

IIROC NOTICE

Rules Notice Request for Comments

UMIR and Dealer Member Rules

Please distribute internally to:

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Senior Management
Trading Desk
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Comments Due By: March 24, 2016

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**15-0277
December 10, 2015**

Proposed Provisions Respecting Best Execution

Executive Summary

IIROC is proposing amendments to the Universal Market Integrity Rules (“UMIR”) and the Dealer Member Rules (“DMR”) (collectively, “Proposed Amendments”) that would consolidate existing UMIR best execution requirements and Dealer Member Rule requirements for fair pricing of over-the counter (“OTC”) securities into a single Dealer Member Rule (“Proposed Rule”) respecting best execution.

The evolution of the Canadian equity market continues to significantly affect the way in which orders are executed. Changes in market structure have resulted in a more complex trading environment and give rise to new trading dynamics. Recent changes include:

- the introduction of unprotected transparent marketplaces,¹
- an increase, among certain Dealer Members, in the sending of order flow to foreign markets, and
- differences in features offered by marketplaces.²

¹ IIROC Notice [15-0211](#) – *Provisions Respecting Unprotected Transparent Marketplaces and the Order Protection Rule* (September 18, 2015).



As a result, IIROC is proposing updates to best execution requirements to assist Dealer Members to comply with their best execution obligations in a multi-marketplace environment and in particular in light of the above-noted market structure changes.

The Proposed Amendments would:

- reflect proposed amendments by the Canadian Securities Administrators (“CSA”) to National Instrument 23-101 *Trading Rules* (“Trading Rules”) regarding best execution (“Proposed CSA Best Execution Amendments”);³
- address concerns arising from the results of IIROC’s Best Execution Survey⁴ (“Survey”) which gauged current industry practices to achieve best execution; and
- incorporate certain suggestions made at a roundtable held on June 23, 2015 (“Roundtable”) to discuss alternatives to proposed UMIR amendments related to the Proposed Dark Rules Anti-Avoidance Provision⁵ and the practice of systematic routing of retail orders to U.S. broker-dealers.

Some specific changes in the Proposed Amendments include:

- modifying the best execution obligation to explicitly require a Dealer Member to establish, maintain and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when acting for a client;
- aligning the Proposed Rule with the Proposed CSA Best Execution Amendments respecting the disclosure of best execution policies and procedures;
- requiring all Dealer Members to establish and maintain a written process to regularly review the best execution policies and procedures and update as necessary;
- requiring each Dealer Member to train its employees involved in the execution of client orders to know and understand the application of the Dealer Member’s best execution policies and procedures;
- clarifying that the sending of client orders in bulk to a specific foreign organized regulated market without considering other liquidity sources is not in compliance with achieving best execution;
- requiring Dealer Members to evaluate the execution services performed on their behalf by another Dealer Member for compliance with best execution; and

² For example: order types accepted, the treatment of marketplace trading fees or rebates, and the use of systematic order processing delays or “speed bumps”.

³ See (2014) 37 OSCB 4873. The Proposed CSA Best Execution Amendments were subject to comment, together with proposed changes to the Order Protection Rule (“OPR”), which closed on September 19, 2014.

⁴ IIROC Notice [14-0082](#) – *Best Execution Survey Results* (March 28, 2014).

⁵ IIROC Notice [15-0023](#) - *Re-Publication of Proposed Dark Rules Anti-Avoidance Provision* (January 29, 2015).



- making several editorial changes or consequential amendments to certain UMIR provisions.

While the Proposed Amendments set out a new rule framework for best execution in the DMR, in general, they do not introduce significant changes but rather enhance and clarify current best execution requirements.

If implemented, the Proposed Amendments would require Dealer Members to review current best execution policies and procedures to ensure they comply with the requirements in the Proposed Rule and provide the requisite disclosure to clients.

If approved, the Proposed Amendments would become effective approximately 180 days after publication of the notice of approval.

How to Submit Comments

Comments are requested on the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **March 24, 2016** to:

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A copy should also be provided to IIROC's Recognizing Regulators⁶ by forwarding a copy to:

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e-mail: marketregulation@osc.gov.on.ca

⁶ IIROC's Recognizing Regulators are each of the Canadian provincial securities regulatory authorities.



Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website (www.iiroc.ca).

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1. Discussion of the Proposed Amendments

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

1.1 Best Execution Obligation

1.1.1 Scope of Best Execution Obligation and Definition of “best execution”

Currently the core IIROC obligation respecting best execution resides in UMIR 5.1 and is only applicable to Participants⁷ in respect of client orders for listed securities. Accordingly non-Participant Dealer Members are not subject to a specific IIROC best execution rule.⁸ Current DMR 3300 *Fair Pricing of Over-the-Counter Securities* effectively requires best execution in respect of transactions in OTC securities but is a separate requirement from the best execution rule in UMIR.

The Proposed Amendments would introduce a single rule addressing best execution requirements for all listed and OTC securities that would be applicable to all Dealer Members, Participant or non-Participant.

The focus of the best execution obligation would also change under the Proposed Amendments. The current requirement in UMIR 5.1 requires Participants to “*diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances*”. The Proposed Amendments would modify this obligation to require all Dealer Members to establish, maintain and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when acting for a client.

The Trading Rules define best execution as obtaining “the most advantageous execution terms reasonably available under the circumstances” and the Proposed Rule would adopt this definition of best execution.

These changes result in a best execution obligation that would apply to all Dealer Members, is more focused on evaluating best execution compliance on the basis of policies and procedures rather than a trade-by-trade analysis, and is more closely aligned with the CSA definition of “best execution”.

⁷ A Participant is defined in UMIR 1.1 as:

- (a) a dealer registered in accordance with securities legislation of any jurisdiction and who is
 - (i) a member of an Exchange,
 - (ii) a user of a QTRS, or
 - (iii) a subscriber of an ATS; or

- (b) a person who has been granted trading access to a marketplace and who performs the functions of a derivatives market maker.

⁸ Non-Participant Dealer Members however are subject to Part 4 – Best Execution, of the Trading Rules.



1.1.2 Best Execution with respect to Over-the-Counter Securities

We note that with respect to OTC securities, obtaining “the most advantageous execution terms reasonably available under the circumstances” is considered to be analogous to obtaining prices that are “fair and reasonable”. Therefore, we would expect Dealer Members to have policies and procedures that are reasonably designed to obtain prices that are “fair and reasonable” which includes, for the pricing of OTC securities for principal transactions any mark-up or mark-down and for the pricing of agency transactions, any added commission.

We also note that the data collected on debt securities transactions through the Market Trade Reporting System 2.0, including spreads over benchmarks, commissions, as well as comparing retail versus wholesale trades, will assist IIROC in determining whether a Dealer Member’s policies and procedures are reasonably designed to obtain prices that are “fair and reasonable”.

1.1.3 Other Defined Terms

The Proposed Amendments would use a number of defined terms that are currently defined in UMIR. Some of these terms include:

- **“foreign organized regulated market”:**

The Proposed Rule would incorporate the term “foreign organized regulated market”, referring to the UMIR definition⁹ as it is currently employed in Part 3 of Policy 5.1 of UMIR. This term would be used in the Proposed Rule to recognize the factors that should be taken into account in determining whether to consider the execution of a client order on a foreign organized regulated market¹⁰ for the purpose of best execution.

⁹ UMIR 1.1 provides a definition of foreign organized regulated market which means a market outside of Canada:

- (a) that is an exchange, quotation or trade reporting system, alternative trading system or similar facility recognized by or registered with a securities regulatory authority that is an ordinary member of the International Organization of Securities Commissions;
- (b) on which the entry of orders and the execution or reporting of trades is monitored for compliance with regulatory requirements at the time of entry and execution or reporting by a self-regulatory organization recognized by the securities regulatory authority or by the market if the market has been empowered by the securities regulatory authority to monitor the entry of orders and the execution or reporting of trades on that market for compliance with regulatory requirements; and
- (c) that displays and provides timely information to information vendors, information processors or persons providing similar functions respecting the dissemination of data to market participants for that market of at least the price, volume and security identifier of each trade at the time of execution or reporting of the trade on that market, but, for greater certainty, does not include a facility of a market to which trades executed over-the-counter are reported unless:
 - (d) the trade is required to be reported and is reported to the market forthwith following execution;
 - (e) at the time of the report, the trade is monitored for compliance with securities regulatory requirements; and
 - (f) at the time of the report, timely information respecting the trade is provided to information vendors, information processors or persons providing similar functions respecting the dissemination of data to market participants for that market.

¹⁰ See clause 3300.3 (b)(ii) of the Proposed Rule.



In addition, new disclosure requirements that align with the CSA Best Execution Amendments in section 3300.8 of the Proposed Rule, would require a Dealer Member to disclose the types of marketplaces, *foreign organized regulated markets* and intermediaries to which the Dealer Member may route client orders for handling or execution.

- **“listed security”:**

The proposed term “listed security” would be included in the Proposed Rule to mean “a security listed on an exchange, other than an option”¹¹ which would allow for the delineation between the best execution provisions as applied to listed securities in certain circumstances rather than OTC securities. This definition differs slightly from the definition found in UMIR in that it excludes options and was proposed to better align with IIROC’s current oversight of trading in securities.

- **“over-the-counter securities”:**

The term would be incorporated from current Dealer Member Rule 3300 – *Fair Pricing of OTC Securities*, in order to effect the consolidation of the best execution requirements for both listed and OTC securities.

1.2 Best Execution Policies and Procedures

The Proposed Rule requires Dealer Members to outline a process reasonably designed to achieve best execution and also sets out certain elements that must be included in this process, some of which may be tailored to the execution of orders for certain types of securities.

For example, the Proposed Rule requires a Dealer Member to consider the instructions and investment objectives of a client and to describe any conflicts of interest that may arise when sending orders for handling or execution and explain how these conflicts are to be managed.

New elements have also been proposed to be part of best execution policies and procedures with respect to the execution of orders for listed securities. They include a description of:

- order routing practices that include order routing practices during the pre-market open, post-market close and when not all marketplaces are open and available for trading;
- how changes to routing tables are determined;
- the circumstances under which a Dealer Member will move an order entered on one marketplace to another marketplace; and

¹¹ “Exchange” is defined in UMIR as a person recognized by the applicable securities regulatory authority under securities legislation to carry on business as an exchange.



- when a Dealer Member does not have access to a marketplace that has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders, arrangements to access that marketplace.

The Proposed Rule would require each Dealer Member to identify the factors it considers in its policies and procedures for the purpose of achieving best execution also proposes certain factors that must be considered by a Dealer Member when executing orders for certain types of securities.

The new factors that would need to be considered when executing orders for listed securities include:

- whether client orders could reasonably be expected to execute at a better price on an unprotected marketplace; and
- Opening Orders on a marketplace that has demonstrated the greatest liquidity for a particular security at the opening of trading and the fair pricing of Opening Order execution.

1.3 Fair Pricing of Over-the-Counter Securities

The proposed provisions regarding the fair pricing of OTC securities are identical to the provisions currently found in DMR 3300 which state that Dealer Members must use reasonable efforts to obtain a price that is fair and reasonable in relation to prevailing market conditions. Section 3300.4 of the Proposed Rule imposes requirements regarding the fairness and reasonableness of mark-ups and mark-downs in the case of principal transactions, and commissions or service charges in the case of agency transactions, in arriving at an aggregate fair price for customers.

1.4 Review of Best Execution Policies and Procedures

The Proposed Amendments would impose a new requirement on each Dealer Member to review its best execution policies and procedures on at least an annual basis and whenever there is a material change to the trading environment or market structure that may impact a Dealer Member's ability to achieve best execution for its clients. As well, each Dealer Member would need to consider, taking into account the scope and size of its business, whether more frequent reviews are necessary. The Proposed Amendments would require a Dealer Member to outline a process for the review of its best execution policies and procedures which would need to include a detailed governance structure that specifies:

- who will conduct the review;
- what information sources will be used;
- the review procedures that will be employed,
- a description of any specific events that would trigger a review in addition to annual reviews;



- how the Dealer Member evaluates whether best execution was achieved; and
- who will receive reports of the results of the reviews.

1.5 Training

To help ensure that best execution policies and procedures are effectively implemented, section 3300.6 of the Proposed Rule requires Dealer Members to educate their employees involved in the execution of client orders so that these employees know and understand the relevant application of their best execution policies and procedures.

The current requirement in Part 4 of UMIR Policy 7.1 requires employees to know the rules and understand their obligation for best execution. The proposed requirement related to training places the onus on Dealer Members to train their employees, not only with respect to the best execution obligation, but how the best execution obligation must be met through the application of the relevant policies and procedures.

1.6 Execution Services

While all Dealer Members currently have a best execution obligation, the Proposed Amendments would clarify that Dealer Members that employ another Dealer Member to provide execution services (“executing Dealer”) are required to have best execution policies and procedures. Under clause 3300.3(a)(iv) of the Proposed Rule, Dealer Members must include in their written policies and procedures the supervision of the execution activities performed on their behalf for compliance with best execution; for example, this would include a review of the routing practices employed by the executing Dealer. The Dealer Member must be satisfied that the services being performed by its executing Dealer support the Dealer Member’s obligations respecting best execution of its client orders.

1.7 Disclosure of Best Execution Policies

The requirements in section 3300.8 of the Proposed Rule would introduce new disclosure requirements for Dealer Members and reflect the requirements in the Proposed CSA Best Execution Amendments. This section of the Proposed Rule would specifically require a Dealer Member to provide its clients, in writing:

- a description of the factors it considers for the purpose of achieving best execution;
- a description of its order handling and routing practices; and
- the identity of the marketplaces, foreign organized regulated markets and intermediaries to which the Dealer Member may route client orders as well as the names of marketplaces that are not accessed.

The Proposed Amendments would also require a Dealer Member to review this disclosure and update it on a frequency that is reasonable under the circumstances.



These requirements have been proposed to help ensure clients have adequate access to information on order handling procedures to make informed choices when choosing a dealer or providing instructions to a dealer.

2. Analysis

2.1 Best Execution Obligation

Regulators internationally have recognized that in the context of multiple markets, order handling and best execution rules are particularly important. The IOSCO Report¹² includes the recommendation that regulators should consider the ability of intermediaries to fulfill, where relevant, their best execution obligations. In Canada, Part 4 of the Trading Rules imposes an obligation on dealers¹³ to make reasonable efforts to achieve best execution (the most advantageous execution terms reasonably available under the circumstances) when acting for a client.¹⁴ IIROC has also issued several UMIR guidance notices to interpret the best execution requirement.¹⁵

The evolution of the Canadian equity market continues to significantly affect the way in which orders are executed. Changes in market structure have resulted in a more complex trading environment and give rise to new trading dynamics. Recent changes include:

- the introduction of unprotected transparent marketplaces¹⁶,
- an increase, among certain Dealer Members, in sending order flow to foreign markets, and

¹² See the Final Report of the Board of the International Organization of Securities Commissions (“IOSCO”) published in December, 2013 entitled *Regulatory Issues Raised by Changes in Market Structure* (the “IOSCO Report”) at p. 22. More recently, ESMA proposed in October, 2015, draft technical standards for the identification of execution venues and the quality of execution to enable the public and investors to evaluate the quality of an investment firm’s execution practices. FINRA also announced in its 2014 Regulatory and Examination Priorities Letter new surveillance patterns to monitor best execution in equities and fixed income securities. FINRA is further seeking clarity on brokers’ order routing decision-making processes and has engaged in examinations of certain firms with [Targeted Examination Letters re: Order Routing and Execution Quality of Customer Orders](#) in July, 2014, to ensure there is compliance with best execution and that decisions are not made to put rebates ahead of the execution quality. In its 2015 Regulatory and Examination Priorities Letter FINRA revealed that some firms did not have active best execution committees or other supervisory structures in place to meet their obligation to evaluate the quality of customer order executions. These interim results were revealed through an ongoing review of firms that route a significant percentage of their unmarketable customer limit orders to trading venues that provide the highest trading rebates for providing liquidity. Regarding fixed income securities, FINRA through its fair pricing reviews, will increase its emphasis on reviewing firms pricing practices, including whether firms have the supervision and controls in place to ensure they are using reasonable diligence and employing their market expertise to achieve best execution for their customers and avoiding excessive mark-ups (and mark-downs).

¹³ “Dealer” is generally defined in securities legislation as a person who is in the business of trading securities as principal or agent.

¹⁴ See Part 4 of the Trading Rules. Dealer Member Rule 2700 – *Minimum Standards for Institutional Customer Account Opening, Operation and Supervision*, references the requirement that Dealer Members comply with other SRO rules and policies and securities legislation, including the best execution obligation when acting for clients.

¹⁵ See MIN 2006-017 Guidance – *Securities Trading on Multiple Marketplaces* (September 1, 2006); MIN 2007-015 Guidance – *Specific Questions Related to Trading on Multiple Marketplaces* (August 10, 2007); MIN 2007-019 Guidance – *Entering Client Orders on Non-Transparent Marketplaces and Facilities* (September 21, 2007); IIROC Notice 09-0244 Guidance Note – UMIR – *“Best Execution” and “Best Price” Obligations For Securities Listed On TSX Venture Exchange* (August 27, 2009); IIROC Notice 11-0043 Guidance Note – UMIR – *Guidance on “Locked” and “Crossed” Markets* (February 1, 2011); IIROC Notice 11-0113 Guidance Note – UMIR – *Guidance on Best Execution and Management of Orders* (March 30, 2011); and IIROC Notice 11-0114 Guidance Note – UMIR – *Guidance Respecting the Use of Certain Order Types* (March 30, 2011).

¹⁶ IIROC Notice [15-0211](#) – *Provisions Respecting Unprotected Transparent Marketplaces and the Order Protection Rule* (September 18, 2015).



- differences in features offered by marketplaces.¹⁷

In order to update current best execution requirements, the Proposed Amendments would:

- reflect proposed amendments by the CSA to the Trading Rules regarding the Proposed CSA Best Execution Amendments¹⁸;
- address concerns arising from the results of the Survey¹⁹ which gauged current industry practices to achieve best execution; and
- incorporate certain suggestions made at the Roundtable to discuss alternatives to proposed UMIR amendments related to the Proposed Dark Rules Anti-Avoidance Provision²⁰ and the practice of systematic routing of retail orders to U.S. broker-dealers.

2.2 Proposed CSA Best Execution Amendments

In 2014, the CSA published a review of the impact of the Order Protection Rule (“OPR”) found in Part 6 of the Trading Rules and proposed provisions to the Trading Rules.²¹ The CSA’s proposal also included the Proposed CSA Best Execution Amendments which would require disclosure by dealers of their best execution policies and provides guidance on the disclosure and evaluation of access to orders on a marketplace in the context of unprotected markets.²² The CSA noted that requiring this disclosure was appropriate since the CSA’s proposal²³ may introduce added uncertainty for clients around the handling and routing of their orders in the context of unprotected markets. In addition, the CSA stated that because many marketplace participants are exempt from the best execution requirements in the Trading Rules as they are subject to best execution UMIR requirements, the CSA expects that similar changes to best execution guidance would also be made to UMIR policies and guidance.²⁴ The Proposed Amendments would meet this expectation.

¹⁷ For example: order types accepted, the treatment of marketplace trading fees or rebates, and the use of systematic order processing delays or “speed bumps”.

¹⁸ See (2014) 37 OSCB 4873. The Proposed CSA Best Execution Amendments were subject to comment, together with proposed changes to the Order Protection Rule (“OPR”), which closed on September 19, 2014.

¹⁹ IIROC Notice [14-0082](#) – *Best Execution Survey Results* (March 28, 2014).

²⁰ IIROC Notice [15-0023](#) - *Re-Publication of Proposed Dark Rules Anti-Avoidance Provision* (January 29, 2015)

²¹ CSA Notice and Request for Comment - Proposed Amendments to National Instrument 23-101 *Trading Rules* (2014), 37 OSCB 4873 published on May 15, 2014.

²² Best execution disclosure requirements for dealers had previously been proposed by the CSA in 2007 published at (2007) 30 OSCB (Supp-3) and 2008, published at (2008) 31 OSCB 10033, but were not pursued at that time.

²³ Under UMIR Policy 5.1 and the Proposed Rule, best execution is subject to compliance with OPR. Under changes to UMIR respecting unprotected transparent marketplaces and OPR, Participants may take account only of displayed orders on protected marketplaces when determining compliance with a UMIR requirement that makes reference to “best ask price”, “best bid price” or “better price”. However, whether a marketplace is “protected” for the purposes of the OPR is separate and distinct from the determination by a Participant whether a marketplace needs to be considered for the purposes of achieving best execution of client orders in accordance with the Proposed Rule.

²⁴ The Trading Rules provide an exemption from Part 4 for a person or company that complies with similar requirements established by a regulation services provider such as IIROC.



2.3 IIROC Best Execution Survey

The Survey was conducted by IIROC to gauge current practices of Dealer Members (both non-Participants and Participants) to comply with best execution requirements in a multiple marketplace environment.²⁵ The Survey canvassed responses on various topics including:

- access to lit and dark marketplaces;
- use of smart order routers;
- best execution governance;
- order handling practices;
- treatment of marketplace fees and rebates; and
- compliance and supervision practices.

The Survey responses have assisted IIROC in identifying best execution practices that may be improved upon in order to increase investor protection and enhance market efficiency. Certain areas of concern have been addressed in IIROC's Trading Conduct Compliance examination cycle²⁶ and others would be addressed through the Proposed Amendments.

Below is a description of our concerns that arose from the responses to the Survey which are addressed by the Proposed Amendments:

2.3.1 Liquidity on Unprotected Nontransparent Marketplaces

Survey results indicated that some Dealer Members may be missing significant price improvement opportunities for their clients by not accessing or routing orders to dark marketplaces.

In response, we have added in section 3300.3 of the Proposed Rule that Dealer Members should consider factors related to executing on unprotected marketplaces, including whether client orders could reasonably be expected to execute at a "better price".

2.3.2 Use of Marketplace Re-Price and Reject Functionality and Access to Marketplaces

Responses to the Survey indicated that certain Dealer Members that rely on re-price or reject functionality provided by marketplaces to comply with OPR may not have procedures to deal with tradable orders that were re-priced or rejected.

²⁵ The Survey did not canvass other issues related to best execution such as indications of interest, alpha decay, pricing of crosses and allocation when clients are competing, as these aspects of best execution are not associated with the market structure changes that the Survey concentrated on.

²⁶ See IIROC Notice 13-0296 – Rule Notice – Guidance Note – Dealer Member Rules and UMIR - *Annual Consolidated Compliance Report* (December 9, 2013).



To deal with this issue, section 3300.3 of the Proposed Rule cites that an element of the process to achieve best execution must include, taking order and trade information from all appropriate marketplaces, including if relying on re-price and reject functionality offered by a marketplace to comply with OPR. As well, section 3300.3 of the Proposed Rule would require that, where the Dealer Member does not have access to a marketplace that has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders, the Dealer Member must make arrangements to access that marketplace.

2.3.3 Best Execution Governance

IIROC found a wide variation in responses regarding the trigger of best execution reviews, and the type of documentation maintained of reviews and changes to best execution policies. As well, we found that conflicts of interest may not be adequately addressed by all Dealer Members in their best execution policies and procedures.

The requirements in section 3300.5 of the Proposed Rule prescribe a minimum period in which reviews of best execution policies and procedures must occur. In addition, this section would require an outline of how the Dealer Member evaluates whether best execution was achieved and mandates that documentation is to be kept of any material decisions and changes made to best execution policies and procedures for five years.

With respect to conflicts of interest, section 3300.3 of the Proposed Rule requires a Dealer Member to describe any conflicts of interest that may arise when sending orders for handling or execution and how these conflicts are to be managed.

2.3.4 Order Handling Procedures Outside of Marketplace Hours

It was clear from Survey responses that not all default order handling procedures used during pre-open and post-close periods on alternative trading systems were consistent with achieving best execution given the generally reduced liquidity and diminished price discovery on such marketplaces during these periods.

To address this concern, section 3300.3 of the Proposed Rule requires Dealer Members to identify considerations when not all marketplaces are open and available for trading when designing a process to achieve best execution. We believe this requirement will help ensure that default order handling procedures during pre-open and post-close periods of alternative trading systems are designed to obtain best execution for all client orders.

2.3.5 Availability and Clarity of Order Handling Procedures

Default order handling procedures and choice of a smart order router impact client executions and client choice. Survey responses indicated areas of weakness in the disclosure of where passive orders are booked, which dark marketplaces are accessed and the method of order routing as well as whether marketplace rebates are earned by firms.



To ensure that clients are aware and consent to a course of action, section 3300.8 of the Proposed Rule would require Dealer Members to provide clear and accessible disclosure to clients regarding their order handling and routing practices intended to achieve best execution, including:

- identifying the marketplaces, foreign organized regulated markets and intermediaries to which the Dealer Member might route orders for handling and execution as well as the circumstances in which the Dealer Member might route orders to an identified marketplace, foreign organized regulated market or intermediary; and
- a statement as to whether fees are paid or payments or other compensation is received by the Dealer Member for client orders that are routed or traded to a marketplace, foreign organized regulated market or intermediary.

2.3.6 Compliance and Supervision Procedures for Best Execution

Survey responses indicated that more non-Participant than Participant Dealer Members are without policies and procedures for supervision and compliance with best execution. IIROC is therefore concerned that certain non-Participant Dealer Members that employ a Participant to provide execution services do not have adequate policies and procedures to supervise compliance with best execution but rather rely on a Participant to comply with the best execution obligation on their behalf.

Section 3300.3 of the Proposed Rule would require a Dealer Member that relies on an executing Dealer to ensure that its written best execution policies and procedures require supervision of the execution activities performed on its behalf for compliance with best execution. In turn, an executing Dealer must provide its best execution policies and procedures and any subsequent material changes to help the non-executing Dealer Member better understand and keep up with changes to its best execution policies and procedures.

2.3.7 Market Data Provided by Discount Brokers

Our review indicated that about half of discount brokers that provide market data to their order execution clients include only a sub-set of market data from protected marketplaces. A concern with this practice is that clients entering orders based on partial information may make poor order entry decisions. For example, a client may believe that its order is aggressively placed at the top of the book while in fact there is a better bid or offer at a marketplace that is not included in the market data provided to that client.

Therefore, we have proposed adding a requirement in section 3300.8 of the Proposed Rule to mandate Dealer Members that provide market data as a service to clients to provide a description of any missing market data as well as an explanation of the risks of trading with the incomplete market data provided.



2.4 Addressing Concerns Regarding Southbound Order Flow

On January 29, 2015 IIROC re-published the Proposed Dark Rules Anti-Avoidance Provision which proposed amendments to the Order Exposure Rule²⁷ that would limit the ability of a Participant to execute a client order of 50 standard trading units or less on a foreign organized regulated market unless the order is entered on a market that displays order information (and the order is either displayed or executed on entry) or executed at a “better price”. The Proposed Dark Rules Anti-Avoidance Provision was re-published in part to ensure consistency in the application of the requirement to obtain a “better price” under the Canadian dark liquidity framework and to ensure that small client orders that contribute to Canadian price discovery are not by-passed by orders routed to a foreign jurisdiction that “step ahead” of Canadian posted orders by an amount that would not be sufficient in Canada and to address the impact of retail orders being routed to US broker-dealers. There was a lack of public support for the Proposed Dark Rules Anti-Avoidance Provision and as a result, IIROC hosted a Roundtable with industry stakeholders to discuss alternatives to the Proposed Dark Rules Anti-Avoidance Provision that would meet our policy objectives.

At the Roundtable, participants proposed solutions that included:

- doing further analytical work to better understand the scope of the issue;
- allowing time to determine the effect of marketplace solutions that have been recently implemented such as new marketplace models that incorporate “speed bumps” and reductions in maker-taker fees on certain marketplaces;
- enhancing best execution requirements and guidance;
- reducing or eliminating maker-taker pricing;
- adjusting the order exposure threshold;
- reducing tick sizes;
- repealing or modifying the Dark Rules, e.g. adjust the meaningful price improvement threshold;
- removing protection of markets that use maker-taker fee models;
- encouraging the creation of marketplace solutions to allow a lit market that would only allow active orders originating from retail accounts; and
- introducing competition for minimum guaranteed fill facilities at various marketplaces.

While not all solutions discussed at the Roundtable are within IIROC’s jurisdiction to implement, we carefully reviewed all solutions and discussed possible steps forward with CSA staff. We concluded that enhanced best execution requirements and guidance may be, in part, an effective solution to address our concerns regarding the systematic routing of small orders southbound and have therefore proposed additional requirements in section 3300.3 of

²⁷ UMIR 6.1



the Proposed Rule to help Dealer Members better understand the circumstances under which routing to a foreign market may not achieve best execution. Specifically, a statement is included in the Proposed Rule that the sending of client orders in bulk to a specific foreign organized regulated market without considering other liquidity sources, including liquidity sources in Canada, is not in compliance with achieving best execution. This statement is meant to clarify that relying on a sole source of liquidity will not be considered to be a reasonably designed policy to achieve best execution and that other sources of liquidity need to also be taken into account in best execution policies and procedures.

As well, we believe that the additional transparency of best execution policies and procedures required in section 3300.8 of the Proposed Rule will help clients understand how, and under what circumstances, orders are being routed outside of Canada which may also help address IIROC's concerns regarding southbound order flow.

IIROC intends to withdraw the Proposed Dark Rules Anti-Avoidance Provision published on January 29, 2015 upon the implementation of the Proposed Amendments.

3. Impacts of the Proposed Amendments

3.1 Dealer Impacts

We believe that the most significant impact of the Proposed Amendments on Dealer Members would be that each Dealer Member (whether a non-Participant or a Participant) would be required to:

- establish, maintain and ensure compliance with written policies and procedures for best execution with respect to all securities;
- provide appropriate disclosure to clients;
- supervise any intermediaries used for compliance with best execution; and
- train employees involved in the execution of client orders to know and understand the application of the Dealer Member's best execution policies and procedures.

3.1.1 Written Best Execution Policies and Procedures

While the requirement to establish best execution policies and procedures is not new, responses to the Survey indicate that some Dealer Members may have to enhance their written policies and procedures currently in place. We expect that these Dealer Members will need to invest time to modify these policies and procedures to ensure compliance with the requirements in the Proposed Rule.

3.1.2 Disclosure of Best Execution Policies

The proposed requirement to disclose best execution policies in section 3300.8 of the Proposed Rule would require all Dealer Members to review any current disclosure of best execution policies and procedures and modify such disclosure, where necessary, to ensure it is



in compliance with the Proposed Rule. While the granularity of such disclosure is not expected to be extremely detailed, it is expected that the disclosure will provide sufficient information to help clients understand how and when the handling of their orders will occur and why the handling of their orders may differ. We expect that Dealer Members will require time to draft disclosure that meets these requirements in the Proposed Rule.

3.1.3 Supervision of Compliance with Best Execution

Given that the Survey responses indicated that some non-Participant Dealer Members are without policies and procedures for supervision and compliance with best execution, we expect that these Dealer Members will need time to develop and implement such policies and procedures. Non-Participant Dealer Members that rely on an executing Dealer would also need to review the best execution policies and procedures of the executing Dealer member to ensure such policies and procedure support their own best execution policies and procedures.

3.1.4 Training

We expect that if Dealer Members have not already done so, they will require time to ensure that all applicable employees have the requisite knowledge and understanding of the application of the Dealer Member's best execution policies and procedures.

3.2 Marketplace Impacts

We do not expect the Proposed Amendments to have any material impact on marketplaces.

3.3 Other Impacts

IIROC will need to amend its compliance modules to reflect the Proposed Amendments.

4. Technological Implications and Implementation Plan

4.1 Technological Implications

We do not expect the Proposed Amendments to have material technological implications. For those Dealer Members with a website, they would need to ensure that the mandated disclosure is accessible, clearly located on its website and updated as required.

4.2 Implementation Plan

IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the Proposed Amendments would be implemented approximately 180 days from the publication of the Notice of Approval.



Appendix A -Text of DMR Amendments

The Dealer Member Rules are hereby amended by replacing Rule 3300 with the following:

“RULE 3300 BEST EXECUTION OF CLIENT ORDERS

3300.1. Definitions

For the purposes of this Rule 3300:

- (a) “best execution” means obtaining the most advantageous execution terms reasonably available under the circumstances.
- (b) “over-the-counter securities” includes debt securities as well as contracts for difference and foreign exchange contracts, but does not include:
- (i) listed securities;
 - (ii) primary market transactions in securities; and
 - (iii) over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.

Terms defined or interpreted in the Universal Market Integrity Rules and used in this Rule 3300 have the respective meanings ascribed to them in the Universal Market Integrity Rules other than the following:

“listed security” means a security listed on an Exchange, other than an option.

3300.2. Best Execution Obligation

A Dealer Member must establish, maintain and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when acting for a client.

3300.3. Best Execution Policies and Procedures

The policies and procedures required under section 3300.2. must:

- (a) outline a process designed to achieve best execution which includes:
- (i) with respect to the execution of all client orders:
 - (A) requiring the Dealer Member, subject to compliance by the Dealer Member with any regulatory requirement, to consider the instructions of a client and the investment objectives of the client;



- (B) describing any conflicts of interest that may arise when sending orders for handling or execution and how these conflicts are to be managed;
- (ii) with respect to the execution of orders for listed securities:
- (A) identifying the Dealer Member's order handling and routing practices intended to achieve best execution, including in the pre-market open and post-market close and identifying how changes to routing tables are determined;
 - (B) requiring, where the Dealer Member does not subscribe to a marketplace that has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders, the Dealer Member to make arrangements to access that marketplace from another Dealer Member that is a participant of that marketplace;
 - (C) taking into account order and trade information from all appropriate marketplaces, including if relying on re-price and reject functionality offered by a marketplace to comply with the Order Protection Rule under Part 6 of the Trading Rules;
 - (D) the rationale for accessing or not accessing orders on particular marketplaces,
 - (E) the circumstances under which a Dealer Member will move an order entered on one marketplace to another marketplace;
- (iii) with respect to the execution of orders for over-the-counter securities, a process to support the pricing of over-the-counter securities transactions that requires maintaining:
- (A) transactions records, including audio recordings, that allow the Dealer Member to reconstruct the basis on which an over-the-counter security transaction price was determined to be fair;
 - (B) documentation related to due diligence respecting the determination of the market value of hard-to-value securities including recent transaction prices for the issue and/or transaction prices for issues with similar credit quality and features reviewed by the Dealer Member or if the features and credit quality are not known, documentation that includes information obtained on these factors from established industry sources such as the current rating or other information that may affect the market value of the securities such as credit quality, the specific features and terms of the security, and any material information about the security such as issuer plans to call the issue and defaults;



- (C) documentation of any reliance by the Dealer Member on bid-wanted procedures to establish fair pricing and when the market value of an issue is not known, documentation of its due diligence efforts to verify the results of the bid-wanted process against other data;
- (D) documentation of the basis on which a structured product transaction is fairly priced if it is hard-to-value, unless the fair market value of a particular structured product is readily ascertainable;
- (E) documentation by introducing brokers with respect to due diligence reviews of carrying brokers' prices against other possible sources;

With respect to contracts for difference, additional supporting documentation is generally not necessary since the prevailing market price of the underlying assets at the time of the transaction is the primary consideration for determining the fairness of pricing. In the case of foreign exchange contracts, additional documentation is also generally not necessary if the exchange rate of the underlying currency pair is readily available and is the primary consideration for determining the fairness of pricing.

- (iv) when a Dealer Member employs another Dealer Member to provide execution services on its behalf, the requirement:
 - (A) for the Dealer Member to supervise the execution activities performed on its behalf for compliance with best execution;
 - (B) for the Dealer Member providing execution services to promptly provide its best execution policies and procedures and any material changes to the originating Dealer Member.

(b) identify the factors the Dealer Member considers for the purpose of achieving best execution,

- (i) including, with respect to the execution of all client orders, the following broad factors:
 - (A) prices and volumes of historical trading activity;
 - (B) the speed of execution;
 - (C) the certainty of execution;
 - (D) the overall cost of the transaction, when costs are passed through to clients;



- (ii) including, with respect to the execution of client orders for listed securities, the following factors which encompass more specific considerations of the broad factors listed in (i):
- (A) considerations taken into account when determining appropriate routing strategies for clients;
 - (B) Opening Orders on a marketplace that has demonstrated the greatest liquidity for a particular security at the opening of trading and fair pricing of Opening Order executions;
 - (C) considerations when not all marketplaces are open and available for trading; and
 - (D) order and trade information from all appropriate marketplaces, including unprotected marketplaces and foreign organized regulated markets,
 - (E) factors related to executing on unprotected marketplaces, including whether:
 - (1) client orders could reasonably be expected to execute on the unprotected marketplace at a better price;
 - (2) the displayed volume on protected marketplaces has historically not been adequate to fully execute client orders on advantageous terms; and
 - (3) the unprotected marketplace has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders,
 - (F) factors related to executing on foreign organized regulated markets, including:
 - (1) whether the foreign organized regulated market has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders to execute;
 - (2) the extent of trading in the particular security on the foreign organized regulated market relative to the volume of trading on marketplaces;
 - (3) the extent of exposure to settlement risk in a foreign jurisdiction; and
 - (4) the extent of exposure to fluctuations in foreign currency exchange;
- The sending of client orders in bulk to a specific foreign organized regulated market without considering other liquidity sources, including liquidity sources in Canada, is not in compliance with achieving best execution.
- (G) factors related to manually handling the execution of a client order for a listed security, including the following “prevailing market conditions”:



- (1) the direction of the market for the security;
 - (2) the depth of the posted market;
 - (3) the last sale price;
 - (4) the size of the spread; and
 - (5) the liquidity of the security,
- (iii) including, with respect to the execution of client orders for over-the-counter securities, the following factors which encompass more specific considerations of the broad factors listed in (i):
- (A) the fair market value of the security at the time of the transaction and of any securities exchanged or traded in connection with the transaction;
 - (B) the expense involved in effecting the transaction;
 - (C) the fact that the Dealer Member is entitled to a profit;
 - (D) the total dollar amount of the transaction;
 - (E) the yield, which should be comparable to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market;
 - (F) the service provided and expense involved in effecting the transaction (relating to the Dealer Member's compensation component of the transaction);
 - (G) the availability of the security in the market;
 - (H) the size of issue and market saturation from both the issuer and the industry/sector;
 - (I) the rating and call features of the security (relating to market value).

Where pricing information cannot be obtained on the basis of the pricing factors cited above, such as when there are no comparable trades for an over-the-counter security, pricing considerations may be based on comparable or "similar" securities that may serve as a reasonably fungible alternative investment and take account of equivalent factors including:

- (J) credit quality of both securities;
- (K) collateralization;
- (L) spreads (over Canadian securities of similar duration) at which the securities are usually traded;
- (M) general structural similarities (such as calls, maturity, embedded options);
- (N) the size of the issue or float;
- (O) recent turnover; and
- (P) transferability.



In circumstances where neither the pricing factors cited above nor similar securities can be used to establish the prevailing market price, the Dealer Member must use pricing information derived from an economic model, which takes into account factors such as credit quality, interest rates, industry sector, time to maturity, call provisions and other embedded options, coupon rate and face value, and all applicable pricing terms and conversions (e.g. coupon frequency and accrual methods), to determine a fair and reasonable price.

With respect to contracts for difference, the prevailing market price of the underlying assets at the time of the transaction is the primary consideration for determining fair pricing.

With respect to foreign exchange contracts, the exchange rate of the underlying interest (the currency pair) is the primary consideration for determining fair pricing.

3300.4. Fair Pricing of Over-the-Counter Securities

A Dealer Member must not:

- (a) purchase over-the-counter securities for its own account from a client or sell over-the-counter securities for its own account to a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable;
- (b) purchase or sell over-the-counter securities as agent for a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the availability of the securities involved in the transaction, the expense of executing or filling the customer's order, the value of the services rendered by the Dealer Member, and the amount of any other compensation received or to be received by the Dealer Member in connection with the transaction.

3300.5. Review of Best Execution Policies and Procedures

A Dealer Member must at least annually review its best execution policies and procedures required under section 3300.2., and specifically whenever there is a material change to the trading environment or market structure that may impact a Dealer Member's ability to achieve best execution for its clients. Each Dealer Member must consider, taking into account the scope and size of the Dealer Member's business, whether more frequent reviews of its best execution policies and procedures are necessary.

A Dealer Member must outline a process to review its best execution policies and procedures, including detail of a governance structure, that specifies:



- (a) who will conduct the review;
- (b) what information sources will be used;
- (c) the review procedures that will be employed;
- (d) a description of any specific events that would trigger a review in addition to annual reviews;
- (e) how the Dealer Member evaluates whether best execution was achieved; and
- (f) who will receive reports of the results.

A Dealer Member must retain records of its reviews of its best execution policies and procedures, as well as any material decisions made and changes to them for five years. Any necessary change to best execution policies and procedures identified in the course of a review must be promptly corrected by the Dealer Member.

3300.6. Training

A Dealer Member must ensure its employees involved in the execution of client orders know and understand the application of the Dealer Member's written best execution policies and procedures that they must follow. In particular, with respect to the execution of client orders for listed securities, employees should be trained to understand the policies and procedures reasonably designed to achieve best execution in a multiple market environment. In addition, where the handling of a client order is manual and where the employee of the Dealer Member exercises any discretion relating to the execution of the order, the Dealer Member must ensure that such employee understands the application of the Dealer Member's written best execution policies and procedures applicable to such activity.

3300.7. Subject to Order Protection Rule

Notwithstanding any instruction or consent of the client, achieving best execution for a client order for any listed security is subject to compliance with the Order Protection Rule under Part 6 of the Trading Rules by the marketplace on which the order is entered or by the Dealer Member if the Dealer Member has marked the order as a directed-action order in accordance with UMIR 6.2.

3300.8. Disclosure of Best Execution Policies

A Dealer Member must provide in writing to its clients:

- (a) a description of the Dealer Member's obligation under section 3300.2;
- (b) a description of the factors the Dealer Member considers for the purpose of achieving best execution;



- (c) a description of the Dealer Member's order handling and routing practices intended to achieve best execution for client orders for listed securities, including:
- (i) the identity of any marketplace and foreign organized regulated market to which the Dealer Member might route the orders for handling or execution;
 - (ii) the identity of each type of intermediary to which the Dealer Member might route the orders for handling or execution;
 - (iii) the circumstances in which the Dealer Member might route the orders to a marketplace, foreign organized regulated market or intermediary identified or referred to in the disclosure made under (i) and (ii);
 - (iv) how the Dealer Member, if a Participant, complies with the requirements of UMIR 6.3 – Exposure of Client Orders,
 - (v) the circumstances, if any, under which the Dealer Member will move an order entered on one marketplace to another marketplace,
 - (vi) the nature of any ownership by the Dealer Member or affiliated entity of the Dealer Member in, or arrangement with, any marketplace, foreign organized regulated market or intermediary identified or referred to in the disclosure made under (i) and (ii);
 - (vii) if any of the orders may be routed to an intermediary referred to in the disclosure made under (ii), pursuant to an arrangement with any such intermediary,
 - (A) a statement that the order will be subject to the order handling and routing practices of the intermediary;
 - (B) a statement that the Dealer Member has examined the order handling and routing practices of the intermediary and is satisfied that they are reasonably designed to achieve best execution; and
 - (C) a description of the order handling and routing practices of the intermediary or information that specifically identifies where that description can be found;
 - (viii) a statement as to whether fees are paid or payments or other compensation is received by the Dealer Member for a client order routed, or traded resulting from a client order routed, to any marketplace, foreign organized regulated market or intermediary identified or referred to in the disclosure made under (i) and (ii), and a description of the circumstances under which the costs associated with those fees paid or the amounts or compensation received will be passed on to the client,



- (d) when providing market data as a service to clients, a description of any missing market data, including an explanation of the risks of trading with incomplete trading data provided.

A Dealer Member must make the required disclosure for each class or type of client if the factors and order handling and routing practices differ materially for that class or type of client relative to any other class or type of client, or relative to all of the clients of the Dealer Member in aggregate.

A Dealer Member must specifically identify in the required disclosure:

- (a) the class or type of client to which the disclosure applies;
- (b) the class or type of securities to which the disclosure applies; and
- (c) the date of the most recent changes to the disclosure made in accordance with this Rule 3300.

A Dealer Member must:

- (a) make the disclosure required under this Rule 3300 publicly available on the Dealer Member's website; and
- (b) clearly identify to clients where on the website the disclosure is found; or
- (c) if the Dealer Member does not have a website to allow it to comply with (a) and (b), deliver the disclosure required under this Rule 3300 to the client
 - (i) upon account opening; or
 - (ii) if the client has an account already open with the Dealer Member at the time this Rule 3300 comes into force, no later than the 90th day after this Rule 3300 comes into force.

A Dealer Member that provides disclosure under this Rule 3300 must:

- (a) review the disclosure on a frequency that is reasonable in the circumstances, and at a minimum on an annual basis, and
- (b) based on the review under (a), promptly update the disclosure to reflect the Dealer Member's current practices.

If a Dealer Member makes any change to the disclosure it is required to make under this Rule 3300, the Dealer Member must,

- (a) for the website disclosure, identify and maintain the change on the website for a period of 6 months after the change has been made; or
- (b) for any disclosure required to be delivered to a client, deliver the change to the client no later than the 90th day after the completion of the review and update.”.





Appendix B - Text of UMIR Amendments

The Universal Market Integrity Rules are hereby amended as follows:

1. Rule 5.1 is deleted.
2. Policy 5.1 is deleted.
3. Part 3 of Policy 7.1 is amended by:
 - (a) adding “DMR,” to the heading of the first column of the table,
 - (b) deleting “Rule 5.1” from the first column of the table,
 - (c) adding “DMR 3300” after “Rule 8.1” in the first column of the table.
4. Part 4 of Policy 7.1 is amended by:
 - (a) deleting the phrase “and Best Execution” from the title of the Part;
 - (b) deleting the following:

“or 5.1. A Participant must have policies and procedures in place to “diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances”. The policies and procedures must:

 - outline a process designed to achieve best execution;
 - require the Participant, subject to compliance by the Participant with any Requirement, to follow the instructions of the client and to consider the investment objectives of the client;
 - include the process for taking into account order and trade information from all appropriate marketplaces and foreign organized regulated markets; and
 - describe how the Participant evaluates whether “best execution” was obtained.

In order to demonstrate that a Participant has “diligently pursued” the best execution of a particular client order, the Participant must be able to demonstrate that it has abided by the policies and procedures. At a minimum, the written compliance procedures must address employee education and post-trade monitoring”;



- (c) replacing “Rules 5.3” with “Rule 5.3” after the phrase “order handling is allowed under UMIR”;
 - (d) replacing “5.1” with “Dealer Member Rule 3300” before the phrase “as this is done to ensure that the client gets a good execution.”; and
 - (e) deleting the phrase “and best execution, particularly in a multiple market environment” in the first bullet under the heading “Education”.
5. Part 3 of Policy 5.3 is amended by replacing the phrase “Part 4 – Specific Procedures Respecting Client Priority and Best Execution” with “Part 4 – Specific Procedures Respecting Client Priority”.
6. Part 5 of Policy 6.4 is amended by:
- (a) adding the phrase “and the Dealer Member Rules” after “In particular, the following provisions of UMIR”;
 - (b) replacing the phrase “Part 5 dealing with the “best execution obligation” of a Participant in respect of a client order” with “Dealer Member Rule 3300 with respect to the “best execution obligation” of a client order”.
7. Part 1 of Policy 8.1 is amended by replacing the phrase “in accordance with the best execution obligations under Rules 5.1 and 5.2” with the phrase “in accordance with its best execution obligation under Dealer Member Rule 3300”.
8. Rule 10.16 is amended by replacing “Rule 5.1” with “Dealer Member Rule 3300” in clause (e) of subsection (1).





Appendix C - Text of DMR to Reflect Proposed Provisions Respecting Best Execution

Text of UMIR Provisions Marked to Reflect Adoption of the Proposed Amendments	Text of DMR Provisions Marked to Reflect Adoption of the Proposed Amendments	Text of DMR Following Adoption of the Proposed Amendments
<p>PART 5—BEST EXECUTION OBLIGATION</p> <p>5.1 Best Execution of Client Orders</p> <p>A Participant shall diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances.</p>	<p>RULE 3300</p> <p>FAIR PRICING OF OVER-THE-COUNTER SECURITIES</p> <p>3300.1—For purposes of this rule, "over-the-counter securities" includes contracts for difference and foreign exchange contracts, but does not include:</p> <p>(a) primary market transactions in securities; and</p> <p>(b) over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.</p> <p>3300.2—Every Dealer Member, when executing a transaction in over-the-counter securities for or on behalf of a customer as agent, shall make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.</p>	<p>RULE 3300</p> <p>BEST EXECUTION OF CLIENT ORDERS</p> <p>3300.1. Definitions</p> <p>For the purposes of this Rule 3300:</p> <p>(a) "best execution" means obtaining the most advantageous execution terms reasonably available under the circumstances.</p> <p>(b) "over-the-counter securities" includes debt securities as well as contracts for difference and foreign exchange contracts, but does not include:</p> <ul style="list-style-type: none"> (i) listed securities; (ii) primary market transactions in securities; and (iii) over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.
<p>POLICY 5.1—BEST EXECUTION OF CLIENT ORDERS</p> <p>Part 1—General Factors to be Considered</p> <p>In seeking the "most advantageous execution terms reasonably available under prevailing market conditions", the Market Regulator would expect that the Participant would take into account a number of general factors, including:</p> <ul style="list-style-type: none"> • the price at which the trade would occur; • the speed of execution; • the certainty of execution; and • the overall cost of the transaction. <p>These four broad factors encompass more specific considerations, such as order size, reliability of quotes, liquidity, market impact (the price movement that occurs when executing an order) and opportunity cost (the missed opportunity to obtain a better price when an order is not</p>	<p>3300.3—A Dealer Member must not:</p> <p>(a) purchase over-the-counter securities for its own account from a customer or sell over-the-counter securities for its own account to a customer except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction, the expense involved in effecting the transaction, the fact that the Dealer Member is entitled to a profit, and the total dollar amount of the transaction; and</p> <p>(b) purchase or sell over-the-counter securities as agent for a customer for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the availability of the securities involved in the transaction, the expense of executing or filling the customer's order, the value of the services rendered by the Dealer Member, and the amount of any other compensation received or to be</p>	<p>Terms defined or interpreted in the Universal Market Integrity Rules and used in this Rule 3300 have the respective meanings ascribed to them in the Universal Market Integrity Rules other than the following: "listed security" means a security listed on an Exchange, other than an option.</p> <p>3300.2 Best Execution Obligation</p> <p>A Dealer Member must establish, maintain and ensure compliance with written policies and procedures that are reasonably designed to achieve best execution when</p>



~~completed at the most advantageous time). The overall cost of the transaction is meant to include, where appropriate, all costs associated with accessing an order and/or executing a trade that are passed onto a client, including fees arising from trading on a particular marketplace, jitney fees (i.e. any fees charged between dealers to provide trading access) and settlement costs.~~

~~In considering the circumstances, Participants should take into account “prevailing market conditions” and consider such factors as:~~

- ~~• prices and volumes of the last sale and previous trades;~~
- ~~• direction of the market for the security;~~
- ~~• posted size on the bid and offer;~~
- ~~• the size of the spread; and~~
- ~~• liquidity of the security.~~

~~Part 2—Specific Factors to be Considered~~

~~In determining whether a Participant has diligently pursued the best execution of a client order, the Market Regulator will consider a number of specific factors including:~~

- ~~• any specific client instructions regarding the execution of the order;~~
- ~~• whether the Participant has considered orders on a marketplace that has demonstrated a reasonable likelihood of liquidity for a specific security relative to the size of the client order, and~~
- ~~• whether the Participant has considered possible liquidity on marketplaces that do not provide transparency of orders in a consolidated market display if:
 - ~~◦ the displayed volume in the consolidated market display is not adequate to fully execute the client order on advantageous terms for the client, and~~
 - ~~◦ the non-transparent marketplace has demonstrated that there is a reasonable likelihood that the marketplace will have liquidity for the specific security.~~~~

~~Part 3—Consideration of Foreign Organized Regulated Markets~~

~~In determining whether to consider the execution of a client order on a foreign organized regulated market, the~~

~~received by the Dealer Member in connection with the transaction.~~

acting for a client.

3300.3. Best Execution Policies and Procedures

The policies and procedures required under section 3300.2. must:

(a) outline a process designed to achieve best execution which includes:

- (i) with respect to the execution of all client orders:
 - (A) requiring the Dealer Member, subject to compliance by the Dealer Member with any regulatory requirement, to consider the instructions of a client and the investment objectives of the client,
 - (B) describing any conflicts of interest that may arise when sending orders for handling or execution and how these conflicts are to be managed,
- (ii) with respect to the execution of orders for listed securities:
 - (A) identifying the Dealer Member’s order handling and routing practices intended to achieve best execution, including in the pre-market open and post-market close and identifying how changes to routing tables are determined,
 - (B) requiring, where the Dealer Member does not subscribe to a marketplace that has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders, the Dealer Member to make arrangements to



<p>Participant may consider, in addition to the factors set out in Parts 1 and 2:</p> <ul style="list-style-type: none">▶ available liquidity displayed on a marketplace relative to the size of the client order;▶ the extent of trading in the particular security on the foreign organized regulated market relative to the volume of trading on marketplaces;▶ the extent of exposure to settlement risk in a foreign jurisdiction; and▶ the extent of exposure to fluctuations in foreign currency exchange. <p>Part 4—Subject to Order Protection Rule</p> <p>Notwithstanding any instruction or consent of the client, the provision of “best execution” for a client order is subject to compliance with the “order protection rule” under Part 6 of the Trading Rules by the marketplace on which the order is entered or by the Participant if the Participant has marked the order as a directed action order in accordance with Rule 6.2. Similarly, if a Participant considers a foreign organized regulated market in order to provide a client with “best execution”, the Participant must ensure that the condition in subsection (3) of Rule 6.4, if applicable, is satisfied prior to the execution on the foreign organized regulated market.</p>		<p>access that marketplace from another Dealer Member that is a participant of that marketplace,</p> <ul style="list-style-type: none">(C) taking into account order and trade information from all appropriate marketplaces, including if relying on re-price and reject functionality offered by a marketplace to comply with the Order Protection Rule under Part 6 of the Trading Rules,(D) the rationale for accessing or not accessing orders on particular marketplaces,(E) the circumstances under which a Dealer Member will move an order entered on one marketplace to another marketplace, <p>(iii) with respect to the execution of orders for over-the-counter securities, a process to support the pricing of over-the-counter securities transactions that requires maintaining:</p> <ul style="list-style-type: none">(A) transactions records, including audio recordings, that allow the Dealer Member to reconstruct the basis on which an over-the-counter security transaction price was determined to be fair;(B) documentation related to due diligence respecting the determination of the market value of hard-to-value securities including recent transaction prices for the issue and/or transaction prices for issues with similar credit quality and
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		<p>features reviewed by the Dealer Member or if the features and credit quality are not known; documentation that includes information obtained on these factors from established industry sources such as the current rating or other information that may affect the market value of the securities such as credit quality, the specific features and terms of the security, and any material information about the security such as issuer plans to call the issue and defaults;</p> <p>(C) documentation of any reliance by the Dealer Member on bid-wanted procedures to establish fair pricing and when the market value of an issue is not known, documentation of its due diligence efforts to verify the results of the bid-wanted process against other data;</p> <p>(D) documentation of the basis on which a structured product transaction is fairly priced if it is hard-to-value, unless the fair market value of a particular structured product is readily ascertainable;</p> <p>(E) documentation by introducing brokers with respect to due diligence reviews of carrying brokers' prices against other possible sources</p> <p>With respect to contracts for difference, additional supporting documentation is generally not</p>
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		<p>necessary since the prevailing market price of the underlying assets at the time of the transaction is the primary consideration for determining the fairness of pricing. In the case of foreign exchange contracts, additional documentation is also generally not necessary if the exchange rate of the underlying currency pair is readily available and is the primary consideration for determining the fairness of pricing.</p> <ul style="list-style-type: none">(iv) when a Dealer Member employs another Dealer Member to provide execution services on its behalf, the requirement:<ul style="list-style-type: none">(A) for the Dealer Member to supervise the execution activities performed on its behalf for compliance with best execution;(B) for the Dealer Member providing execution services to promptly provide its best execution policies and procedures and any material changes to the originating Dealer Member. <p>(b) identify the factors the Dealer Member considers for the purpose of achieving best execution,</p> <ul style="list-style-type: none">(i) including, with respect to the execution of all client orders, the following broad factors:<ul style="list-style-type: none">(A) prices and volumes of historical trading activity;(B) the speed of execution;(C) the certainty of execution;(D) the overall cost of the transaction,
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		<p>when costs are passed through to clients;</p> <p>(ii) including, with respect to the execution of client orders for listed securities, the following factors which encompass more specific considerations of the broad factors listed in (i):</p> <ul style="list-style-type: none">(A) considerations taken into account when determining appropriate routing strategies for clients;(B) Opening Orders on a marketplace that has demonstrated the greatest liquidity for a particular security at the opening of trading and fair pricing of Opening Order executions;(C) considerations when not all marketplaces are open and available for trading; and(D) order and trade information from all appropriate marketplaces, including unprotected marketplaces and foreign organized regulated markets,(E) factors related to executing on unprotected marketplaces, including whether:<ul style="list-style-type: none">(1) client orders could reasonably be expected to execute on the unprotected marketplace at a better price;(2) the displayed volume on protected marketplaces has historically not been adequate to fully execute client orders on
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		<p>advantageous terms; and (3) the unprotected marketplace has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders,</p> <p>(F) factors related to executing on foreign organized regulated markets, including:</p> <ul style="list-style-type: none">(1) whether the foreign organized regulated market has historically demonstrated a reasonable likelihood of liquidity for securities for which the Dealer Member accepts orders to execute;(2) the extent of trading in the particular security on the foreign organized regulated market relative to the volume of trading on marketplaces;(3) the extent of exposure to settlement risk in a foreign jurisdiction; and(4) the extent of exposure to fluctuations in foreign currency exchange. <p>The sending of client orders in bulk to a specific foreign organized regulated market without considering other liquidity sources, including liquidity sources in Canada, is not in compliance with achieving best execution.</p> <p>(G) factors related to manually handling the execution of a client order for a listed security, including the following “prevailing market</p>
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		<p>conditions”:</p> <ul style="list-style-type: none">(1) the direction of the market for the security;(2) the depth of the posted market;(3) the last sale price;(4) the size of the spread; and(5) the liquidity of the security <p>(iii) including, with respect to the execution of client orders for over-the-counter securities, the following factors which encompass more specific considerations of the broad factors listed in (i):</p> <ul style="list-style-type: none">(A) the fair market value of the security at the time of the transaction and of any securities exchanged or traded in connection with the transaction;(B) the expense involved in effecting the transaction;(C) the fact that the Dealer Member is entitled to a profit;(D) the total dollar amount of the transaction;(E) the yield, which should be comparable to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market;(F) the service provided and expense involved in effecting the transaction (relating to the Dealer Member’s compensation component of the transaction);(G) the availability of the security in the
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		<p>market;</p> <ul style="list-style-type: none">(H) the size of issue and market saturation from both the issuer and the industry/sector;(I) the rating and call features of the security (relating to market value). <p>Where pricing information cannot be obtained on the basis of the pricing factors cited above, such as when there are no comparable trades for an over-the-counter security, pricing considerations may be based on comparable or “similar” securities that may serve as a reasonably fungible alternative investment and take account of equivalent factors including:</p> <ul style="list-style-type: none">(J) credit quality of both securities;(K) collateralization;(L) spreads (over Canadian securities of similar duration) at which the securities are usually traded;(M) general structural similarities (such as calls, maturity, embedded options);(N) the size of the issue or float;(O) recent turnover; and(P) transferability. <p>In circumstances where neither the pricing factors cited above nor similar securities can be used to establish the prevailing market price, the Dealer Member must use pricing information derived from an economic model, which takes into account factors such as credit quality, interest rates, industry sector, time to maturity, call provisions and other embedded options, coupon rate and face value, and all applicable pricing terms and conversions (e.g. coupon frequency and accrual methods), to determine a fair and reasonable price.</p>
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		<p>With respect to contracts for difference, the prevailing market price of the underlying assets at the time of the transaction is the primary consideration for determining fair pricing.</p> <p>With respect to foreign exchange contracts, the exchange rate of the underlying interest (the currency pair) is the primary consideration for determining fair pricing.</p> <p>3300.4. Fair Pricing of Over-the-Counter Securities</p> <p>A Dealer Member must not:</p> <ul style="list-style-type: none">(a) purchase over-the-counter securities for its own account from a client or sell over-the-counter securities for its own account to a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable;(b) purchase or sell over-the-counter securities as agent for a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the availability of the securities involved in the transaction, the expense of executing or filling the customer's order, the value of the services rendered by the Dealer Member, and the amount of any other compensation received or to be received by the Dealer Member in connection with the transaction. <p>3300.5. Review of Best Execution Policies and</p>
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		<p style="text-align: center;">Procedures</p> <p>A Dealer Member must at least annually review its best execution policies and procedures required under section 3300.2., and specifically whenever there is a material change to the trading environment or market structure that may impact a Dealer Member’s ability to achieve best execution for its clients. Each Dealer Member must consider, taking into account the scope and size of the Dealer Member’s business, whether more frequent reviews of its best execution policies and procedures are necessary.</p> <p>A Dealer Member must outline a process to review its best execution policies and procedures, including detail of a governance structure, that specifies:</p> <ul style="list-style-type: none">(a) who will conduct the review;(b) what information sources will be used;(c) the review procedures that will be employed;(d) a description of any specific events that would trigger a review in addition to annual reviews;(e) how the Dealer Member evaluates whether best execution was achieved; and(f) who will receive reports of the results. <p>A Dealer Member must retain records of its reviews of its best execution policies and procedures, as well as any material decisions made and changes to them for five years. Any necessary change to best execution policies and procedures identified in the course of a review must be promptly corrected by the Dealer Member.</p> <p>3300.6. Training</p> <p>A Dealer Member must ensure its employees involved in the execution of client orders know and understand the</p>
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		<p>application of the Dealer Member’s written best execution policies and procedures that they must follow. In particular, with respect to the execution of client orders for listed securities, employees should be trained to understand the policies and procedures reasonably designed to achieve best execution in a multiple market environment. In addition, where the handling of a client order is manual and where the employee of the Dealer Member exercises any discretion relating to the execution of the order, the Dealer Member must ensure that such employee understands the application of the Dealer Member’s written best execution policies and procedures applicable to such activity.</p> <p>3300.7. Subject to Order Protection Rule</p> <p>Notwithstanding any instruction or consent of the client, achieving best execution for a client order for any listed security is subject to compliance with the Order Protection Rule under Part 6 of the Trading Rules by the marketplace on which the order is entered or by the Dealer Member if the Dealer Member has marked the order as a directed-action order in accordance with UMIR 6.2.</p> <p>3300.8. Disclosure of Best Execution Policies</p> <p>A Dealer Member must provide in writing to its clients:</p> <ul style="list-style-type: none">(a) a description of the Dealer Member’s obligation under section 3300.2;(b) a description of the factors the Dealer Member considers for the purpose of achieving best execution;(c) a description of the Dealer Member’s order handling and routing practices intended to achieve best execution for client orders for listed securities, including:<ul style="list-style-type: none">(i) the identity of any
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		<p>marketplace and foreign organized regulated market to which the Dealer Member might route the orders for handling or execution;</p> <p>(ii) the identity of each type of intermediary to which the Dealer Member might route the orders for handling or execution;</p> <p>(iii) the circumstances in which the Dealer Member might route the orders to a marketplace, foreign organized regulated market or intermediary identified or referred to in the disclosure made under (i) and (ii);</p> <p>(iv) how the Dealer Member, if a Participant, complies with the requirements of UMIR 6.3 – Exposure of Client Orders,</p> <p>(v) the circumstances, if any, under which the Dealer Member will move an order entered on one marketplace to another marketplace,</p> <p>(vi) the nature of any ownership by the Dealer Member or affiliated entity of the Dealer Member in, or arrangement with, any marketplace, foreign organized regulated market or intermediary identified or referred to in the disclosure made under (i) and</p>
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		<p>(vii) (ii); if any of the orders may be routed to an intermediary referred to in the disclosure made under (ii), pursuant to an arrangement with any such intermediary, (A) a statement that the order will be subject to the order handling and routing practices of the intermediary; (B) a statement that the Dealer Member has examined the order handling and routing practices of the intermediary and is satisfied that they are reasonably designed to achieve best execution; and (C) a description of the order handling and routing practices of the intermediary or information that specifically identifies where that description can be found;</p> <p>(viii) a statement as to whether fees are paid or payments or other compensation is received by the Dealer Member for a client order routed, or traded resulting from a client order routed, to any marketplace, foreign organized regulated market or intermediary identified or</p>
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		<p>referred to in the disclosure made under (i) and (ii), and a description of the circumstances under which the costs associated with those fees paid or the amounts or compensation received will be passed on to the client,</p> <p>(d) when providing market data as a service to clients, a description of any missing market data, including an explanation of the risks of trading with incomplete trading data provided.</p> <p>A Dealer Member must make the required disclosure for each class or type of client if the factors and order handling and routing practices differ materially for that class or type of client relative to any other class or type of client, or relative to all of the clients of the Dealer Member in aggregate.</p> <p>A Dealer Member must specifically identify in the required disclosure:</p> <ul style="list-style-type: none">(a) the class or type of client to which the disclosure applies;(b) the class or type of securities to which the disclosure applies; and(c) the date of the most recent changes to the disclosure made in accordance with this Rule 3300. <p>A Dealer Member must:</p> <ul style="list-style-type: none">(a) make the disclosure required under this Rule 3300 publicly available on the Dealer Member's website; and(b) clearly identify to clients where on the website the disclosure is found; or
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		<p>(c) if the Dealer Member does not have a website to allow it to comply with (a) and (b), deliver the disclosure required under this Rule 3300 to the client</p> <ul style="list-style-type: none"> (i) upon account opening; or (ii) if the client has an account already open with the Dealer Member at the time this Rule 3300 comes into force, no later than the 90th day after this Rule 3300 comes into force. <p>A Dealer Member that provides disclosure under this Rule 3300 must:</p> <ul style="list-style-type: none"> (a) review the disclosure on a frequency that is reasonable in the circumstances, and at a minimum on an annual basis; and (b) based on the review under (a), promptly update the disclosure to reflect the Dealer Member’s current practices. <p>If a Dealer Member makes any change to the disclosure it is required to make under this Rule 3300, the Dealer Member must,</p> <ul style="list-style-type: none"> (a) for the website disclosure, identify and maintain the change on the website for a period of 6 months after the change has been made; or (b) for any disclosure required to be delivered to a client, deliver the change to the client no later than the 90th day after the completion of the review and update.
<p>POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS</p> <p>Part 3 - Minimum Compliance Procedures for Trading on a Marketplace</p>		



DMR, UMIR and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Order Handling Rules Rule 5.1 Rule 5.3 Rule 6.3 Rule 8.1 DMR 3300	<ul style="list-style-type: none"> review client-principal trades of 50 standard trading units or less for compliance with order exposure and client principal transactions rules verify that orders of 50 standard trading units or less are not arbitrarily withheld from the market 	<ul style="list-style-type: none"> order tickets equity history report trading blotters the diary list 	<ul style="list-style-type: none"> quarterly sample, specifically: <ul style="list-style-type: none"> -trader managed orders of 50 standard trading units
<p>Part 4 – Specific Procedures Respecting Client Priority and Best Execution</p> <p>Participants must have written compliance procedures reasonably designed to ensure that their trading does not violate Rule 5.3-or 5.1. A Participant must have policies and procedures in place to “diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances”. The policies and procedures must:</p> <ul style="list-style-type: none"> outline a process designed to achieve best execution; require the Participant, subject to compliance by the Participant with any Requirement, to follow the instructions of the client and to consider the investment objectives of the client; include the process for taking into account order and 			



~~trade information from all appropriate marketplaces and foreign organized regulated markets; and~~

~~describe how the Participant evaluates whether “best execution” was obtained.~~

~~In order to demonstrate that a Participant has “diligently pursued” the best execution of a particular client order, the Participant must be able to demonstrate that it has abided by the policies and procedures. At a minimum, the written compliance procedures must address employee education and post-trade monitoring.~~

The purpose of the Participant’s compliance procedures is to ensure that pro traders do not knowingly trade 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 first client. Withholding an order for normal review and order handling is allowed under UMIR Rules 5.3 and ~~5.1-Dealer Member Rule 3300~~, as this is done to ensure that the client gets a good execution. To ensure that the Participants’ written compliance procedures are effective they must address the potential problem situations where trading opportunities may be taken away from clients.

Potential Problem Situations

Listed below are some of the potential problem situations where trading opportunities may be taken away from clients.

1. Retail brokers or their assistants withholding a client order to take a trading opportunity away from that client.
2. Others in a brokerage office, such as wire operators, inadvertently withholding a client order, taking a trading opportunity away from that client.
3. Agency traders withholding a client order to allow others to take a trading opportunity away from that client.
4. Proprietary traders using knowledge of a client order to take a trading opportunity away from that client.
5. Traders using their personal accounts to take a trading opportunity away from a client.



<p>Written Compliance Procedures</p> <p>It is necessary to address in the written compliance procedures the potential problem situations that are applicable to the Participant. Should there be a change in the Participant's operations where new potential problem situations arise then these would have to be addressed in the procedures. At a minimum, the written compliance procedures for employee education and post-trade monitoring must include the following points.</p> <p>Education</p> <ul style="list-style-type: none">• Employees must know the rules and understand their obligation for client priority and best execution, particularly in a multiple market environment.• Participants must ensure that all employees involved with the order handling process know that client orders must be entered into the market before non-client and proprietary orders, when they are received at the same time.• Participants must train employees to handle particular trading situations that arise, such as, client orders spread over the day, and trading along with client orders. <p>Post-Trade Monitoring Procedures</p> <ul style="list-style-type: none">• All brokers' trading must be monitored as required by Rule 7.1.• Complaints from clients and Registered Representatives concerning potential violations of the rule must be documented and followed-up.• All traders' personal accounts and those related to them, must be monitored daily to ensure no apparent violations of client priority occurred.• At least once a month, a sample of proprietary inventory trades must be compared with contemporaneous client orders.• In reviewing proprietary inventory trades, Participants must address both client orders entered into order management systems and manually handled orders, such as those from institutional clients.		
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<ul style="list-style-type: none"> • The review of proprietary inventory trades must be of a sample size that sufficiently reflects the trading activity of the Participant. • Potential problems found during these reviews must be examined to determine if an actual violation of Rule 5.3 or 5.4 occurred. The Participant must retain documentation of these potential problems and examinations. • When a violation is found, the Participant must take the necessary steps to correct the problem. <p>Documentation</p> <ul style="list-style-type: none"> • The procedures must specify who will conduct the monitoring. • The procedures must specify what information sources will be used. • The procedures must specify who will receive reports of the results. • Records of these reviews must be maintained for five years. • The Participant must annually review its procedures. <p>POLICY 5.3 – CLIENT PRIORITY</p> <p>Part 3 – No Knowledge of Client Order</p> <p>The Participant must have reasonable procedures in place to ensure that information concerning client orders is not used improperly within the firm. These procedures will vary from firm to firm and no one procedure will work for all firms. If a firm does not have reasonable procedures in place, it cannot rely on the exceptions. Reference should be made to Policy 7.1 – Policy on Trading Supervision Obligations, and in particular Part 4 – Specific Procedures Respecting Client Priority and Best Execution.</p> <p>...</p>		
<p>POLICY 6.4 – TRADES TO BE ON A MARKETPLACE</p> <p>Part 5 – Application of UMIR to Orders Not Entered on a Marketplace</p> <p>Under Rule 6.4, a Participant, when acting as principal or agent, may not trade nor participate in a trade in a security by</p>		



<p>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 <u>and the Dealer Member Rules</u> 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 2.1 requires a Participant to transact business openly and fairly and in accordance with just and equitable principles of trade when trading on a marketplace or trading or otherwise dealing in securities which are eligible to be traded on a marketplace; • Rule 4.1 prohibits a Participant from frontrunning certain client orders; • <u>Dealer Member Rule 3300 Best Execution of Client Orders in respect of a client order, Part 5 dealing with the “best execution obligation” of a Participant in respect of a client order;</u> • 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>POLICY 8.1 – CLIENT PRINCIPAL TRADING</p>		



<p>Part 1 - General Requirements</p> <p>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.</p> <p>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 the its best execution obligations under Rules 5.1 and 5.2. Dealer Member Rule 3300. 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>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> <ul style="list-style-type: none"> (a) Subsection (1) of Rule 2.1 respecting just and equitable principles of trade; (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) Dealer Member Rule 5.1 3300 respecting best execution of client orders; (f) Rule 5.3 respecting client priority; 		



<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>...</p> <p>(3) If a supervisor or compliance department of a Participant or Access Person receives a report pursuant to subsection (1) or (2), the supervisor or compliance department shall diligently conduct a review in accordance with the policies and procedures of the Participant adopted in accordance with Rule 7.1 or in accordance with the ordinary practices of the Access Person.</p> <p>(4) If the review conducted by the supervisor or compliance department concluded that there may be a violation, the supervisor or compliance department shall:</p> <ul style="list-style-type: none">(a) make a written record of the report by the officer, director, partner or employee and the review conducted in accordance with subsection (3);(b) diligently investigate the activity that is the subject of the report and review;(c) make a written record of the findings of the investigation; and(d) report the findings of the investigation to the Market Regulator if the finding of the investigation is that a violation of an applicable provision of UMIR has occurred and such report shall be made not later than the 15th day of the month following the month in which the findings are made. <p>(5) Each Participant and Access Person shall with respect to the records of the report, the review and the findings required by subsection (4):</p> <ul style="list-style-type: none">(a) retain the records for a period of not less than seven years from the creation of the record; and(b) allow the Market Regulator to inspect and make copies of the records at any time during ordinary business hours during the period that such record is required to be retained in accordance with clause (a). <p>(6) The obligation of a Participant or an Access</p>		
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<p>Person to report findings of an investigation under subsection (4) is in addition to any reporting obligation that may exist in accordance with applicable securities legislation, the requirements of any self-regulatory entity and any applicable Marketplace Rules.</p>		
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