

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 Proposed Amendments – Request for Comments – Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations

PROVISIONS RESPECTING MARKET MAKER, ODD LOT AND OTHER MARKETPLACE TRADING OBLIGATIONS

Summary

This IIROC Notice provides notice that, on March 24, 2010, the Board of Directors (“Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of proposed amendments (“Proposed Amendments”) to the Universal Market Integrity Rules (“UMIR”) respecting market maker, odd lot and other marketplace trading obligations (“Marketplace Trading Obligations”). In particular, the Proposed Amendments would:

- replace the definition of “Market Maker Obligations” with a definition of “Marketplace Trading Obligations” which would:
 - include contractual arrangements between a marketplace and a member, user or subscriber to that marketplace to guarantee the execution of orders for purchase or sale of a security that are for less than one standard trading unit by means of orders for the member, user or subscriber being automatically generated by the trading system of the marketplace, and
 - allow Exchanges and QTRSs to have Marketplace Rules that provide for either an obligation to maintain reasonably continuous two-sided market or a guarantee of execution of orders which are less than a minimum number of units of the security as designated by the marketplace; and
- make a number of editorial changes to various Rules to reflect the replacement of the definition of “Market Maker Obligations” with “Marketplace Trading Obligations”.

Rule-Making Process

IIROC has been recognized as a self-regulatory organization by each of the Canadian provincial securities regulatory authorities (the “Recognizing Regulators”) and, as such, is authorized to be a regulation services provider for the purposes of National Instrument 21-101 (“Marketplace Operation Instrument”) and National Instrument 23-101.

As a regulation services provider, IIROC administers and enforces trading rules for the marketplaces that retain the services of IIROC.¹ IIROC has adopted, and the Recognizing Regulators have approved, UMIR as the integrity trading rules that will apply in any marketplace that retains IIROC as its regulation services provider.

The Market Rules Advisory Committee of IIROC reviewed the Proposed Amendments prior to their consideration by the Board. MRAC is an advisory committee comprised of representatives of each of: the marketplaces for which IIROC acts as a regulation services provider; Participants; institutional investors and subscribers; and the legal and compliance community.

The text of the Proposed Amendments is set out in Appendix “A”. As the Proposed Amendments reflect developments in responsibilities of certain market participants that have been permitted by applicable securities regulatory authorities, the Board has determined that the Proposed Amendments are in the public interest. Comments are requested on all aspects of the Proposed Amendments, including any policy alternatives that may be available to the Proposed Amendments. Comments should be in writing and delivered by **June 24, 2010** to:

¹ Presently, IIROC has been retained to be the regulation services provider for: the Toronto Stock Exchange (“TSX”), TSX Venture Exchange (“TSXV”) and Canadian National Stock Exchange (“CNSX”), each as an “exchange” for the purposes of the Marketplace Operation Instrument (“Exchange”); and for Alpha Trading Systems (“Alpha”), Bloomberg Tradebook Canada Company, Chi-X Canada ATS Limited (“Chi-X”), Liquidnet Canada Inc. (“Liquidnet”), Omega ATS Limited (“Omega”) and TriAct Canada Marketplace LP (the operator of “MATCH Now”), each as an alternative trading system (“ATS”). CNSX presently operates an “alternative market” known as “Pure Trading” that is entitled to trade securities that are listed on other Exchanges and that presently trades securities listed on the TSX.

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A copy should also be provided to Recognizing Regulators by forwarding a copy to:

Susan Greenglass
Director, Market Regulation
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario. M5H 3S8

Fax: (416) 595-8940
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Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website (www.iiroc.ca under the heading "Policy" and sub-heading "Market Proposals/Comments") upon receipt. A summary of the comments contained in each submission will also be included in a future IIROC Notice.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, staff of IIROC may recommend that revisions be made to the Proposed Amendments. If the revisions are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the Proposed Amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions are material, the Proposed Amendments as revised will be submitted to the Board for ratification and, if ratified, will be republished for further public comment.

Background to the Proposed Amendments

Current Definition of "Market Maker Obligations"

UMIR currently defines "Market Maker Obligations" as obligations imposed by the rules of a recognized exchange (an "Exchange") or a recognized quotation and trade reporting system (a "QTRS") on a member or user or a person employed by a member or user to guarantee:

- a two-sided market for a particular security on a continuous or reasonably continuous basis; and
- the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace.

The Marketplace Operation Instrument provides that an alternative trading system ("ATS") is a marketplace that, among other requirements, does not provide, directly, or through one or more subscribers, a guarantee of a two-sided market for a security on a continuous or reasonably continuous basis.² However, the securities regulatory authorities have permitted at least one ATS to introduce an odd-lot arrangement which requires participating subscribers who are Participants to execute at the prevailing market price executable orders for less than one standard trading unit. Other ATSs may introduce similar arrangements and Exchanges may provide for such odd-lot arrangements by contract rather than by Marketplace Rules. In order to accommodate these developments in market structure, IIROC has, on an informal basis, allowed subscribers with "odd lot" obligations to use various exemptions under UMIR which are available to persons with "Market Maker Obligations". The Proposed Amendments are intended to make these informal arrangements transparent and to ensure that the various exemptions and protections under UMIR are consistently available in the appropriate circumstances.

While the term "market making" is used extensively in discussions related to market structure and operation, the term is generally not defined in applicable securities legislation or the rules of exchanges which have "market making" systems. Recently, electronic liquidity providers and high frequency traders have claimed to provide a market making function even though such actions are outside the requirements of any marketplace. The Proposed Amendments seek to avoid any confusion

² National Instrument 21-101 - Marketplace Operation Instrument s. 1.1.

over who is entitled to claim the various UMIR protections and exemptions for persons with “Market Maker Obligations” by introducing a new defined term, “Marketplace Trading Obligations”.

Protections and Exemptions for Persons with Market Maker Obligations

UMIR provides certain protections to persons with Market Maker Obligations and certain exemptions from the requirements of UMIR. In particular:

Rule 2.1 - Prohibition on the Abuse of Persons with Market Maker Obligations

Rule 2.1 of UMIR requires each Participant and Access Person to transact business openly and fairly when trading on a marketplace. Without limiting the generality of the Rule, Policy 2.1 sets out a number of examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly, including a provision to prevent “abuse of a person with Market Maker Obligations”. Under clause (d) of Part 1 of Policy 2.1, a Participant or Access Person may not when trading a security on a marketplace that is subject to Market Maker Obligations, intentionally enter on that marketplace on a particular trading day two or more orders which would impose an obligation on the Market Maker to:

- execute with one or more of the orders, or
- purchase at a higher price or sell at a lower price with one or more of the orders

in accordance with the Market Maker Obligations that would not be imposed on the Market Maker if the orders had been entered on the marketplace as a single order or entered at the same time. In essence, this provision stipulates that an order can not be “shredded” to intentionally trigger a market maker’s obligation to fill the “shredded portions” of the order.

IIROC would note that the examples listed in Policy 2.1 are not exclusive. IIROC is of the opinion that the intentional “shredding” of orders through the entry of multiple odd lot orders on a marketplace that has compulsory obligations on members, users or subscribers to execute against “odd-lot” orders is contrary to Rule 2.1.

Rule 2.2 – Manipulative and Deceptive Activities

Rule 2.2 of UMIR provides that a Participant or Access Person shall not, directly or indirectly, engage in or participate in the use of any manipulative or deceptive method, act or practice in connection with any order or trade on a marketplace if the Participant or Access Person knows or ought reasonably to know the nature of the method, act or practice. In addition, a Participant or Access Person shall not, directly or indirectly, enter an order or execute a trade on a marketplace if the Participant or Access Person knows or ought reasonably to know that the entry of the order or the execution of the trade will create or could reasonably be expected to create:

- a false or misleading appearance of trading activity in or interest in the purchase or sale of the security; or
- an artificial ask price, bid price or sale price for the security or a related security.

The Rule also confirms that the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Market Maker Obligations shall not be considered a violation of prohibitions on manipulative and deceptive activities provided such order or trade complies with applicable Marketplace Rules and the order or trade was required to fulfill applicable Market Maker Obligations.

Rule 3.1 - Restrictions on Short Selling

Rule 3.1 provides that a short sale may not be made at a price which is less than the last sale price for that security. A person with Market Maker Obligations is exempt from this restriction in respect of a sale made in furtherance of their Market Maker Obligations. The exemption is necessary to ensure that a person with an obligation to maintain a two-side market is able to do so. In addition, the trading system of the marketplace will automatically generate certain sell orders to match against orders to purchase less than a standard trading unit or other “minimum guaranteed size” and these automatically generated trades could be short sales. In these circumstances, the person with Market Maker Obligations does not have any discretion in undertaking the trade and, as such, the trade is not being undertaken with the intent to negatively affect market prices. However, if a person with Market Maker Obligations enters a short sale for a particular security that is outside their Market Maker Obligations, the order will be subject to any applicable restrictions on the price at which the short sale may be made.

Rule 3.2 – Prohibition on Entry of Orders

Rule 3.2 of UMIR provides that an order may not be entered on a marketplace that would on execution be a short sale unless the order has been marked as a “short sale”. The Rule also prohibits the entry of a short sale order if the security has been designated as a “Short Sale Ineligible Security”.³ Persons with Market Maker Obligations are exempted from the marking requirement for orders which are automatically generated by the trading system of a marketplace in respect of the Market Maker Obligations of that marketplace. Persons with Market Maker Obligations are also given an exemption to be able to make a short sale in a security that has been designated as a “Short Sale Ineligible Security” provided such sale is made in furtherance of the Market Maker Obligations.

Rule 5.3 – Client Priority

Rule 5.3 provides that a Participant may not knowingly execute a principal or non-client order in priority to a client order on the same side of the market at the same or better price than the client order. An exemption is provided for orders of a person with Market Maker Obligations if the order is automatically generated by the trading system of a marketplace in respect of the Market Maker Obligations of that marketplace. As the orders are being generated without the intervention of the Participant, such orders are not considered to be an attempt to trade ahead of a client order.

Rule 7.7 – Trading During Certain Securities Transactions

Rule 7.7 restricts the price at which a “dealer-restricted person”, generally a Participant involved in certain securities transactions that involve the issuance of treasury securities and for which the Participant acts as an underwriter, adviser or agent, may bid for or purchase a “restricted security” at various times during the transaction. An exemption is provided for persons with Market Maker Obligations to allow them to fulfill their obligations as market makers, including their ability to cover a short position resulting from sales made under their Market Maker Obligations.

Exemption from the Payment of Regulation Fees

IIROC provides an exemption of trades made on a marketplace pursuant to Market Maker Obligations from the payment of the Regulation Fee charged by IIROC (the “Exemption”).⁴ Since October 1, 2004, the Exemption provides a 70% reduction of the Regulation Fee that would otherwise be payable by market makers in respect of such trades.

The exemption is limited to Market Makers who are:

- obligated to provide both a reasonably continuous two-sided market and to execute trades in amounts less than a specified minimum number; and
- required to perform a regulatory function.

The presence of the obligation to provide a continuous or reasonably continuous two-sided market assists in maintaining a fair and orderly market which is one of the cornerstones of market integrity. The inclusion of the requirement of maintaining a two-sided market as part of the Market Maker Obligation contributes to a reduction of the overall cost of regulating trading on that marketplace and to minimizing the cost of regulation of all marketplaces.

The replacement of the definition of “Market Maker Obligations” with “Marketplace Trading Obligations” will not extend the Exemption to trades involving odd-lot arrangements on an ATS as Participants undertaking odd-lot arrangements on a marketplace are not required to perform a regulatory function. Market Makers who perform a regulatory function and who also have obligations for odd-lot trades will continue to qualify for the Exemption in respect of such odd-lot trades.

Summary of the Proposed Amendments

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

³ For more details on Rule 3.2, reference should be made to IIROC Notice 08-0143 – Rules Notice – Notice of Approval – UMIR – *Provisions Respecting Short Sales and Failed Trades* (October 15, 2008).

⁴ Market Integrity Notice 2004-028 – Guidance - Revised Exemption of Trades Pursuant to Market Maker Obligations from Payment of Regulation Fees (October 6, 2004).

Definition of “Marketplace Trading Obligations”

The Proposed Amendments would make replace the definition of “Market Maker Obligations” with a definition of “Marketplace Trading Obligations”. The new definition would be different from the current definition of “Market Maker Obligations” in two material respects.

Currently, the definition requires that an Exchange or QTRS must require the person to guarantee a two-sided market and guarantee the execution of any order which is less than a minimum number of units of the security as designated by the Exchange or QTRS. The Proposed Amendments would allow an Exchange or a QTRS in their rules to structure their market maker system to provide one or both functions.

The Proposed Amendments would also recognize that a marketplace (be it an Exchange, QTRS or ATS) might introduce elements of a market making system by means of a contract between the marketplace and a member, user or subscriber to guarantee the execution of orders which are less than a minimum number of units as stipulated by the terms of the contract provided such number is less than one standard trading unit⁵ and the orders for the member, user or subscriber being automatically generated by the trading system of the marketplace. A Participant, when fulfilling its “best price” obligation under Rule 5.2 of UMIR, does not have to take into account orders for less than one standard trading unit as such orders are considered to be “Special Terms Orders”. As a “Special Terms Order”, an order for less than one standard trading unit also does not establish the best ask price or the best bid price and, upon execution, does not establish the last sale price.

Consequential Amendments

With the replacement of the definition of “Market Maker Obligations” with “Marketplace Trading Obligations” which includes contractual relationships between a marketplace and a member, user or subscriber for the execution of orders for less than one standard trading unit, there was a need to conform the language used in various provisions of UMIR including:

- Rule 1.1 – Definitions (definition of “dealer-restricted person”);
- Policy 2.1 – Just and Equitable Principles;
- Rule 2.2 – Manipulative and Deceptive Activities;
- Rule 3.1 – Restrictions on Short Selling;
- Rule 3.2 – Prohibition on Entry of Orders;
- Rule 5.3 – Client Priority; and
- Rule 7.7 and Policy 7.7 – Trading During Certain Securities Transactions.

In particular, the proposed amendment to Policy 2.1 will specifically clarify the current position of IROC that the intentional entry of multiple “odd lot” orders (including as a result of the practice of “shredding” orders) on a marketplace that has compulsory obligations on members, users or subscribers to execute against “odd-lot” orders is contrary to the requirement to transact business openly and fairly when trading on a marketplace.

The proposed amendments to Rules 2.2., 3.1, 3.2, 5.3 and 7.7 and Policy 7.7 would recognize that IROC has, on an informal basis, allowed subscribers with “odd lot” obligations to use various exemptions under UMIR which are available to persons with “Market Maker Obligations”. IROC adopted this position in order to accommodate the fact that the securities regulatory authorities have permitted at least one ATS to introduce an odd-lot arrangement which requires participating subscribers who are Participants to execute at the prevailing market price executable orders for less than one standard trading unit.

Summary of the Impact of the Proposed Amendments

The following is a summary of the most significant impacts of the adoption of the Proposed Amendments:

- confirm that the “abuse” of an odd-lot dealer is a violation of the requirement to conduct trading openly and fairly;

⁵ For the purposes of UMIR, a standard trading unit is: 100 units of a security trading at \$1.00 or more per unit; 500 units of a security trade at \$0.10 or more per unit and less than \$1.00 per unit; and 1,000 units of a security trading at less than \$0.10 per unit.

- confirm that Participants with contractual odd-lot arrangements are able to rely on various exemptions in UMIR principally related to short selling, client priority and trading during certain securities transactions; and
- provide marketplaces with more flexibility in structuring their market making systems by:
 - allowing Exchanges and QTRSs to have Marketplace Rules that provide for an obligation to maintain reasonably continuous two-sided market and/or a guarantee of execution of orders which are less than a minimum number of units, or
 - allowing marketplaces (including an Exchange or QTRS) to provide for an odd-lot arrangement by a contract.

Technological Implications and Implementation Plan

There are no technological implications of the Proposed Amendments on Participants, marketplaces or service providers. IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the amendments would become effective on the date IIROC publishes notice of the approval.

Appendices

- Appendix “A” sets out the text of the Proposed Amendments to UMIR respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations; and
- Appendix “B” contains the text of the relevant provisions of UMIR as they would read on the adoption of the Proposed Amendments.

Appendix "A"

Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations

The Universal Market Integrity Rules are hereby amended as follows:

1. Rule 1.1 is amended by:
 - (a) in the definition of "dealer-restricted person", deleting the phrase "Market Maker Obligations" and substituting "Marketplace Trading Obligations";
 - (b) deleting the definition of "Market Maker Obligations"; and
 - (c) inserting the following definition of "Marketplace Trading Obligations":

"Marketplace Trading Obligations" means obligations imposed by:

 - (a) Marketplace Rules on a member or user or a person employed by a member or user to guarantee:
 - (i) a two-sided market for a particular security on a continuous or reasonably continuous basis, or
 - (ii) the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace; or
 - (b) contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one standard trading unit and the orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.
2. Subsection (3) of Rule 2.2 is amended by:
 - (a) inserting after the phrase "Marketplace Rules" the phrase "or terms of the contract with the marketplace"; and
 - (b) deleting each occurrence of the phrase "Market Maker Obligations" and substituting "Marketplace Trading Obligations".
3. Clause (b) of subsection (2) of Rule 3.1 is deleted and the following substituted:
 - (b) made in furtherance of the Marketplace Trading Obligations of that marketplace.
4. Subsection (2) of Rule 3.2 is amended by:
 - (a) deleting the phrase "an Exchange or QTRS in accordance with the Marketplace Rules" and inserting "a marketplace"; and
 - (b) deleting the phrase "applicable Market Maker Obligations" and substituting "Marketplace Trading Obligations of that marketplace".
5. Clause (a) of subsection (3) of Rule 3.2 is deleted and the following substituted:
 - (a) in furtherance of the Marketplace Trading Obligations of that marketplace.
6. Subclause (i) of clause (b) of subsection (2) of Rule 5.3 is deleted and the following substituted:
 - (i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace.
7. Subsection (7) of Rule 7.7 is deleted and the following substituted:
 - (7) **Transactions by Person with Marketplace Trading Obligations** - Despite subsection (1), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in respect of such Marketplace Trading Obligations:

- (a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level;
- (b) purchase a restricted security pursuant to their Marketplace Trading Obligations; and
- (c) bid for or purchase a restricted security:
 - (i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market,
 - (ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and
- (d) to cover a short position resulting from sales made under their Marketplace Trading Obligations.

The Policies to the Universal Market Integrity Rules are hereby amended as follows:

1. Clause (d) of Part 1 of Policy 2.1 is deleted and the following substituted:
 - (d) when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the person subject to the Marketplace Trading Obligations:
 - (i) execute with one or more of the orders, or
 - (ii) purchase at a higher price or sell at a lower price with one or more of the ordersin accordance with the Marketplace Trading Obligations that would not be imposed if the orders had been entered on the marketplace as a single order or entered at the same time.
2. Policy 7.7 is amended by:
 - (a) in Part 3, deleting each occurrence of the phrase "Market Maker Obligations" and substituting "Marketplace Trading Obligations"; and
 - (b) deleting Part 5 and substituting the following:

Part 5 – Trading Pursuant to Marketplace Trading Obligations

Under Rule 7.7(7)(b), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in connection with such Marketplace Trading Obligations, purchase a restricted security pursuant to their Marketplace Trading Obligations. Not every purchase of a restricted security by a person with Marketplace Trading Obligations will be considered to undertaken pursuant to their Marketplace Trading Obligations. For example, if a market making system of an Exchange or QTRS permits a market maker to voluntarily participate in trades that participation may only result in purchases that are:

- made at prices which are permitted by Rule 7.7(4)(a); or
- to cover a short position resulting from sales made under their Marketplace Trading Obligations.

Use of a voluntary participation feature in other circumstances, may result in the market maker not complying with the prohibitions or restrictions on trading under Rule 7.7.

Appendix “B”

Text of the Rules to Reflect Proposed Amendments Respecting
Market Maker, Odd Lot and Other Marketplace Trading Obligations

Text of Provisions Following Adoption of the Proposed Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed Amendments
<p>1.1 Definitions "dealer-restricted person" means, in respect of a particular offered security: ... (b) a related entity of the Participant referred to in clause (a) but does not include such related entity, or any separate and distinct department or division of the Participant if:</p> <ul style="list-style-type: none"> (i) the Participant maintains and enforces written policies and procedures in accordance with Rule 7.1 that are reasonably designed to prevent the flow of information from the Participant regarding the offered security and the related transaction, (ii) the Participant has no officers or employees that solicit client orders or recommend transactions in securities in common with the related entity, department or division, and (iii) the related entity, department or division does not during the restricted period in connection with the restricted security: <ul style="list-style-type: none"> (A) act as a market maker (other than pursuant to Market Maker Obligations), (B) solicit client orders, or (C) enter principal orders or otherwise engage in proprietary trading; <p>...</p>	<p>1.1 Definitions "dealer-restricted person" means, in respect of a particular offered security: ... (b) a related entity of the Participant referred to in clause (a) but does not include such related entity, or any separate and distinct department or division of the Participant if:</p> <ul style="list-style-type: none"> (i) the Participant maintains and enforces written policies and procedures in accordance with Rule 7.1 that are reasonably designed to prevent the flow of information from the Participant regarding the offered security and the related transaction, (ii) the Participant has no officers or employees that solicit client orders or recommend transactions in securities in common with the related entity, department or division, and (iii) the related entity, department or division does not during the restricted period in connection with the restricted security: <ul style="list-style-type: none"> (A) act as a market maker (other than pursuant to Market Maker <u>Marketplace Trading Obligations</u>), (B) solicit client orders, or (C) enter principal orders or otherwise engage in proprietary trading; <p>...</p>
<p>1.1 Definitions "Marketplace Trading Obligations" means obligations imposed by:</p> <ul style="list-style-type: none"> (a) Marketplace Rules on a member or user or a person employed by a member or user to guarantee: <ul style="list-style-type: none"> (i) a two-sided market for a particular security on a continuous or reasonably continuous basis, or (ii) the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace; or (b) contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one standard trading unit and the 	<p>1.1 Definitions "Market Maker Marketplace Trading Obligations" means obligations imposed by:</p> <ul style="list-style-type: none"> <u>(a)</u> Marketplace Rules on a member or user or a person employed by a member or user to guarantee: <ul style="list-style-type: none"> <u>(ia)</u> a two-sided market for a particular security on a continuous or reasonably continuous basis, <u>or</u> and <u>(iib)</u> the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace; <u>or</u> <u>(b)</u> <u>contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one</u>

Text of Provisions Following Adoption of the Proposed Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed Amendments
<p>orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.</p>	<p><u>standard trading unit and the orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.</u></p>
<p>2.2 Manipulative and Deceptive Activities</p> <p>(3) For greater certainty, the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Marketplace Trading Obligations shall not be considered a violation of subsection (1) or (2) provided such order or trade complies with applicable Marketplace Rules or terms of the contract with the marketplace and the order or trade was required to fulfill applicable Marketplace Trading Obligations.</p>	<p>2.2 Manipulative and Deceptive Activities</p> <p>(3) For greater certainty, the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Market Maker <u>Marketplace Trading Obligations</u> shall not be considered a violation of subsection (1) or (2) provided such order or trade complies with applicable Marketplace Rules or terms of the contract with the marketplace and the order or trade was required to fulfill applicable Market Maker <u>Marketplace Trading Obligations</u>.</p>
<p>3.1 Restrictions on Short Selling</p> <p>(2) A short sale of a security may be made on a marketplace at a price below the last sale price if the sale is:</p> <p>....</p> <p>(b) made in furtherance of the Marketplace Trading Obligations of that marketplace;</p> <p>....</p>	<p>3.1 Restrictions on Short Selling</p> <p>(2) A short sale of a security may be made on a marketplace at a price below the last sale price if the sale is:</p> <p>....</p> <p>(b) made in furtherance of the applicable Market Maker <u>Marketplace Trading Obligations in accordance with the Marketplace Rules of that marketplace</u>;</p> <p>....</p>
<p>3.2 Prohibition on Entry of Orders</p> <p>(1) A Participant or Access Person shall not enter an order to sell a security on a marketplace that on execution would be a short sale:</p> <p>(a) unless the order is marked as a short sale in accordance with subclause 6.2(1)(b)(viii) or subclause 6.2(1)(b)(ix); or</p> <p>(b) if the security is a Short Sale Ineligible Security at the time of the entry of the order.</p> <p>(2) Clause (a) of subsection (1) does not apply to an order automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace.</p> <p>(3) Clause (b) of subsection (1) does not apply to an order entered on a marketplace:</p> <p>(a) in furtherance of the Marketplace Trading Obligations of that marketplace;</p>	<p>3.2 Prohibition on Entry of Orders</p> <p>(1) A Participant or Access Person shall not enter an order to sell a security on a marketplace that on execution would be a short sale:</p> <p>(a) unless the order is marked as a short sale in accordance with subclause 6.2(1)(b)(viii) or subclause 6.2(1)(b)(ix); or</p> <p>(b) if the security is a Short Sale Ineligible Security at the time of the entry of the order.</p> <p>(2) Clause (a) of subsection (1) does not apply to an order automatically generated by the trading system of <u>a marketplace an Exchange or QTRS in accordance with the Marketplace Rules</u> in respect of the <u>applicable Market Maker Marketplace Trading Obligations of that marketplace</u>.</p> <p>(3) Clause (b) of subsection (1) does not apply to an order entered on a marketplace:</p>

Text of Provisions Following Adoption of the Proposed Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed Amendments
<p>....</p>	<p>(a) in furtherance of the applicable Market Maker Marketplace Trading Obligations <u>Market Maker Marketplace Trading Obligations</u> in accordance with the Marketplace Rules <u>Marketplace Trading Obligations</u> of that marketplace;</p> <p>....</p>
<p>5.3 Client Priority</p> <p>(2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:</p> <p>....</p> <p>(b) the principal order or non-client order is:</p> <p>(i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace,</p> <p>....</p>	<p>5.3 Client Priority</p> <p>(2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:</p> <p>....</p> <p>(b) the principal order or non-client order is:</p> <p>(i) automatically generated by the trading system of <u>a marketplace</u> an Exchange or QTRS in accordance with the Marketplace Rules <u>Marketplace Trading Obligations</u> in respect of the applicable Market Maker Marketplace Trading Obligations <u>Marketplace Trading Obligations</u> of that marketplace,</p> <p>....</p>
<p>7.7 Trading During Certain Securities Transactions</p> <p>(7) Transactions by Person with Marketplace Trading Obligations - Despite subsection (1), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in respect of such Marketplace Trading Obligations:</p> <p>(a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level;</p> <p>(b) purchase a restricted security pursuant to their Marketplace Trading Obligations; and</p> <p>(c) bid for or purchase a restricted security:</p> <p>(i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market,</p> <p>(ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and</p>	<p>7.7 Trading During Certain Securities Transactions</p> <p>(7) Transactions by Person with <u>Market Maker Marketplace Trading Obligations</u> - Despite subsection (1), a dealer-restricted person with Market Maker Marketplace Trading Obligations <u>Market Maker Marketplace Trading Obligations</u> for a restricted security may, for their market-making <u>trading</u> account in respect of such <u>Marketplace Trading Obligations</u>:</p> <p>(a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level;</p> <p>(b) purchase a restricted security pursuant to their Market Maker Marketplace Trading Obligations <u>Marketplace Trading Obligations</u>; and</p> <p>(c) bid for or purchase a restricted security:</p> <p>(i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market,</p> <p>(ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and</p>

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<p>(iii) to cover a short position resulting from sales made under their Marketplace Trading Obligations.</p>	<p>(iii) to cover a short position resulting from sales made under their Market Maker <u>Marketplace Trading</u> Obligations.</p>
<p>Policy 2.1 - Just and Equitable Principles</p> <p>Part 1 – Examples of Unacceptable Activity</p> <p>....</p> <p>Without limiting the generality of the Rule, the following are examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly or in accordance with just and equitable principles of trade:</p> <p>....</p> <p>(d) when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the person subject to the Marketplace Trading Obligations:</p> <p>(i) execute with one or more of the orders, or</p> <p>(ii) purchase at a higher price or sell at a lower price with one or more of the orders</p> <p>in accordance with the Marketplace Trading Obligations that would not be imposed if the orders had been entered on the marketplace as a single order or entered at the same time.</p>	<p>Policy 2.1 - Just and Equitable Principles</p> <p>Part 1 – Examples of Unacceptable Activity</p> <p>....</p> <p>Without limiting the generality of the Rule, the following are examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly or in accordance with just and equitable principles of trade:</p> <p>....</p> <p>(d) when trading a security on a marketplace that is subject to Market Maker <u>Marketplace Trading</u> Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the <u>person subject to the Marketplace Trading Obligations</u> Market Maker to:</p> <p>(i) execute with one or more of the orders, or</p> <p>(ii) purchase at a higher price or sell at a lower price with one or more of the orders</p> <p>in accordance with the Market Maker <u>Marketplace Trading</u> Obligations that would not be imposed on the Market Maker if the orders had been entered on the marketplace as a single order or entered at the same time.</p>
<p>Policy 7.7- Trading During Certain Securities Transactions</p> <p>Part 3 – Short Position Exemption</p> <p>Rule 7.7(4)(h) provides an exemption from the prohibitions in subsection (1) for a dealer-restricted person in connection with a bid for or purchase to cover a short position provided that short position was entered into before the commencement of the restricted period. Short positions entered into during the restricted period may be covered by purchases made in reliance upon the market stabilization exemption in Rule 7.7(4)(a), subject to the price limits set out in that exemption. (See “Part 5 – Trading Pursuant to Market Maker Obligations” for a discussion of the ability of persons with Market Maker Obligations to cover short positions arising during the restricted period pursuant to their Market Maker Obligations.)</p>	<p>Policy 7.7- Trading During Certain Securities Transactions</p> <p>Part 3 – Short Position Exemption</p> <p>Rule 7.7(4)(h) provides an exemption from the prohibitions in subsection (1) for a dealer-restricted person in connection with a bid for or purchase to cover a short position provided that short position was entered into before the commencement of the restricted period. Short positions entered into during the restricted period may be covered by purchases made in reliance upon the market stabilization exemption in Rule 7.7(4)(a), subject to the price limits set out in that exemption. (See “Part 5 – Trading Pursuant to Market Maker <u>Marketplace Trading</u> Obligations” for a discussion of the ability of persons with Market Maker <u>Marketplace Trading</u> Obligations to cover short positions arising during the restricted period pursuant to their Market Maker <u>Marketplace Trading</u> Obligations.)</p>

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<p>Policy 7.7- Trading During Certain Securities Transactions</p> <p>Part 5 – Trading Pursuant to Marketplace Trading Obligations</p> <p>Under Rule 7.7(7)(b), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in connection with such Marketplace Trading Obligations, purchase a restricted security pursuant to their Marketplace Trading Obligations. Not every purchase of a restricted security by a person with Marketplace Trading Obligations will be considered to undertaken pursuant to their Marketplace Trading Obligations. For example, if a market making system of an Exchange or QTRS permits a market maker to voluntarily participate in trades that participation may only result in purchases that are:</p> <ul style="list-style-type: none"> • made at prices which are permitted by Rule 7.7(4)(a); or • to cover a short position resulting from sales made under their Marketplace Trading Obligations. <p>Use of a voluntary participation feature in other circumstances, may result in the market maker not complying with the prohibitions or restrictions on trading under Rule 7.7.</p>	<p>Policy 7.7 - Trading During Certain Securities Transactions</p> <p>Part 5 – Trading Pursuant to Market Maker <u>Marketplace Trading</u> Obligations</p> <p>Under Rule 7.7(7)(b), a dealer-restricted person with Market Maker <u>Marketplace Trading</u> Obligations for a restricted security may, for their market making <u>trading account in connection with such Marketplace Trading Obligations</u>, purchase a restricted security pursuant to their Market Making <u>Marketplace Trading</u> Obligations. Not every purchase of a restricted security by a <u>person with Marketplace Trading Obligations</u> Market Maker will be considered to undertaken pursuant to their Market Making <u>Marketplace Trading</u> Obligations. For example, if a market making system of a marketplace <u>an Exchange or QTRS</u> permits a market maker <u>person</u> to voluntarily participate in trades that participation may only result in purchases that are:</p> <ul style="list-style-type: none"> • made at prices which are permitted by Rule 7.7(4)(a); or • to cover a short position resulting from sales made under their Market Maker <u>Marketplace Trading</u> Obligations. <p>Use of a voluntary participation feature in other circumstances, may result in the market maker <u>person</u> not complying with the prohibitions or restrictions on trading under Rule 7.7.</p> <p>“Market Maker Obligations” are defined as the obligations imposed by the rules of an Exchange or a QTRS on a member or user or a person employed by a member or user to guarantee:</p> <ul style="list-style-type: none"> • a two sided market for a particular security on a continuous or reasonably continuous basis; and • the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace.