

IIROC NOTICE

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UMIR

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Amendments Respecting Designations and Identifiers

Executive Summary

On February 3, 2017, the applicable securities regulatory authorities approved amendments to UMIR 1.1 and 6.2 (the “Amendments”). The Amendments will:

- introduce a new order designation to identify orders that bundle together client, non-client and/or principal orders
- introduce a new order designation to identify derivative-related crosses
- modify the existing bypass order marker from a public to a non-public marker for bypass orders that are not part of a designated trade.

The Amendments were published for comment on June 9, 2016 in IIROC Rules Notice [16-0123](#) – Rules Notice – Request for Comments – UMIR – *Proposed Provisions Respecting Designations and Identifiers*. All relevant background information, including the description and impact of the Amendments, is set out in IIROC Notice [16-0123](#).

Comments Received

We received four comment letters in response to IIROC Notice [16-0123](#). Attachment C provides a summary of the public comments received and our responses. As a result of the



comments, revisions to the proposed amendments were made, as set out in Attachment C and summarized below.

Description of Amendments and Non-Material Changes

Bundled Order Designation

No changes were made to the definition of the bundled order marker as a result of the comments received. The bundled order designation is a mandatory marker and removes the need to use the most restrictive designation when bundling orders.

We note that Participants and Access Persons must still file a Corrections Report where:

- a portion of the bundled order is an insider or significant shareholder as defined in UMIR¹, or
- the bundled order contains sales from long and short positions and/or from an account that is eligible to use the short-marking exempt designation².

Participants and Access Persons are required to provide the “unbundled” allocation upon regulatory request.

All other UMIR provisions continue to apply when executing a bundled order, including UMIR 5.3 *Client Priority* and UMIR 6.3 *Exposure of Client Orders*, where the client portion of the order is 50 standard trading units or less and \$100,000 or less.

Derivative-Related Cross Designation

We have amended the definition of the derivative-related cross designation to remove references that indicate the trade is riskless or near riskless. The definition now only requires a prearranged trade resulting from an order entered on a marketplace by a Participant or Access Person for a particular security to be fully offset by a trade in a related security that is a derivative instrument.

The derivative-related cross designation may be used to identify a variety of transactions, including:

- listed derivatives transactions, such as hedges against listed options or futures, Exchange for Physical (“EFPs”), and index/custom basket swaps
- related security transactions including hedges against exchangeable or convertible debentures, OTC options, swaps and forwards.

¹ See IROC Notice [15-0135](#) – Guidance Note – UMIR – *Alternative Guidance on “Insider” Order Marking* (June 24, 2015).

² See IROC Notice [2005-025](#) – Guidance Note – UMIR – *Bundling orders from a Long and Short Position* (July 27, 2005) and IROC Notice [12-0300](#) – Guidance Note – UMIR – *Guidance on “Short Sale” and “Short-Marking Exempt” Order Designations* (October 11, 2012).



Bypass Order Marker

No changes were made to the proposal to display the bypass order marker as a result of the comments received. The Amendments modify paragraph 6.2(6)(a) of UMIR to change the bypass order designation to a private designation when used for a bypass order that is not part of a designated trade³.

Numbering convention in UMIR 6.2

For ease of reference, the numbering convention has been modified in UMIR 6.2, as detailed in Attachment B.

Attachments

Attachment A – Final amendments to UMIR 1.1 and 6.2

Attachment B – Text of UMIR to Reflect Amendments to UMIR 1.1 and 6.2

Attachment C – Summary of comments received and IIROC's responses

Implementation

Participants and marketplaces will be required to undergo system changes to support the new designations, which would be new values in existing FIX fields. As these new designations have no existing values in the standard FIX range, we will use custom enumerators above the standard FIX range:

- Tag 581 (AccountType): 101 (Bundled)
- Tag 549 (CrossType): 101 (Derivative Related Cross)

Participants may wish to contact third-party providers regarding the implementation of these changes. Marketplaces will be required to certify the above changes with IIROC.

Marketplaces will also be required to undergo system changes to reflect the changes to the bypass order marker. Specifically, where a bypass order is not part of a designated trade, marketplaces must suppress the bypass order marker on public data fields.

The Amendments come into force on September 14, 2017, being 210 days after the publication of this Notice.

³ UMIR defines a "designated trade" to mean an intentional cross or a pre-arranged trade of a security that would be made at a price that:

- (a) would not be less than the lesser of:
 - (i) 95% of the best bid price, and
 - (ii) 10 trading increments less than the best bid price; and
- (b) would not be more than the greater of:
 - (i) 105% of the best ask price, and
 - (ii) 10 trading increments more than the best ask price.



Attachment A – Final Amendments to UMIR 1.1 and 6.2

The Universal Market Integrity Rules are hereby amended as follows:

1. Section 1.1 is amended by:
 - a. adding the following definition of “bundled order”:
“**bundled order**” means an order that includes a client order as well as a non-client order or principal order, or both.
 - b. adding the following definition of “derivative-related cross”:
“**derivative-related cross**” means a prearranged trade resulting from an order entered on a marketplace by a Participant or Access Person for a particular security that is fully offset by a trade in a related security that is a derivative instrument.
2. Paragraph 6.2(1)(b) is amended by:
 - a. adding the following after subparagraph (vii):
(vii.1) a derivative-related cross,
 - b. deleting “or” at the end of subparagraph (xv)
 - c. replacing “.” at the end of subparagraph (xvi) with “, or”
 - d. adding the following after subparagraph (xvi):
(xvii) a bundled order.
3. Subparagraph 6.2(6)(a) is amended by:
 - a. replacing “(vii)” after “sub-clause (i) to” with “(vii.1)”
 - b. replacing “;” after “clause (1)(b)” with “,”
 - c. adding “but for a bypass order that is not part of a designated trade,” after “inclusive of clause (1)(b)” and before “and”
4. Subparagraph 6.2(6)(b) is amended by:
 - a. replacing “(xvi)” after “sub-clause (viii) to” with “(xvii)”



Attachment B - Text of UMIR to Reflect Amendments to UMIR 1.1 and 6.2

Text of UMIR Provisions Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p>1.1 Definitions</p> <p>...</p> <p><u>“bundled order” means an order that includes a client order as well as a non-client order or principal order, or both.</u></p>	<p>1.1 Definitions</p> <p>...</p> <p>“bundled order” means an order that includes a client order as well as a non-client order or principal order, or both.</p>
<p>...</p> <p><u>“derivative-related cross” means a prearranged trade resulting from an order entered on a marketplace by a Participant or Access Person for a particular security that is fully offset by a trade in a related security that is a derivative instrument.</u></p>	<p>...</p> <p>“derivative-related cross” means a prearranged trade resulting from an order entered on a marketplace by a Participant or Access Person for a particular security that is fully offset by a trade in a related security that is a derivative instrument.</p>
<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p>...</p> <p>(b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <ul style="list-style-type: none"> (i) a Call Market Order, (ii) an Opening Order, (iii) a Market-on-Close Order, (iv) a Special Terms Order, (v) a Volume-Weighted Average Price Order, (v.1) a Basis Order, (v.2) a Closing Price Order, (v.3) a bypass order, (v.4) a directed action order as defined in the Trading Rules, (vi) part of a Program Trade, (vii) part of an intentional cross or internal cross, <u>(vii.1) a derivative-related cross.</u> (viii) a short sale but not including an order which is designated as a “short-marking exempt order” in accordance with subclause 6.2(1)(b)(ix), (ix) a short-marking exempt order, (x) a non-client order, (xi) a principal order, (xii) a jitney order, (xiii) for the account of a derivatives market maker, (xiv) for the account of a person who is an insider of the issuer of the security which is the subject of the order, (xv) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order, <u>or</u> (xvi) of a type for which the Market Regulator may from time to time require a specific or 	<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p>...</p> <p>(b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:</p> <ul style="list-style-type: none"> (i) a Call Market Order, (ii) an Opening Order, (iii) a Market-on-Close Order, (iv) a Special Terms Order, (v) a Volume-Weighted Average Price Order, (v.1) a Basis Order, (v.2) a Closing Price Order, (v.3) a bypass order, (v.4) a directed action order as defined in the Trading Rules, (vi) part of a Program Trade, (vii) part of an intentional cross or internal cross, (vii.1) a derivative-related cross, (viii) a short sale but not including an order which is designated as a “short-marking exempt order” in accordance with subclause 6.2(1)(b)(ix), (ix) a short-marking exempt order, (x) a non-client order, (xi) a principal order, (xii) a jitney order, (xiii) for the account of a derivatives market maker, (xiv) for the account of a person who is an insider of the issuer of the security which is the subject of the order, (xv) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order, (xvi) of a type for which the Market Regulator may from time to time require a specific or



Text of UMIR Provisions Marked to Reflect Adoption of the Amendments	Text of UMIR Following Adoption of the Amendments
<p>particular designation, or <u>(xvii) a bundled order.</u></p>	<p>particular designation, or (xvii) a bundled order.</p>
<p>...</p> <p>(6) Unless otherwise permitted or directed by the Market Regulator, a marketplace shall:</p> <p>(a) disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (i) to (vii) <u>(vii.1)</u> inclusive of clause (1)(b); but for a bypass order that is not part of a designated trade, and</p> <p>(b) not disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (viii) to (xvi) <u>(xvii)</u> inclusive of clause (1)(b).</p>	<p>...</p> <p>(6) Unless otherwise permitted or directed by the Market Regulator, a marketplace shall:</p> <p>(a) disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (i) to (vii.1) inclusive of clause (1)(b), but for a bypass order that is not part of a designated trade, and</p> <p>(b) not disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (viii) to (xvii) inclusive of clause (1)(b).</p>



Attachment C
Comments Received in Response to
IIROC Notice 16-0123 – Rules Notice - Request For Comments – UMIR
Proposed Provisions Respecting Designations and Identifiers

On June 9, 2016, IIROC issued Notice 16-0123 requesting comments on Proposed Provisions Respecting Designations and Identifiers (“Proposed Amendments”). IIROC received comments on the Proposed Amendments from:

BMO Nesbitt Burns Inc. (“BMO”)

GMP Securities L.P. (“GMP”)

TD Securities, Inc. (“TD”)

TMX Group Limited (“TMX”)

A copy of the comment letters received in response to the Proposed Guidance is publicly available on IIROC’s website (www.iiroc.ca). The following table presents a summary of the comments received on the Proposed Amendments together with IIROC’s responses to those comments.

Text of Final Rule (Revisions to the Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
UMIR 1.1 “bundled order” means an order that includes a client order as well as a non-client order or principal order, or both.	BMO – Supports a new “bundled” order type where client orders are bundled with principal orders.	We acknowledge the comment.
	BMO – Suggests use of bundled order to be restricted to situations where a client order is involved. Principal and non-client orders should not be bundled with each other to preserve the audit trail associated with these non-client orders.	We acknowledge the comment. The bundled order designation definition requires that part of the order is attributed to a client order, which can be combined with a principal or non-client order, or both. A mix of non-client and inventory orders does not meet the definition of a bundled order.
	GMP – Suggests a bundled order flag as an alternative to the bundled order designation.	Introducing the bundled order as a flag rather than an account type would not achieve the regulatory objective of restoring integrity to the audit trail and preventing the over-use of certain account types such as inventory and non-client.



Text of Final Rule (Revisions to the Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>“derivative-related cross” means a prearranged trade resulting from an order entered on a marketplace by a Participant or Access Person for a particular security that is fully offset by a trade in a related <u>security that is a derivative instrument that involves little or no aggregate risk.</u></p>	<p>BMO – Agrees with the objective of improving transparency around derivative-related crosses and having a more accurate representation of the true volume in a security. Suggests that all derivative-related crosses should be allowed to trade at a price outside the NBBO, similar to other specialty crosses such as basis trades or riskless basis crosses.</p>	<p>Derivative-related crosses set the last sale price and, therefore, must be executed at or within the NBBO.</p>
	<p>BMO – Believes ETF / basket switches should be included in the definition of derivative-related cross. ETFs are currently regulated as mutual funds under securities law and are not classified as derivatives, so would need to be specifically included in the definition. Suggests automatically tagging Must Be Filled (MBF) orders as derivative-related trades, because they are offset against expiring derivatives and involve no transfer of risk.</p>	<p>As ETFs are mutual funds under securities law, ETF/basket switches would be outside the scope of transactions targeted by the derivative-related cross marker.</p> <p>MBF orders may not necessarily result in crosses, and therefore are not included in the transactions targeted by the derivative-related cross marker.</p>
	<p>TD – Strongly disagrees that derivative related trades are considered riskless. Definition of “derivative-related cross” should clarify that trades subject to this marker continue to involve a change in beneficial ownership and are exposed to risks other than small short-term changes in the price of the security.</p>	<p>We have amended the definition of the derivative-related cross designation to remove references indicating that the trade is riskless or near riskless.</p>
	<p>TD – With respect to promoting transparency and identifying block activity: Suggests publicly marking all intentional crosses, either at the trade level, or through the introduction of a trade reporting facility.</p>	<p>Intentional crosses are required to be publicly displayed in a consolidated market display under UMIR 6.2(1)(b)(vii) and (6)(a).</p>
	<p>TD – Expressed the view that the possibility of “tipping one’s hand” applies equally to derivative-related transactions and those that have directional risk. While the new marker eliminates the concern of tipping one’s hand with respect to derivative-related transactions, this would be exacerbated if buy-side firms were to enquire in response to trades specifically not marked as derivative-related. The buy-side participant would be armed with the information that a trade is directional and therefore their inquiry carries greater information content.</p>	<p>The derivative-related cross marker publicly designates a subset of intentional crosses that have no possibility for participation. When the buy-side inquires about a cross that is not marked derivative-related, tipping their hand may be warranted as there may be an opportunity to participate in the trade.</p>



Text of Final Rule (Revisions to the Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
	<p>TD – Rather than introducing a new marker, suggests expanding the use of existing “contingent” trade marker to capture derivative-related trades, which will simplify implementation for both dealers and marketplaces.</p>	<p>The use of the contingent marker is not required by UMIR and is marketplace specific. Its general purpose is to avoid cross interference on the marketplace. Marketplaces allow the use of the contingent marker for separate, unrelated securities as long as they are contingent transactions.</p> <p>Rather than introducing a contingent marker into UMIR, we believe there is benefit in capturing targeted transactions using the new derivative-related cross designation. The derivative-related cross designation is intended to be an informational and non-actionable marker with minimal implementation impact on dealers and marketplaces. The new derivative-related cross marker targets related securities as defined under UMIR 1.1 and will be a mandatory marker that is publicly displayed on a consolidated market display under UMIR 6.2.</p>
<p>6.2 Designations and Identifiers (1) Each order entered on a marketplace shall contain: ... (b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is: (i) a Call Market Order, (ii) an Opening Order, (iii) a Market-on-Close Order, (iv) a Special Terms Order, (v) a Volume-Weighted Average Price Order, (v.1) a Basis Order, (v.2) a Closing Price Order, (v.3) a bypass order, (v.4) a directed action order as defined in the Trading Rules, (vi) part of a Program Trade, (vii) part of an intentional cross or internal cross, (viii) <u>(vii.1)</u> a derivative-related cross, (viii) (ix) a short sale but not including an order which is designated as a “short-marking exempt order” in accordance with subclause 6.2(1)(b)(ix), (ix) (x) a short-marking exempt order, (x) (xi) a non-client order, (xi) (xii) a principal order, (xii) (xiii) a jitney order, (xiii) (xiv) for the account of a derivatives market maker,</p>		



Text of Final Rule (Revisions to the Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>(xiv) (xv) for the account of a person who is an insider of the issuer of the security which is the subject of the order, (xv) (xvi) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order, or (xvi) (xvii) of a type for which the Market Regulator may from time to time require a specific or particular designation, or (xvii) (xviii) a bundled order.</p>		
<p>...</p> <p>(6) Unless otherwise permitted or directed by the Market Regulator, a marketplace shall:</p> <p>(a) disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (i) to (vii) (viii) inclusive of clause (1)(b) ; <u>but for a bypass order that is not part of a designated trade</u>, and</p> <p>(b) not disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (viii) (ix) to (xvii) (xviii) inclusive of clause (1)(b).</p>	<p>BMO – With respect to bypass marker transparency: Supports the proposed changes as it will reduce information leakage associated with large orders.</p> <p>BMO – With respect to bypass marker transparency: Not aware of any unintended consequences associated with making these changes.</p> <p>TMX – With respect to bypass marker transparency: Believes this is a fairly straight forward change and do not see any unintended consequences.</p>	<p>We acknowledge the comments.</p>