S. inter-listed securities

The Proposed Amendments would amend UMIR 6.1 to prohibit the entry of an order to purchase or sell a U.S. inter-listed security at a price that is in an increment smaller than the applicable trading increment as designated from time to time by CISO. This proposed change to UMIR 6.1 effectively means that the specific trading increment for these securities will be designated by CISO outside of UMIR and communicated on an ongoing basis. The Proposed Guidance establishes that this will be done through the publication of a technical rules bulletin on a semi-annual basis to align the trading increment for certain U.S. inter-listed securities with the minimum pricing increment in the United States as established pursuant to Rule 612.

3. Analysis

3.1 Alternatives considered

One alternative to the Proposed Amendments, is making no changes to Canadian trading increments and therefore, not harmonizing with the United States for U.S. inter-listed securities. However, this alternative approach would not be responsive to the feedback received in response to the Joint Notice, which indicated strong support for harmonization with those U.S. inter-listed securities for which Rule 612 would establish a variable pricing increment (*i.e.*, NMS stocks priced equal to or greater than \$1.00 USD). It would also not achieve the primary objective of the Proposed Amendments, which is to address concerns about the ongoing competitiveness of the Canadian market, should trading activity migrate to the United States. As a result, we did not move forward with this alternative.

We also considered proposing other changes to Canadian trading increments, specifically with respect to securities that are not U.S. inter-listed securities. Similarly, this approach would not be consistent with feedback received, which indicated little support for any other changes to Canadian trading increments. We agree with the feedback received in response to the Joint Notice and are not proposing any other amendments to Canadian trading increments.

4. Impacts of the Proposed Amendments

In the impact assessment table in Appendix 3, we list:

- the major policy elements of the Proposed Amendments,
- a description of the intended policy benefits of each element, and

- an assessment of its impact on clients, issuers, marketplaces, Participants, Access Persons and CIRO, where such impacts can be assessed.

The Proposed Amendments are intended to:

- support the alignment of Canadian trading increments for certain U.S. inter-listed securities with the United States, to avoid the negative impact of a potential migration of trading activity away from the Canadian market.

Many potential impacts of the Proposed Amendments on various stakeholders are uncertain and cannot be properly assessed prior to approval and implementation. We expect that quoted spreads will be narrower for those securities for which the Canadian trading increment will harmonize with a narrower minimum pricing increment in the United States, and we expect that significant technology expenditures will be required to accommodate changes to trading increments and the potential for increased order and trade information. However, other outcomes or market quality impacts are unknown or difficult to accurately quantify. As stated above, the intention of the Proposed Amendments is to address concerns about a loss of trading activity if the Canadian market does not remain competitive with the United States.

If finalized, we intend to monitor the impact of the Proposed Amendments and will consider whether further changes are appropriate.

4.1 Cost estimate

Participants, Access Persons, marketplaces and the industry at large (including CIRO) will likely incur significant implementation costs associated with the Proposed Amendments. We expect costs associated with:

- technology changes potentially including systems capacity and other changes related to narrower trading increments
- investor education.

4.2 Conclusions

We believe that, if approved, the Proposed Amendments would result in:

- positive impacts to the Canadian market in terms of competitiveness relative to the United States.
- unknown impacts on market quality (e.g., quoted spreads, quoted volume etc.).
- initial negative impacts to Participants, Access Persons, marketplaces and the industry in terms of costs and complexity.
- unknown impact on issuers.

While we have not identified any regional-specific effects or impacts that would be associated with the Proposed Amendments, as noted above, the impacts of the Proposed Amendments on the trading characteristics (e.g., quoted spread, depth at each quoted level) for individual securities is unknown, including in relation to trading in small to mid-sized securities.

We are of the view that the need to ensure the competitiveness of the Canadian market is of primary importance. While certain impacts may be difficult to accurately quantify in advance, we are of the view that the Proposed Amendments will address concerns about the competitiveness of the Canadian market relative to the United States.

5. Implementation

CIRO expects Participants, Access Persons and marketplaces may need to undertake efforts associated with the implementation of the Proposed Amendments. If approved, Participants and marketplaces may be required to implement systems changes to support smaller trading increments for certain U.S. inter-listed securities that may change on a semi-annual basis. Where applicable, CIRO Dealer Members would likely need to engage in substantial investor outreach and education to ensure that investors are familiar with the potential changes to trading increments for certain securities.

The implementation of the Proposed Amendments would be effective November 3, 2025, to align with the compliance date of the amendments to Rule 612. The Proposed Amendments will not come into effect before the amendments to Rule 612 are implemented.

6. Questions

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

Question 1

In the future, we may consider whether to apply changes to trading increments to all Canadian-listed securities. We welcome any preliminary feedback in this regard.

Question 2

As noted, we expect significant implementation efforts by industry if the Proposed Amendments are finalized. Recognizing that the compliance date for the amendments to Rule 612 is November 3, 2025, and acknowledging the need for harmonization, what is the expected minimum required time for various stakeholders (Dealer Members, marketplaces, information vendors etc.) to be prepared for an aligned implementation date in Canada?

Question 3

Rule 612 provides for a 1-month implementation window at the end of each semi-annual evaluation period (i.e., a 1-month window between establishing the increment and the effective date). Is this sufficient time for Canadian marketplaces to amend trading increments for listed securities in Canada?

7. Policy Development Process

7.1 Regulatory Purpose

By harmonizing trading increments with the United States for certain U.S. inter-listed securities, the Proposed Amendments would:

- foster public confidence and fair and efficient Canadian capital markets, and
- support the competitiveness of the Canadian market

The Proposed Amendments do not impose any requirements that CISO, its Members or Approved Persons must comply with in order to become exempted from a requirement of securities legislation.

7.2 Regulatory Process

The Board of Directors of CISO (**Board**) has determined the Proposed Amendments to be in the public interest and on November 20, 2024, approved them for public comment.

We consulted with the following CISO advisory committees on this matter:

- CCLS Executive Committee
- CCLS Institutional Subcommittee
- CCLS Retail Subcommittee
- Market Rules Advisory Committee
- National Council
- Investor Advisory Panel

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the CSA, CISO staff may recommend revisions to the Proposed Amendments. If the revisions and comments received are not material in nature, the Board has authorized the President to approve the revisions on CISO's behalf and the revised Proposed Amendments will be subject to approval by the CSA. If the revisions or comments are material, CISO staff will submit the Proposed Amendments, including any revisions, to the Board for approval for republication or implementation, as applicable.

8. Appendices

[Appendix 1](#) - Proposed Amendments to UMIR (clean)

[Appendix 2](#) - Proposed Amendments to UMIR (blacklined and clean)

[Appendix 3](#) - Impact Assessment