

IIROC NOTICE

Rules Notice Request for Comments

UMIR and Dealer Member Rules

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Contact:

Kevin McCoy
Director, Market Regulation Policy
Telephone: 416.943.4659
Fax: 416.646.7265
e-mail: kmccoy@iiroc.ca

Jamie Bulnes,
Director, Member Regulation Policy
Telephone: 416.943.6928
Fax: 416.943.6760
e-mail: jbulnes@iiroc.ca

**14-0101
April 24, 2014**

Re-Publication of Proposed Provisions Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Executive Summary

The proposed amendments are intended to address the policy objective of achieving consistency across all forms of third-party electronic access to marketplaces by ensuring that similar activity that occurs through different forms of third-party electronic access is subject to the same degree of supervision and regulatory oversight. The proposed amendments were originally published for comment on October 15, 2013 (“Original Proposed Amendments”).¹ This notice includes changes to the Original Proposed Amendments made in response to comments received from, and further discussions with, the industry and the Canadian

¹ See [IIROC Notice 13-0255](#) – Rules Notice – Request for Comments – UMIR and Dealer Member Rules – *Proposed Provisions Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces* (October 15, 2013).



provincial securities regulatory authorities (“Recognizing Regulators”). Feedback received generally focused on the use of client identifiers for Order Execution Service (“OES”)² accounts and the scope of the requirements.

The revised proposal includes:

- proposed amendments to the Dealer Member Rules (“DMR”) respecting supervision requirements relating to Order Execution Service account activity and the entry of orders to a marketplace (“Proposed DMR Amendments”) that would introduce:
 - a requirement that a Dealer Member providing OES (“OES Dealer”) include a client identifier (“ID”) on each order entered on a marketplace for or on behalf of any client:
 - whose trading activity on marketplaces exceeds a daily average of 500 orders per trading day in any calendar month,
 - that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or
 - that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser;
 - a requirement that the OES Dealer provide to IIROC the identification of the client associated with such client ID; and
 - supervision requirements for OES Dealers that require that the added risks associated with the lack of intermediation by staff of the OES Dealer are addressed in their policies and procedures and systems of supervision and control;
- a definition in the DMR of “Manipulative and Deceptive Activities”; and
- amendments to UMIR (“Proposed UMIR Amendments”) that would require a Participant to include on orders sent to a marketplace the client ID, where applicable, on orders originating from an OES Dealer.

The Proposed DMR Amendments and Proposed UMIR Amendments (collectively, the “Proposed Amendments”) are intended to build on the framework to regulate various forms of third-party electronic access to marketplaces and complement the provisions of National Instrument 23-103 – *Electronic Trading and Direct Electronic Access* that deal with direct

² The term “order-execution service” is defined in Rule 3200 – *Minimum Requirements for Dealer Members Seeking Approval Under Rule 1300.1(T) to Offer an Order-Execution Only Service* to mean “the acceptance and execution of orders from customers for trades that the Dealer Member has not recommended and for which the Dealer Member takes no responsibility as to the appropriateness or suitability of orders accepted or account positions held”.



electronic access to marketplaces³ and the IIROC rules respecting third-party electronic access to marketplaces⁴ (collectively, the “ETR/DEA Rules”).

OES Dealers will be impacted by the Proposed Amendments as they will be required to develop processes to:

- identify on each order sent to a marketplace a client whose trading activity on marketplaces exceeds a daily average of 500 orders per trading day in any calendar month;
- identify on each order sent to a marketplace a client that trades on a marketplace and:
 - is not an individual and is registered as a dealer or adviser under applicable securities legislation, or
 - is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser; and
- provide IIROC with the client ID and the identity of the client associated with each client ID for each identified client.

IIROC expects that the technological implications of the Proposed Amendments on Dealer Members are primarily limited to any development required by OES Dealers to establish the above processes. Participants that execute for OES Dealers would be required to make any necessary changes to their systems to accommodate the use of client IDs on orders originating from an OES Dealer.

IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the amendments would be implemented on the later of **180 days following the publication of the notice of approval of the amendments or March 1, 2015.**

³ See (2013) 36 OSCB 6771.

⁴ See [IIROC Notice 13-0184](#) – Rules Notice – Notice of Approval – UMIR and Dealer Member Rules - *Provisions Respecting Third-Party Electronic Access to Marketplaces* (July 4, 2013).



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1. Policy Development Process

The Market Rules Advisory Committee (“MRAC”) of IIROC considered this matter as proposed in concept by IIROC staff. 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. IIROC’s Order Execution Sub-Committee (“OES Committee”) was consulted during the formation of this proposal. The OES Committee is comprised of representatives of OES Dealers.⁵

The Proposed Amendments consider OES as a form of third-party electronic access to marketplaces and are designed to complement and supplement the provisions in NI 23-103 that regulate electronic trading and direct electronic access. For this reason, the Board of Directors of IIROC (“Board”) has determined the Proposed Amendments to be in the public interest. On March 26, 2014, the Board approved the re-publication for comment of proposed amendments to both UMIR and the DMR.

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **June 23** to:

Kevin McCoy,
Director, Market Regulation Policy,
Investment Industry Regulatory Organization of Canada,
Suite 2000
121 King Street West,
Toronto, Ontario. M5H 3T9
e-mail: kmccoy@iiroc.ca

and

Jamie Bulnes,
Director, Member Regulation Policy,
Investment Industry Regulatory Organization of Canada,
Suite 2000
121 King Street West,
Toronto, Ontario. M5H 3T9
e-mail: jbulnes@iiroc.ca

⁵ Consideration by MRAC and consultation by IIROC staff with the OES Committee should not be construed as approval or endorsement of the Proposed Amendments. Members of MRAC and the OES Committee are expected to provide their personal advice on topics and that advice may not represent the views of their respective organizations as expressed during the public comment process.



A copy should also be provided to the 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

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

Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website under the heading “Policy” and sub-heading “[Market Proposals/Comments](#)” and/or “Dealer Member Rules - Policy Proposals and Comment” 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, IIROC may recommend that revisions be made to the applicable 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 applicable proposed amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions are material, the applicable proposed amendments as revised will be submitted to the Board for approval for republication.

The text of the Proposed UMIR Amendments is set out in Appendix “A” and a blackline of the changes is set out in Appendix “D”. The text of the Proposed DMR Amendments is set out in Appendix “B” and a blackline of the changes is set out in Appendix “C”. A summary of the comments received in respect to both the Original Proposed Amendments and the originally proposed guidance along with IIROC’s responses to the comments is included as Appendix “E”.



2. Background to the Proposed Amendments

2.1 Earlier Proposals to Regulate Electronic Access to Marketplaces

In October 2012, IIROC published proposed provisions (“Prior Proposed Provisions”) respecting third-party electronic access to marketplaces.⁶ The Prior Proposed Provisions recognized that OES was a component of the “closed-system” for the entry of orders to marketplaces. The only means to access a marketplace for the purpose of trading a listed or quoted security is as an Access Person, as a subscriber to an ATS or by or through a Participant as a member of an Exchange or subscriber to an ATS. Unless a client order is directly handled by staff at a Dealer Member, the only access that can be provided to a client falls under one of three options:

- OES,
- direct electronic access (“DEA”), or
- routing arrangement.

The Prior Proposed Provisions recognized that the use of OES may present risks similar to other methods of third-party electronic access. IIROC was of the view that OES was originally intended to provide a non-advised platform for electronic access to a marketplace to Retail Customers and it was inappropriate for OES Dealers to carry accounts of Institutional Customers. Thus, the Prior Proposed Provisions proposed to prohibit accounts for Institutional Customers from being carried by OES Dealers. The policy rationale for this prohibition was to ensure that all third-party electronic access to a marketplace was subject to a consistent level of oversight and compliance and to eliminate any potential regulatory arbitrage between platforms.

The Prior Proposed Provisions further recognized that an OES Dealer may determine that in limited circumstances knowledgeable and experienced Retail Customers, such as ex-professional traders, may be more appropriately serviced through DEA rather than OES.

The Prior Proposed Provisions also prohibited an OES client from:

- generating orders to the Dealer Member that exceed the threshold on the number of orders as set by IIROC from time to time, or
- using its own automated order system to transmit or generate orders for transmission to an OES Dealer for execution on a marketplace.

2.2 Final Provisions Respecting Third-Party Electronic Access to Marketplaces

Following a review of comments received on the Prior Proposed Provisions, and further industry consultation, IIROC did not proceed with the prohibition against OES Institutional

⁶ See [IIROC Notice 12-0315](#) – Rules Notice – Request for Comments – UMIR and Dealer Member Rules – *Proposed Provisions Respecting Third-Party Electronic Access to Marketplaces* (October 25, 2012).



Customer accounts. On July 4, 2013 IIROC published final provisions respecting third-party electronic access to marketplaces.⁷ The provisions respecting third-party electronic access to marketplaces, including certain provisions related to OES accounts, became effective on March 1, 2014.

2.3 Current DMR Retail Customer Supervision Requirements Respecting Market Integrity

DMR 38.1 and 2500 require each Dealer Member to implement systems of supervision and control and establish minimum standards for Retail Customer account supervision. Under these rules, a Dealer Member is required to establish and maintain policies and procedures designed to supervise account activity for compliance with the DMR and all other laws, regulations and policies applicable to the Dealer Member's securities business. The policies and procedures employed by the Dealer Member to supervise account activity must provide reasonable assurance that its obligations are being met both to its clients and to the market generally, including the prevention of market abuses.

2.4 Current DMR Institutional Customer Supervision Requirements Respecting Market Integrity

DMR 38.1 and DMR 2700 set out the minimum standards for the supervision of account activity for Institutional Customers. A Dealer Member is not precluded from imposing higher standards when warranted. As with the requirements under DMR 2500, the Dealer Member's policies and procedures and the design of the systems of supervision and control must take into consideration all factors necessary to ensure the adequacy of the supervision. The requirements set out in DMR 2700 include supervisory elements that are applicable to both the interests of the client and the interests of the market generally.

The supervisory procedures and compliance monitoring regime should be reasonably designed to detect account activity that may violate applicable securities legislation, requirements of any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place. The supervisory policies and procedures and the systems of supervision and control must be reasonably designed to detect account activity which may be harmful to market integrity including manipulative and deceptive activities.

⁷ See [IIROC Notice 13-0184](#) - Rules Notice – Notice of Approval – UMIR and Dealer Member Rules – Provisions Respecting Third-Party Electronic Access to Marketplaces (July 4, 2013).



2.5 UMIR Supervision Requirements Respecting Order Entry with Limited Direct Order Handling by Staff of the Participant

Part 1 of UMIR Policy 7.1 provides that a Participant has an obligation to supervise orders which are entered on a marketplace:

- by a trader employed by the Participant;
- by an employee of the Participant though an order routing system;
- directly by a client and routed to a marketplace through the trading system of the Participant; or
- by any other means.

The manner through which an order is entered on a marketplace does not relieve a Participant of responsibility for the supervision of such orders. The supervisory policies and procedures maintained by a Participant required under UMIR 7.1 must be designed to include all sources of order entry including orders that originate from retail full service brokerage and OES clients.

In meeting its supervisory obligations, a Participant is expected to act as “gatekeeper” to prevent and detect violations of applicable Requirements.⁸ A Participant’s supervision policies and procedures should adequately address the additional risk exposure which the Participant may have for orders that are not directly handled by staff of the Participant, such as OES, DEA or through a routing arrangement.

3. Changes from the Original Proposed Amendments

The following is a summary of the principal changes from the Original Proposed Amendments.

3.1 Active Client Measurement

UMIR requires that each client, investment dealer or foreign dealer equivalent accessing a marketplace through DEA or through a routing arrangement is assigned a client ID and the identity of the client associated with each client ID be provided to IIROC. This information assists IIROC with monitoring and surveillance activities. Currently, the identity of clients trading through OES accounts is not provided to IIROC. IIROC believes that clients that trade actively through OES may pose similar risks to market integrity as clients that trade through

⁸ “Requirements” means, collectively:

- UMIR;
- the Policies;
- the Trading Rules;
- the Marketplace Rules;
- any direction, order or decision of the Market Regulator or a Market Integrity Official; and
- securities legislation,

as amended, supplemented and in effect from time to time.



DEA or through a routing arrangement. Inconsistent levels of transparency of client identity to IIROC can result in an incomplete regulatory framework by enabling an active OES client to avoid the amount of regulatory oversight that would otherwise be applied to the client if trading through DEA or a routing arrangement.

The Proposed Amendments would introduce a threshold that would determine whether an OES client is considered “active” for the purpose of client ID. In the Proposed Amendments an OES client would be considered “active” if its account activity on marketplaces for which IIROC is the regulation services provider exceeds an average of 500 orders per trading day in any calendar month. This measure represents a change from the Original Proposed Amendments which proposed a measure that considered both orders and trades. Comments received on the Original Proposed Amendments generally supported a measure that considered only the number of orders given the complexity of calculating the number of trades across marketplaces where multiple trade executions may be attributed to a single order. IIROC believes that only considering orders alone for the purpose of the “active client” calculation is reasonable and that this measure continues to achieve IIROC’s goal of having OES Dealers identify “active” clients.

Upon approval of the Proposed Amendments, IIROC would require that client IDs be assigned to any OES client that meets the threshold. IIROC anticipates that client account numbers will be used for the purpose of identifying OES clients. Client account numbers would be required to be included on each order entered by or on behalf of an “active” client on a marketplace that retains IIROC as its regulation services provider.

3.2 Identification of Clients that are not Individuals and are in the Business of Trading Securities in a Foreign Jurisdiction in a Manner Analogous to a Dealer or Adviser

In addition to those clients described in section 3.1 above, IIROC would also require that client IDs be assigned to any OES client that is not an individual and is registered as a dealer or adviser under applicable securities legislation. This requirement has been expanded such that the Proposed Amendments also capture any client that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser. This change would ensure that OES clients that are entities in foreign jurisdictions and operate similar to domestic registrants will be identified and their client IDs will be provided to IIROC. Expanding the requirement to identify “foreign equivalents” is consistent with the application of the ETR/DEA Rules with respect to foreign registrants, and places OES clients that are domestic registrants on a level playing field with OES clients that operate the same business in a foreign jurisdiction.



3.3 Limiting the Requirement to Provide Client Identifiers to Activity that Occurs on Marketplaces for which IIROC is the Regulation Services Provider

Comments received indicated that, with respect to client identifiers, the scope of the Original Proposed Amendments was not clear. The Proposed Amendments clarify that client IDs are only required for clients that trade on marketplaces that have retained IIROC as their regulation services provider. This is consistent with the order and trade information currently received by IIROC for clients accessing the marketplace through DEA or Routing Arrangements.

4. Discussion and Impacts of the Proposed Amendments

The following is a summary of the principal components of the Proposed Amendments and their impact on Dealer Members.

4.1 Client Identifier

The Proposed Amendments would:

- require that an OES Dealer include a client ID on each order entered for or on behalf of any client that trades on a marketplace for which IIROC is the regulation services provider:
 - whose trading activity on marketplaces for which IIROC is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month, or
 - that is not an individual and is registered as a dealer or adviser under applicable securities legislation, or
 - that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser; and
- require that an OES Dealer provide to IIROC each client ID and the name of the client associated with it.

The Proposed Amendments would also require Participants that provide execution services for OES Dealers to ensure that each order sent to a marketplace includes the client ID on each order, as applicable, originating from an OES Dealer.

As discussed in section 3.1, IIROC believes that clients that trade actively through OES may pose similar risks to market integrity as clients that trade through DEA or through a routing arrangement. Inconsistent levels of transparency of client identity to IIROC can result in an incomplete regulatory framework by enabling an active OES client to avoid the amount of regulatory oversight that would otherwise be applied to the client if trading through DEA or a



routing arrangement. The Proposed Amendments would address this concern by requiring active OES clients and their order flow to be identified to IIROC.

The requirement to identify and assign a client ID to OES clients that are non-individual domestic registrants and their foreign equivalents is consistent with the requirements in the ETR/DEA Rules. The Proposed Amendments would result in a consistent level of transparency across all forms of electronic access to marketplaces such that trading by these entities will be identified to IIROC whether they trade using DEA/routing arrangements or as OES clients.

4.2 Manipulative and Deceptive Activities

While the Proposed DMR Amendments introduce a definition of Manipulative and Deceptive Activities, it is intended only to build on and clarify a Dealer Member's current supervisory and compliance requirements under DMR 38, 2500 and 2700 and to conform to the UMIR interpretation. Currently, both DMR 2500 and DMR 2700 require that a Dealer Member's supervision of account activity include a review for activity that may be manipulative or deceptive. Providing a definition of Manipulative and Deceptive Activities in the Proposed DMR Amendments that is consistent with the existing UMIR definition provides clarity. Dealer Members, including OES Dealers, must review their current policies and procedures and their systems of supervision and control to ensure they are reasonably designed to detect account activity that is or may be considered manipulative and deceptive.

4.3 Supervision of OES Account Activity

IIROC believes that electronic order entry through OES eliminates an opportunity for staff of a Dealer Member to identify and detect unusual orders or trading patterns prior to an order being entered on a marketplace. To address this concern, the Proposed DMR Amendments introduce a requirement for an OES Dealer to consider the heightened risks associated with the entry of orders that are not directly handled by staff of the Dealer Member. Identifying and addressing these risks in an OES Dealer's policies and procedures and systems of supervision and control is consistent with the supervision requirements applicable to other forms of third-party electronic access to marketplaces. Currently, an OES Dealer that is also a Participant is required to consider the heightened risk exposure for orders that are not directly handled by staff of the Participant pursuant to UMIR Policy 7.1, Part 1.

Dealer Members that offer OES accounts must review their current policies and procedures and systems of supervision and control to ensure that the inherent risks of third-party electronic order entry and lack of intermediation by staff of the Dealer Member have been taken into account. This is particularly relevant to the detection of activity that may interfere with market integrity, such as activity that is or may be manipulative and deceptive. Steps must be taken to address any deficiencies identified.



5. Technological Implications and Implementation Plan

IIROC acknowledges that there would be effort required by each OES Dealer to achieve compliance with the Proposed Amendments. IIROC believes the required effort is proportionate to the benefit of achieving consistent oversight and supervision of similar activities through all forms of third-party electronic access, particularly given the risks associated with order entry that is not intermediated by staff of the OES Dealer.

The technological implications of the Proposed Amendments on OES Dealers are primarily limited to any development required to include client IDs on all orders for certain clients that trade on marketplaces through OES platforms. Participants that execute for OES Dealers would also be required to make any necessary changes to their systems to accommodate the use of client IDs on orders originating from an OES Dealer.

IIROC does not expect the supervision requirements in the Proposed DMR Amendments to have significant new implications as Dealer Members are currently required to have reasonable policies, procedures and systems of supervision and control in place that are reasonably designed to achieve compliance with the requirements applicable to the Dealer Member's business. The Proposed Amendments build on current supervision requirements and specifically require an OES Dealer, when developing its policies, procedures and systems of supervision and control, to consider the increased risk that arises when the methods used to enter orders limit the amount of "gatekeeping" that can be done directly by staff of the Dealer Member.

IIROC would expect that, if the Proposed Amendments are approved by the Recognizing Regulators, the amendments would be implemented on the later of **180 days following the publication of the notice of approval of the amendments or March 1, 2015.**

6. Questions

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

1. Does the proposed implementation date (the later of 180 days following the publication of the notice of approval of the amendments or March 1, 2015) provide sufficient time to accommodate any development work that may be required to be performed by OES Dealers?



Appendix A – Proposed UMIR Amendments

The Universal Market Integrity Rules are hereby amended as follows:

1. Clause (a) of subsection (1) of Rule 6.2 is amended by:
 - (a) inserting the following subclause:
 - (iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,
 - (b) renumbering subclauses (iv) and (v), respectively, as (v) and (vi).



Appendix B – Proposed Dealer Member Rule Amendments

The Dealer Member Rules are hereby amended as follows:

1. Dealer Member Rule 1 is amended by:
 - (a) inserting the following definition:

“Manipulative and Deceptive Activities” means the entry of an order or the execution of a trade that would create or could reasonably be expected to create:

 - a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or
 - b) an artificial ask price, bid price or sale price for the security or a related security.
2. Dealer Member Rule 2500 is amended by:
 - (a) In section IV subsection A., replacing “...deceptive trading” with “...Deceptive Activities”.
3. Dealer Member Rule 2700 is amended by:
 - (a) In section IV subsection B., replacing “... deceptive methods of trading” with “... Deceptive Activities”.
4. Dealer Member Rule 3200 is amended by:
 - (a) Adding a new subsection (c) to section A. 4 as follows:

“(c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.”
 - (b) In section A.4, renumbering subsections (c) and (d) respectively, as (d) and (e).



- (c) Adding a new section A.5 as follows:

“A. 5 Identification of Certain Clients

- (a) The Dealer Member must ensure that a client identifier is assigned to each client that trades on a Marketplace for which the Corporation is the regulation services provider:
- (a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,
 - (b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or
 - (c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.
- (b) The client identifier and the name of the corresponding client must be provided to the Corporation.
- (c) Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client.”
- (d) Renumbering section A.5 as A.6
- (e) Adding a new subsection (c) to section B.5 as follows:
- “(c) The Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review trading by order-execution only service clients takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.”
- (f) In section B.5, renumbering subsections (c) and (d) respectively, as (d) and (e).



(g) Adding a new section B.6 as follows:

“B.6 Identification of Certain Clients

(a) The Dealer Member must ensure that a client identifier is assigned to each order-execution only service client that trades on a Marketplace for which the Corporation is the regulation services provider:

- (a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,
- (b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or
- (c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.

(b) The client identifier and the name of the corresponding client must be provided to the Corporation.

(c) Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule B.6(a) must contain the client identifier assigned to that client.”

(h) Renumbering section B.6 as B.7.



Appendix C – Text of Dealer Member Rules to Reflect Proposed DMR Amendments Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
<p>RULE 1 INTERPRETATION AND EFFECT</p> <p>1.1.</p> <p>“Manipulative and Deceptive Activities” means the entry of an order or the execution of a trade that would create or could reasonably be expected to create:</p> <ul style="list-style-type: none"> a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or b) an artificial ask price, bid price or sale price for the security or a related security. 	<p>RULE 1 INTERPRETATION AND EFFECT</p> <p style="text-align: center;">1.1.</p> <p>“Manipulative and Deceptive Activities” <u>means the entry of an order or the execution of a trade that would create or could reasonably be expected to create:</u></p> <ul style="list-style-type: none"> a) <u>a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or</u> b) <u>an artificial ask price, bid price or sale price for the security or a related security.</u>
<p>RULE 2500 MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION</p> <p>IV A. First-Tier Daily Reviews</p> <p>A first-tier review examines the previous day’s trading using means described in the Dealer Member’s procedures to attempt to detect the following:</p> <ul style="list-style-type: none"> • Unsuitable trading; • Undue concentration of securities in a single account or across accounts; • Excessive trade activity; • Trading in restricted securities; • Conflict of interest between Registered Representatives and client trading activity; • Excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading; • Inappropriate / high risk trading strategies; • Quality downgrading of client holdings; • Excessive / improper crosses of securities between clients; • Improper employee trading; • Front running; • Account number changes; • Late payment; • Outstanding margin calls; • Violation of any internal trading restrictions; • Undisclosed short sales; • Manipulative and Deceptive Activities; • Insider trading 	<p>RULE 2500 MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION</p> <p>IV A. First-Tier Daily Reviews</p> <p>A first-tier review examines the previous day’s trading using means described in the Dealer Member’s procedures to attempt to detect the following:</p> <ul style="list-style-type: none"> • Unsuitable trading; • Undue concentration of securities in a single account or across accounts; • Excessive trade activity; • Trading in restricted securities; • Conflict of interest between Registered Representatives and client trading activity; • Excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading; • Inappropriate / high risk trading strategies; • Quality downgrading of client holdings; • Excessive / improper crosses of securities between clients; • Improper employee trading; • Front running; • Account number changes; • Late payment; • Outstanding margin calls; • Violation of any internal trading restrictions; • Undisclosed short sales; • Manipulative and deceptive trading <u>Deceptive Activities</u>; • Insider trading



Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
<p>RULE 2700 MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION</p> <p>IV B. Account Activity Detection</p> <p>The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements or any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following:</p> <ol style="list-style-type: none"> 1. Manipulative and Deceptive Activities; 2. Trading in restricted list securities; 3. Employee or proprietary account front running; 4. Exceeding position or exercise limits on derivative products; and 5. Transactions raising a suspicion of money laundering or terrorist financing activity 	<p>RULE 2700 MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION</p> <p>IV B. Account Activity Detection</p> <p>The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements or any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following:</p> <ol style="list-style-type: none"> 1. Manipulative and deceptive methods of trading <u>Deceptive Activities</u>; 2. Trading in restricted list securities; 3. Employee or proprietary account front running; 4. Exceeding position or exercise limits on derivative products; and 5. Transactions raising a suspicion of money laundering or terrorist financing activity
<p>RULE 3200 MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER 1300.1(T) TO OFFER AN ORDER-EXECUTION ONLY SERVICE</p> <p>A. 4 Supervision</p> <p>(a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate business unit of the Dealer Member or with the Dealer Member itself.</p> <p>(b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 other than those related to solely to suitability.</p> <p>(c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</p> <p>(d) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(e) The Dealer Member or separate business unit of the Dealer</p>	<p>RULE 3200 MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER 1300.1(T) TO OFFER AN ORDER-EXECUTION ONLY SERVICE</p> <p>A. 4 Supervision</p> <p>(a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate business unit of the Dealer Member or with the Dealer Member itself.</p> <p>(b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 other than those related to solely to suitability.</p> <p>(c) <u>The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</u></p> <p>(↔) (d) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(↔) (e) The Dealer Member or separate business unit of the Dealer</p>



Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
<p>Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p> <p>A. 5 Identification of Certain Clients</p> <p>(a) The Dealer Member must ensure that a client identifier is assigned to each client that trades on a Marketplace for which the Corporation is the regulation services provider:</p> <ul style="list-style-type: none"> (a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month, (b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or (c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser. <p>(b) The client identifier and the name of the corresponding client must be provided to the Corporation.</p> <p>(c) Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client.</p> <p>A. 6 Systems and Books and Records</p> <p>...</p> <p>B. 5 Supervision</p> <p>(a) The Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that orders are marked accurately as recommended or non-recommended.</p> <p>(b) The Dealer Member must have written procedures for the selection of accounts to be subject to a monthly review at least equal to those currently required by Rule 2500. The selection must not have regard to whether the trades in the account are marked as recommended or non-recommended. The account review must include a determination whether the overall composition of the customer's portfolio no longer conforms to the documented objectives and risk tolerances of the customer as a result of non-recommended trades and, when it does not, the procedures must specify the steps to be taken for dealing with the disparity.</p> <p>(c) The Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review trading by order- execution only service clients takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</p> <p>(d) The Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(e) The Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p>	<p>Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p> <p><u>A. 5 Identification of Certain Clients</u></p> <p>(a) <u>The Dealer Member must ensure that a client identifier is assigned to each client that trades on a Marketplace for which the Corporation is the regulation services provider:</u></p> <ul style="list-style-type: none"> (a) <u>whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,</u> (b) <u>that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</u> (c) <u>that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.</u> <p>(b) <u>The client identifier and the name of the corresponding client must be provided to the Corporation.</u></p> <p>(c) <u>Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client.</u></p> <p>A.5 <u>A.6 Systems and Books and Records</u></p> <p>...</p> <p>B. 5 Supervision</p> <p>(a) The Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that orders are marked accurately as recommended or non-recommended.</p> <p>(b) The Dealer Member must have written procedures for the selection of accounts to be subject to a monthly review at least equal to those currently required by Rule 2500. The selection must not have regard to whether the trades in the account are marked as recommended or non-recommended. The account review must include a determination whether the overall composition of the customer's portfolio no longer conforms to the documented objectives and risk tolerances of the customer as a result of non-recommended trades and, when it does not, the procedures must specify the steps to be taken for dealing with the disparity.</p> <p>(c) <u>The Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review trading by order execution only service clients takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</u></p> <p>(⇌) (d) The Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(⇌) (e) The Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p>



Text of Provision Following Adoption of the Proposed DMR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed DMR Amendments
<p>B.6 Identification of Certain Clients</p> <p>(a) The Dealer Member must ensure that a client identifier is assigned to each order-execution only service client that trades on a Marketplace for which the Corporation is the regulation services provider:</p> <ul style="list-style-type: none"> (a) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month, (b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or (c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser. <p>(b) The client identifier and the name of the corresponding client must be provided to the Corporation.</p> <p>(c) Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule B.6(a) must contain the client identifier assigned to that client.</p> <p>B.7 SYSTEMS AND BOOKS AND RECORDS</p> <p>...</p>	<p><u>B.6 Identification of Certain Clients</u></p> <p>(a) <u>The Dealer Member must ensure that a client identifier is assigned to each order- execution only service client that trades on a Marketplace for which the Corporation is the regulation services provider:</u></p> <ul style="list-style-type: none"> (a) <u>whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,</u> (b) <u>that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</u> (c) <u>that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.</u> <p>(b) <u>The client identifier and the name of the corresponding client must be provided to the Corporation.</u></p> <p>(c) <u>Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule B.6(a) must contain the client identifier assigned to that client.</u></p> <p>B.6 <u>B.7 SYSTEMS AND BOOKS AND RECORDS</u></p> <p>...</p>



Appendix D – Text of UMIR to Reflect Proposed UMIR Amendments Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

Text of Provision Following Adoption of the Proposed UMIR Amendments	Text of Current Provisions Marked to Reflect Adoption of the Proposed UMIR Amendments
<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p style="padding-left: 20px;">(a) the identifier of:</p> <p style="padding-left: 40px;">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p style="padding-left: 40px;">(iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,</p> <p style="padding-left: 40px;">(v) the client for or on behalf of whom the order is entered under direct electronic access, and</p> <p style="padding-left: 40px;">(vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and</p> <p>...</p>	<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p style="padding-left: 20px;">a) the identifier of:</p> <p style="padding-left: 40px;">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p style="padding-left: 40px;">(iv) <u>(iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,</u></p> <p style="padding-left: 40px;">(v) <u>(v) the client for or on behalf of whom the order is entered under direct electronic access, and</u></p> <p style="padding-left: 40px;">(vi) <u>(vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and</u></p> <p>...</p>



Appendix E – Summary of Comments and IIROC Responses to Comments

Comments Received in Response to IIROC Notices 13-0255 and 13-0256 – Proposed Provisions and Proposed Guidance Respecting Order Execution Services as a Form of Third-Party Electronic Access to Marketplaces

On October 15, 2013, IIROC issued Notice 13-0255 requesting comments on Proposed Provisions Respecting Order Execution Services as a form of Third-Party Electronic Access to Marketplaces (“Original Proposed Amendments”). IIROC received comments on the Original Proposed Amendments from:

- Interactive Brokers Canada Inc. (“IBC”)
- Investment Industry Association of Canada (“IIAC”)
- Oanda Canada (“OANDA”)
- TD Securities/TD Waterhouse Canada (“TD”)

A copy of the comment letters received in response to the Proposed Amendments is publicly available on the website of IIROC under the heading “Notices”, sub-heading “Marketplace Rules” and further sub-heading “[Request for Comments](#)”). The following table presents a summary of the comments received on the Original Proposed Amendments together with the responses of IIROC to those comments. Column 1 of the table highlights the revisions being proposed to the Original Proposed Amendments.

Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>RULE 1</p> <p>INTERPRETATION AND EFFECT</p> <p>1.1.</p> <p>“Manipulative and Deceptive Activities” means the entry of an order or the execution of a trade that would create or could reasonably be expected to create:</p> <p style="margin-left: 20px;">a) a false or misleading appearance of trading activity in or interest in the purchase or sale of a security; or</p>		



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>b) an artificial ask price, bid price or sale price for the security or a related security.</p>		
<p>RULE 2500 MINIMUM STANDARDS FOR RETAIL CUSTOMER ACCOUNT SUPERVISION</p> <p>IV A. First-Tier Daily Reviews</p> <p>A first-tier review examines the previous day’s trading using means described in the Dealer Member’s procedures to attempt to detect the following:</p> <ul style="list-style-type: none"> • Unsuitable trading; • Undue concentration of securities in a single account or across accounts; • Excessive trade activity; • Trading in restricted securities; • Conflict of interest between Registered Representatives and client trading activity; • Excessive trade transfers, trade cancellations etc. indicating possible unauthorized trading; • Inappropriate / high risk trading strategies; • Quality downgrading of client holdings; • Excessive / improper crosses of securities between clients; • Improper employee trading; • Front running; • Account number changes; • Late payment; • Outstanding margin calls; • Violation of any internal trading restrictions; • Undisclosed short sales; • Manipulative and Deceptive Activities; • Insider trading 		



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>RULE 2700 MINIMUM STANDARDS FOR INSTITUTIONAL CUSTOMER ACCOUNT OPENING, OPERATION AND SUPERVISION IV B. Account Activity Detection</p> <p>The supervisory procedures and the compliance monitoring procedures should be reasonably designed to detect account activity that is or may be a violation of applicable securities legislation, requirements or any self-regulatory organization applicable to the account activity and the rules and policies of any marketplace on which the account activity takes place, and would include the following:</p> <ol style="list-style-type: none"> 1. Manipulative and Deceptive Activities; 2. Trading in restricted list securities; 3. Employee or proprietary account front running; 4. Exceeding position or exercise limits on derivative products; and 5. Transactions raising a suspicion of money laundering or terrorist financing activity 		
<p>RULE 3200 MINIMUM REQUIREMENTS FOR DEALER MEMBERS SEEKING APPROVAL UNDER 1300.1(T) TO OFFER AN ORDER-EXECUTION ONLY SERVICE A. 4 Supervision</p> <p>(a) The Dealer Member or separate business unit of the Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that customers are not provided with recommendations as a result of the customer having an account with the separate business unit of the Dealer Member and with another separate</p>		



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>business unit of the Dealer Member or with the Dealer Member itself.</p> <p>(b) The Dealer Member or separate business unit of the Dealer Member must have written procedures and systems in place to review customer trading and accounts for those concerns listed in Rule 2500 other than those related to solely to suitability.</p> <p>(c) The Dealer Member or separate business unit of the Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review client trading takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</p> <p>(d) The Dealer Member or separate business unit of the Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(e) The Dealer Member or separate business unit of the Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p>		
<p>A. 5 Identification of Certain Clients</p> <p>(a) The Dealer Member must ensure that a client identifier is assigned to each client that trades on a Marketplace for which the Corporation is the regulation services provider:</p> <p style="padding-left: 20px;">a: whose trading activity exceeds a daily average of 100 trades per day in any calendar month;</p> <p style="padding-left: 20px;">(b) whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month, or</p> <p style="padding-left: 20px;">(b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</p> <p style="padding-left: 20px;">(c) that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.</p> <p>(b) The client identifier and the name of the corresponding client must be provided to the Corporation.</p>	<p>IBC – Comments that a single trader ID should be assigned by the firm to cover all of its “active” clients. This would be similar to “foreign flow” where a single trader ID is used for all the foreign entity’s client flow.</p> <p>IBC – Requests clarification on whether client IDs applicable to advisors are required only when trading in their own account or does it extend to accounts of their clients.</p> <p>IIAC – Requests clarification of “trades” and “orders” for the purposes of reviewing client activity.</p>	<p>One of the goals of the proposed amendments is to ensure that the requirements applicable to clients accessing the marketplace through OES are consistent with the requirements applicable to other forms of third-party access to marketplaces. The amendments as proposed are consistent with the requirements applicable to Direct Electronic Access or Routing Arrangements.</p> <p>This has been clarified in the guidance.</p> <p>The proposed rules have been amended to consider only orders. The proposed guidance has been amended to provide additional clarity of what should be considered an “order” for the purpose of active client identification.</p>



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>(c) Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule A.5(a) must contain the client identifier assigned to that client.</p> <p>A. 6 Systems and Books and Records</p> <p>...</p>	<p>IIAC – Supports a threshold based on number of orders only.</p>	<p>See answer above</p>
	<p>IIAC – Questions the basis on which the threshold of 100 trades or 500 orders was proposed and whether the measures apply on the aggregate or an individual security level.</p>	<p>The proposed rules have been amended to consider only order for the purposed of active client identification. The threshold of a daily average of 500 orders per trading day in any month was determined through discussion with the industry as an appropriate measure that would identify “outliers”. The measure is intended to be based on orders across all securities traded on a Marketplace which has retained IIROC as its regulation services provider. The measure is intended to consider overall client activity.</p>
	<p>IIAC – There is no time line is respect of ongoing reporting of clients that cross the threshold. Questions whether once a client meets the threshold is the client deemed to be an “active trader” on an ongoing basis?</p>	<p>The guidance clarifies that once a client has exceed the “active client” threshold in any month and has been identified to IIROC they would continue to require the use of a Client ID on all subsequent activity. Discussions with the industry indicated that this was administratively preferable as it avoid the necessity of continually re-evaluating client activity.</p>
	<p>IIAC – Clients could avoid the threshold by trading though accounts at a variety of firms.</p>	<p>The proposed amendments are not intended to address issues of client trading across multiple firms. While the requirements to reasonably supervise account activity would apply to all client activity, the requirement to identify an active client would apply at the account level only, and accordingly would not require an OES Dealer to consider activity that occurs outside the particular OES Dealer itself.</p>
	<p>IIAC – Question the need for real-time reporting. T+1 reporting would eliminate the burden of building real time systems that identify and aggregate accounts.</p>	<p>The requirement to receive order and trade data on a real time basis for the purpose of regulatory compliance and monitoring is consistent with the requirements applicable to other forms of third-party electronic access to marketplaces.</p>
	<p>IIAC – The systems required to apply a USER ID are different from those used for DEA purposes and would represent considerable investment in new technology and systems.</p>	<p>The proposed guidance has been amended to support the use of client account number rather than USER IDs for the purpose of client IDs.</p>



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
	<p>IIAC – Suggests that firms be able to choose between using client account numbers as client IDs or creating a new trading ID as proposed.</p>	<p>The method used for the transmission of client IDs must be consistently applied across all firms. The guidance has been amended to require the use of client account numbers rather than USER IDs. Comments received indicated that this was the preferable approach.</p>
	<p>IIAC – Seeks confirmation whether the ID used to identify a portfolio manager must be applied to all its client accounts.</p>	<p>This has been clarified in the guidance.</p>
	<p>IIAC – The requirement to “immediately notify” IIROC of trading activity once a client trips the trading threshold creates compliance problems.</p>	<p>IIROC would expect that a firm would provide the client ID and the name of the client associated with it as soon as practically possible once a client has been identified.</p>
	<p>IIAC – While the identification of individual accounts that exceed the threshold is relatively easy, it is much more difficult to do so on an aggregated basis.</p>	<p>See answer above</p>
	<p>OANDA – Questions whether the Proposed Amendments are intended to apply to trading activity that does not occur on a marketplace such as foreign exchange trades or other OTC transactions.</p>	<p>The proposed rule has been amended to clarify that the determination of an “active client” only consider orders sent to a Marketplace which has retain IIROC as its regulation service provider and that client IDs ,when required, must be included on all orders sent to a Marketplace that has retained IIROC as its regulation services provider.</p>
	<p>TD – Proposed the submission of active client activity reports at end-of-day or on a T+1 basis as opposed to real time through the use of a client identifier.</p>	<p>See answer above</p>
	<p>TD – Recommends that only parent orders be considered “orders” and “trades” should consider only complete fills of parent orders. Notes that “orders” and “trades” can have a variety of interpretations.</p>	<p>See answer above</p>
	<p>TD – Comments that the cost of implementation would outweigh the potential benefit of regulatory supervision and oversight of a small number of active</p>	<p>IIROC believes that the use of client account numbers rather than USER ID for the purpose of client ID significantly reduces the implementation effort.</p>



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
	<p>OES clients.</p> <p>TD – Aggregation of each account in which a client has an interest or control is a significant undertaking. Recommends changing guidance to consider individual account numbers only.</p> <p>TD – The use of User IDs is unsuitable for OES clients since OES order management systems are not designed to support individual User IDs for retail clients.</p>	<p>See answer above</p> <p>See answer above</p>
<p>B. 5 Supervision</p> <p>(a) The Dealer Member must have written procedures for the supervision of trading reasonably designed to ensure that orders are marked accurately as recommended or non-recommended.</p> <p>(b) The Dealer Member must have written procedures for the selection of accounts to be subject to a monthly review at least equal to those currently required by Rule 2500. The selection must not have regard to whether the trades in the account are marked as recommended or non-recommended. The account review must include a determination whether the overall composition of the customer’s portfolio no longer conforms to the documented objectives and risk tolerances of the customer as a result of non-recommended trades and, when it does not, the procedures must specify the steps to be taken for dealing with the disparity.</p> <p>(c) <u>The Dealer Member must ensure that its written policies and procedures and systems of supervision and control to review trading by order execution only service clients takes into account the risks associated with the method of order entry and the absence of intermediation by staff of the Dealer Member.</u></p> <p>(e) (d) The Dealer Member must maintain an audit trail of supervisory reviews as required in rule 2500.</p> <p>(f) (e) The Dealer Member must have sufficient supervisory resources allocated at head office and branch levels to effectively implement the supervisory procedures required under this rule.</p>		<p>Amended to ensure consistency for Dealer Members offering both an advisory and an order-execution only service.</p>



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p><u>B.6 Identification of Certain Clients</u></p> <p>(a) <u>The Dealer Member must ensure that a client identifier is assigned to each order-execution only service client that trades on a Marketplace for which the Corporation is the regulation services provider:</u></p> <p style="padding-left: 20px;">(a) <u>whose trading activity on Marketplaces for which the Corporation is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,</u></p> <p style="padding-left: 20px;">(b) <u>that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</u></p> <p style="padding-left: 20px;">(c) <u>that is not an individual and is in the business of trading securities in a foreign jurisdiction in a manner analogous to a dealer or adviser.</u></p> <p>(b) <u>The client identifier and the name of the corresponding client must be provided to the Corporation.</u></p> <p>(c) <u>Each order entered on a Marketplace for which the Corporation is the regulation services provider by or on behalf of a client for whom a client identifier must be assigned pursuant to Rule B.6(a) must contain the client identifier assigned to that client.</u></p> <p>B-6 <u>B.7 SYSTEMS AND BOOKS AND RECORDS</u></p>		
<p>6.2 Designations and Identifiers</p> <p>(1) Each order entered on a marketplace shall contain:</p> <p style="padding-left: 20px;">(a) the identifier of:</p> <p style="padding-left: 40px;">(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(ii) the marketplace on which the order is entered as assigned to the marketplace in accordance with Rule 10.15,</p> <p style="padding-left: 40px;">(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p style="padding-left: 40px;">(iv) the client for or on behalf of whom the order is entered where the order originates from a Dealer Member that provides order execution services and the order requires a client identifier pursuant to Dealer Member Rule 3200,</p>		



Text of Proposed Provision (Revisions to the Original Proposed Amendments Highlighted)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
(v) the client for or on behalf of whom the order is entered under direct electronic access, and (vi) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and ...		
Questions 1. Are the proposed thresholds set at reasonable levels to facilitate the identification of OES clients that trade actively? Should the threshold for “orders” consider only parent orders as entered by the OES client?	IBC – Comments that 100 trades is not significant for firms that cater to more active traders. TD – Comments that “Orders” should exclude orders generated by a Dealer’s systems (e.g. pegged orders).	The proposed amendments have been amended such that only orders and not trades are considered in determining whether a client is an “active” client. This has been clarified in the proposed guidance.
2. Should IIROC retain the ability to adjust the thresholds at which client IDs are required?	TD – Prefer the threshold be set at an appropriate level after the data is reviewed rather than being adjusted in the future.	The proposed provisions have not been amended such that the measure of an “active” client remains fixed.
3. To accommodate any development work that may be require in order to include a client ID on all order messages for certain active OES clients, is 180 days’ notice prior to implementation sufficient time for OES Dealers to make any necessary changes?	IBC - Yes TD - In its current form, the Proposal represents a multi-year, multi-million dollar project for large OES Dealers.	IIROC acknowledges the comment See answer above
4. Should IIROC have the ability to require that a particular client be identified to IIROC through the use of a client ID where that client does not meet the threshold?	TD – Maintenance of an “ad-hoc” list of client identifiers would be complex as compared to standardized thresholds.	The proposed rule has not been amended to provide IIROC the ability to require the identification of a particular client that does not meet the threshold.



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<p>Other Comments</p>	<p>IIAC – Questions whether a firm may “Opt-out” of the client ID requirements by prohibiting accounts for active clients and moving any client identified that would require the use of a client ID off the OES platform.</p>	<p>The requirements would only apply to firms that maintain accounts for clients where a client ID would be required. If a Dealer is established such that no such account would trade through the Dealer, the provisions would not apply.</p>
	<p>IIAC – It is unclear whether firms are required to consider only orders that are being executed on Canadian marketplaces.</p>	<p>This has been clarified in the proposed rules such that only activity that occurs on marketplaces that have retained IIROC as its regulation services provider are considered.</p>
	<p>IIAC – Seeks clarification that member firms are only required to consider online orders that are sent to the marketplace without any direct handling by individual registrants.</p>	<p>This has been clarified in the guidance.</p>
	<p>IBC – Challenging IIROC’s view that orders that are not intermediated by staff of the dealer member introduce potential risks to the market. Comment that orders that pass through pre-trades automation, such as credit and margin checks pose no risk to the integrity of the market.</p>	<p>NI 23-103 requires, among other things, that Dealers establish and maintain risk management and supervisory controls, policies and procedures that are reasonably designed to manage the financial, regulatory and other risks associated with marketplace access, which includes the use of automated pre-trade-controls. In addition to these requirements, NI 23-103 also requires that Dealers who offer direct electronic access to marketplaces must establish, maintain and apply standards that are reasonably designed to manage the Dealer’s risks associated with providing direct electronic access. The Proposed Amendments are consistent with this approach.</p>