



## ***Universal Market Integrity Rules for Canadian Marketplaces***

### **REQUEST FOR COMMENTS**

#### **Universal Market Integrity Rules**

On July 28, 2000, the Canadian Securities Administrators (the "CSA") republished for comment two proposed national instruments and related documents (the "ATS Proposal") as part of their initiative to create a framework for the competitive operation of traditional exchanges and Alternative Trading Systems ("ATs"). The ATS Proposal sought to foster the trading of securities in a competitive environment in a fair and transparent manner. The national instruments were identified as proposed National Instrument 21-101 – Marketplace Operation (the "Marketplace Operation Instrument") and proposed National Instrument 23-101 – Trading Rules (the "CSA Trading Rules").

The Canadian Venture Exchange ("CDNX") and TSE Regulation Services ("RS") initiated a project to develop an alternative to replace the CSA Trading Rules. The Toronto Stock Exchange (the "TSE") and CDNX reviewed their respective rules and policies to determine if the CSA Trading Rules were appropriate for the structure of their markets. A secondary goal of this review was to determine the extent to which differences in the rules and policies of the exchanges could be removed and trading rules harmonized. This initiative resulted in the formulation of "Universal Market Integrity Rules" ("UMIR") designed to promote a fair and orderly market and to apply on a general basis to securities listed on the TSE and CDNX or traded on another marketplace, including an ATS.

Comments on the proposed Universal Market Integrity Rules should be in writing and delivered within 30 days of the date of this notice to:

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A copy should also be provided to all of the CSA listed below in care of the OSC:

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Securities Commission  
The Manitoba Securities Commission  
Ontario Securities Commission  
Office of the Administrator, New Brunswick  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland  
Registrar of Securities, Northwest Territories,  
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The CSA is concurrently issuing a Notice and Request for Comment on UMIR.

## ***BACKGROUND***

### ***Objectives of the Universal Market Integrity Rules***

RS and CDNX propose that UMIR be adopted as an alternative to the CSA Trading Rules. RS and CDNX believe that any trading rules designed to ensure integrity and a fair and orderly market following the introduction of ATSS should be “universal” in that the rules should:

- apply to trading in all marketplaces;
- apply equally to all dealers who are accessing a marketplace;
- not be capable of being circumvented by directing trading activity to another marketplace;
- apply, to the greatest extent possible, to trading in all forms of securities; and
- incorporate, to the greatest extent possible, any exceptions to the rules that are required to accommodate the workings of an individual exchange or quotation and trade reporting system.

In the opinion of RS and CDNX, the adoption of a single set of integrity rules to be applied and enforced in competitive marketplaces is the only practicable solution which ensures that trading is carried out in a fair and orderly manner. Simply put, marketplaces should compete but market regulation should not become a commodity to be traded between marketplaces.

### ***Market Regulation under UMIR***

Under the ATS Proposal, the responsibility for administering and enforcing the CSA Trading Rules would be undertaken by “approved agents”. Each exchange in Canada would have been an approved agent. However, a number of commentators on the original ATS Proposal raised concerns about conflicts of interest if an ATS was required to have its market regulation performed by an exchange with which it competed for order flow. One possible answer noted by the CSA was to consolidate the responsibility for market

regulation for all exchanges and ATSS in an independent self-regulatory organization (“SRO”).

The CSA published the ATS Proposal without taking a position on how market regulation should be organized for the equity market. Industry participants were invited to consider and discuss possible solutions. While the CSA indicated that it was willing to participate in discussions, it was looking to the industry to propose alternatives for market regulation in the equity market.

With the demutualization of the TSE in April 2000, RS was established as a separate division within the TSE. The TSE is considering a proposal that would result in the division being transferred to a separate subsidiary (“RS Inc.”). The Investment Dealers Association would, at the outset, hold 40% of the shares and be entitled to nominate 40% of the directors. Consideration is being given to how best to provide for the representation of other markets within the governance structure of RS Inc. At least half of the directors of RS Inc. would be independent of any exchange or marketplace for which RS Inc. provided regulation services and independent of any dealers with access to those exchanges or marketplaces.

Initially, RS Inc. would provide regulation services to the TSE and CDNX. If the proposal for the formation of RS Inc. is pursued, RS Inc. would apply to be recognized as an SRO for the purpose of administering and enforcing UMIR for the marketplaces that had retained its services. **UMIR have been drafted to recognize that other Market Regulators (in addition to RS Inc.) could exist. However, it is the view of CDNX and RS that each of the Market Regulators would enforce a standard set of market integrity rules and that the standard set of integrity rules would be UMIR.**

Upon the recognition of RS Inc. as an SRO by the applicable securities regulatory authorities, RS Inc. would adopt UMIR as the standard set of integrity rules. Any changes in UMIR requested by RS Inc. or any other Market Regulator would be subject to approval by the applicable securities regulatory authorities. If UMIR is adopted, CDNX and the TSE anticipate that the rules would become effective concurrent with the Marketplace Operation Instrument. At that time, the existing rules and policies of the TSE and CDNX would be amended to delete any provisions where the subject matter is covered by UMIR. CDNX and the TSE would retain their respective rules and policies which are specific to their markets, including provisions related to systems operation, market quality and market structure.

While the details have not been finalized for the formation of RS Inc., TSE and CDNX believe that the creation of RS Inc., its recognition as an SRO and the adoption of a standard set of market integrity rules represent the best means of achieving comprehensive and independent market regulation.

### ***Marketplace Operation Instrument***

The Marketplace Operation Instrument will govern the structure of the marketplaces and establish the workings of the data consolidator. UMIR has been drafted based on the proposed National Instrument 21-101 - Marketplace Operation as released for comment by the CSA on July 28, 2000 together with any changes in the proposed instrument which the CSA has indicated to date will be contained in the final version of that National Instrument. **Changes to the proposed UMIR may be required to accommodate the final version of the Marketplace Operation Instrument.**

A number of terms used in the draft UMIR will be defined in the Marketplace Operation Instrument, including the following:

- affiliated entity;
- alternative trading system;
- consolidated market display;
- data consolidator;
- debt security;
- marketplace;
- order;
- recognized quotation and trade reporting system;
- self-regulatory entity;
- subscriber; and
- transaction fee.

Reference should be made to the Marketplace Operation Instrument for the current proposed definition of these terms.

In drafting UMIR, it was anticipated that the Marketplace Operation Instrument will establish the securities which may be traded on a marketplace. In order to trade on a marketplace (which would include an ATS) the security would have to be:

- listed on the TSE, CDNX, Bourse de Montréal (“BDM”) or other recognized exchange (individually, an “Exchange”);
- quoted on a recognized quotation and trade reporting system;

- listed on a stock exchange or organized market in a foreign jurisdiction for which the securities regulatory authority is an ordinary member of the International Organization of Securities Commissions; or
- a debt security.

### ***SUMMARY COMPARISON OF UMIR AND THE CSA TRADING RULES***

Appendix “A” is a chart outlining a summary of the obligations under UMIR that would be imposed on marketplaces and on persons who may obtain access to a marketplace. The current text of the proposed UMIR is contained in Appendix “B”.

UMIR has been drafted taking into account two basic differences in approach from that proposed in the CSA Trading Rules:

- ***Scope***

The CSA Trading Rules generally applied to any “person or company”, thereby extending responsibility for compliance with the integrity rules to clients as well as dealers. Since marketplaces and their “approved agents” would have a role in the administration and enforcement of the CSA Trading Rules, CDNX and RS did not believe that it was appropriate for the “approved agent” to have jurisdiction to cover more than the dealers participating in the market. UMIR has therefore been drafted to extend the application of the Rules to “Participants” (being generally dealers with access to the market through an exchange or ATS) and “Non-Dealer Subscribers” (being subscribers to an ATS who are not dealers or related to dealers). Rules relating to frontrunning, best execution obligations, client-principal trading, trading supervision and proficiency obligations do not apply to Non-Dealer Subscribers since they will not be representing client accounts. (For a discussion of the outstanding issues related to the scope of UMIR, see “Extent of Jurisdiction of the Market Regulator” and “Supervision of Trading and Proficiency”.)

- ***Point of Application***

Certain of the CSA Trading Rules were drafted to apply to “trades” or “transactions”. The application of the UMIR provisions generally is triggered by order entry, which marketplace participants control, rather than by a trade, which the marketplaces effect for marketplace participants.

The following is a summary comparison of the provisions of UMIR with those of the CSA Trading Rules published on July 28, 2000. The paragraph number identifies the section of

the CSA Trading Rules. The comparison is not exhaustive and reference should be made to the text of both the CSA Trading Rules and UMIR.

## 1. **Definitions**

UMIR generally applies to two categories of persons with access to a marketplace, namely:

- “Participant” (defined to be a dealer which is a Member, Participating Organization or Approved Participant of an Exchange; a subscriber to an ATS; or a person who acts as a market maker, specialist or restricted permit holder on the BDM); and
- “Non-Dealer Subscriber” (defined to be a subscriber to an ATS who is not a dealer nor a related entity of a dealer).

The term “related entity” is defined in UMIR as:

- an affiliated entity (as defined in the Marketplace Operation Instrument) that carries on business in Canada and is registered as a dealer or adviser; or
- a person that has been designated by a Market Regulator.

The CSA Trading Rules proposed to use various terms for which definitions were not provided. UMIR retains the concepts and proposes to add definitions of:

- “arbitrage account”;
- “board lot” (which has been defined in UMIR as “standard trading unit” in order that each marketplace would be able to retain “board lots” at whatever level they chose for the business rules related to trading on their market)
- “client order”;
- “hedge”;
- “non-client order; and
- “principal account”.

UMIR proposes to replace the “approved agent” concept with that of a “Market Regulator” to reflect in part that the notion that the body with the responsibility for the administration and enforcement of the integrity rules should not be perceived to be an “agent” of the marketplace.

As noted under the heading “Marketplace Operation Instrument” above, UMIR uses a number of terms expected to be defined in the Marketplace Operation Instrument.

UMIR also introduces a number of specific definitions that are central to the application of the integrity rules including:

- “best ask price”;
- “best bid price”;
- “better price”;
- “last sale price”;
- “net cost”; and
- “net proceeds”.

UMIR also provides definitions of particular types of orders and trades that qualify for exemptions from certain of the rules including:

- “Market-on-Close Order”;
- “Opening Order”;
- “Special Term Order”;
- “trades on a when issued basis”; and
- “Volume-Weighted Average Price Order”.

## **2. *Manipulation and Fraud***

UMIR proposes to introduce a catch-all “just and equitable principles” clause. This addition is designed to ensure that certain patterns of activity affecting the marketplace which do not quite reach the level of manipulative and deceptive trading practices are nonetheless unavailable to marketplace participants. For example, Rule 4.1 dealing with frontrunning is specifically tied to misuse of information when a Participant *knows* a client order will be entered. Somewhere between the Participant who acts on certain knowledge of a client order and the Participant who acts despite a single, uncertain expression of interest are the Participants that repeatedly take advantage of *expressions of interest* in particular securities. Such Participants are not conducting business openly and fairly and in accordance with just and equitable principles of trade. The “just and equitable principles” clause prevents such unfair activity.

Unlike the CSA Trading Rules, UMIR does not contain provisions with respect to securities fraud. It was the opinion of CDNX and RS that such provisions are more appropriately contained in securities legislation and criminal law and are not properly within the purview of a Market Regulator.

UMIR also proposes to eliminate the distinction between “price manipulation” and “attempted manipulation” that was contained in the CSA Trading Rules. UMIR provides that a marketplace participant should not use, directly or indirectly, nor knowingly facilitate or participate in the use of any manipulative or deceptive method of trading that could reasonably be expected to create a false or misleading appearance of trading activity or an artificial price. Without limiting the generality of the general prohibition, UMIR then proposed to set out specific activities that either would or may be considered manipulative (based principally upon existing TSE and CDNX rules).

### **3. *Short Selling***

UMIR continues the basic short selling rules contained in the CSA Trading Rules in that a short sale may not be made below the last sale price. However, UMIR proposes to expand the exemptions to the rule to parallel a number of provisions presently in the rules of the TSE and CDNX (particularly for program trades, accounts of Responsible Registered Traders, derivative market maker accounts and the first sale after a security starts to trade “ex-distribution”). UMIR also proposes that for the purposes of the short sale rule, a person will be deemed not to own a security if the security which is owned is subjected to any restriction on sale imposed by securities legislation or by an exchange or recognized quotation and trade reporting system.

UMIR makes provision for the reporting of short positions by Participants and Non-Dealer Subscribers in order that this information may be utilized by Market Regulators in reviewing trading activity in a particular security.

### **4. *Front Running and Insider Trading***

The CSA Trading Rules precluded a purchase or sale as principal or agent when there was knowledge of an order that had not been “generally disclosed”. UMIR proposes to replace the “generally disclosed” test with an objective standard tied to the entry of the *client* order to a marketplace. The frontrunning restriction under the CSA Trading Rules applied regardless of the size of the order. UMIR also proposes to restrict activities by a Participant only where the “unentered” *client* order could reasonably be expected to affect the market price of a security. While the CSA Trading Rules precluded all purchases and sales of a security with knowledge of an undisclosed order, UMIR proposes to restrict:

- the entry of principal or non-client orders for the security and related securities; and

- the solicitation of orders from any person for the security and related securities.

UMIR also proposes to expand the exceptions to the frontrunning rule from those contained in the CSA Trading Rules. In particular:

- principals would be allowed to hedge a position they previously assumed or agreed to assume;
- principal orders could be entered to fulfil previously existing, legally binding obligations;
- orders may be entered or trades made for the benefit of the particular client;
- an order may be solicited to facilitate the trade of the client order; and
- an order may be entered for an arbitrage account.

In the opinion of CDNX and RS, in each of these additional exemptions from the frontrunning rule the client is either not prejudiced by the activity or the activity is for the client's benefit.

Knowledge should relate to "firm" orders so that the rule is not triggered by a general expression of interest by an investor and does not unfairly restrict marketplace participants.

While each Market Regulator will play a significant role in detecting possible insider trading, it is the view of RS and CDNX that violations of insider trading rules under securities legislation are properly in the jurisdiction of the securities regulatory authorities and, as such, UMIR does not cover insider trading. However, as part of the order designation requirements under UMIR, orders for securities by an insider or significant shareholder of the issuer of the security must be marked so that Market Regulators can monitor the activities of those persons in the market.

## **5. *Best Execution***

Under the CSA Trading Rules, a dealer acting as agent for a client had to make reasonable efforts to ensure that the client received the "best execution price" and, in particular, the order could not be executed if it could be "filled at a better price" on another marketplace.

UMIR proposes to impose a general "best execution obligation" which requires a dealer to diligently pursue the execution of each client order on the most

advantageous terms for the client as expeditiously as practicable under prevailing market conditions.

UMIR requires a Participant to make reasonable efforts to ensure that a client order is executed at the “best bid price” in the case of a sale by a client and the “best ask” price in the case of purchase by a client. UMIR recognizes that, until a market integration system is implemented, ATSS will not be linked to one another (though they will be linked to the exchanges) and, so, making reasonable efforts is the highest standard that can be required.

In order to ensure that prices are comparable between marketplaces, UMIR proposes to eliminate Special Terms Orders from the determination of best bid and best ask prices. A Special Term Order includes an order for less than a standard trading unit, an order subject to a condition and an order that would be settled other than in the ordinary course. UMIR also proposes to recognize additional exceptions from the best bid/best ask requirement where the clients has imposed various terms and conditions on an order. In addition, under UMIR a Participant would be able to take into account any transaction fees payable to a marketplace in determining whether the marketplace had an order at the best price.

Under UMIR certain types of orders would not be subject to the “best price” requirement. In particular, UMIR would recognize an exception for a Special Terms Order, Market-on-Close Order, Opening Order and a Volume-Weighted Average Price as each of these order types trade outside of general auction market principles.

UMIR also proposes to retain the concept of client priority which is in the present rules of the TSE and CDNX but which was not contained in the CSA Trading Rules. A dealer will be required to give priority to client orders (over principal and non-client orders that are received, originated or entered after the receipt of the client order) for the same security at the same price on the same side of the market.

## **6. *Display Requirements for Marketplace Participants***

The CSA Trading Rules proposed that all client orders with a value of \$100,000 or less had to be immediately entered on a marketplace. In the opinion of RS and CDNX, this “one size fits all” approach did not recognize significant differences in the structure of the junior and senior markets. UMIR therefore proposes that the requirement for immediate entry to a marketplace of a client order be tied to 50 standard trading units. This provision would require immediate entry of a client order for the purchase or sale of:

- 5,000 shares for securities trading at \$1.00 or more;

- 25,000 shares for securities trading at \$0.10 and less than \$1.00;
- 50,000 shares for securities trading at less than \$0.10;
- \$50,000 of principal amount for a debt security;
- 50 contracts for a derivative instrument; or
- such other number as may be determined for a particular listed or quoted security by the Exchange or recognized quotation and trade reporting system.

UMIR proposes a number of exemptions from the “client order exposure” requirement including:

- the client instructing that the order not be exposed;
- the order being executed by the Participant at a “better price”;
- the order being withheld pending confirmation that the order complies with applicable securities requirements including requirements of any Exchange or recognized quotation and trade reporting system;
- the Participant determining that entering the order would not be in the “best interests” of the client based on market conditions;
- the value of the order is for more than \$100,000;
- the order is an Opening Order, Special Terms Order, Market-on-Close Order, a Volume-Weighted Average Price Order or part of a wide distribution on the TSE;
- the order is to be executed by means other than entry on a marketplace.

Under UMIR, a Participant would not be required to execute an order on a marketplace when acting as principal or agent in a number of circumstances including where:

- the order was for a security which is neither a listed security nor a quoted security;
- a Market Regulator required or permitted the order to be executed other than on a marketplace;
- the trade was undertaken by journal entry to correct an error with a client order; and
- the order is executed outside of Canada on another exchange or organized regulated market that publicly disseminates details of trades.

The exemptions parallel existing provisions of the TSE and CDNX respecting when Participating Organizations and Members may execute trades “off-exchange”.

The only exemption from the “order exposure” requirement under the CSA Trading Rules related to orders with a value of more than \$100,000.

Until the market integration system is implemented, it’s important to include in UMIR both an order exposure requirement and a trade-through concept so clients are assured best execution is achieved and orders on the book are not unfairly impacted or bypassed. Effective operation of these two rules can only be achieved if orders and prices are readily comparable between marketplaces. For that reason UMIR proposes:

- to prohibit orders at prices which include fractions of a cent (to ensure that no one marketplace can scoop order flow with a technique that does not reflect real market interest);
- to require a standard set of order designations which will apply regardless of the marketplace on which an order is entered (though provision is made for marketplaces to require designations beyond those suggested by UMIR);
- to require unique identifiers of Participants to be included with each order and disclosed to each Market Regulator for surveillance and compliance purposes (subject to each marketplace being able to determine if the identifier of the Participant or the ATS shall be displayed in the consolidated market display);
- to preclude negative commissions;
- to provide that cancelled trades do not affect the validity of subsequent trades tied to the price of the cancelled trade unless otherwise determined by a Market Regulator;
- to provide that the consolidated market display is the official record for determining “best ask price”, “best bid price” and “last sale price” (while the records of the marketplace will be the record of the contract arising out of the trading of orders on that marketplace).

In order to provide assurance to marketplace participants that trades executed on Canadian marketplaces will be settled, UMIR proposes to introduce requirements that each Participant and Non-Dealer Subscriber must be a participant or member of an appropriate clearing agency (Canadian Derivative Clearing Agency in respect of derivatives and the Canadian Depository for Securities in the case of other securities) or have entered into acceptable arrangements for clearing and settlement. Each Participant will be liable for all bids and offers which they enter on a Marketplace (whether or not the entry of the order has been authorized by the Participant). Subject to the obligation of a non-dealer subscriber, an ATS will be liable for all bids and offers which they enter on a marketplace or which is entered through their

systems (whether or not the entry of the order has been authorized by the Participant or Non-Dealer Subscriber).

Without these provisions, the validity of every transaction on Canadian marketplaces is undermined, inefficiency and unfairness result and the reputation of Canadian marketplaces can be damaged.

In order to ensure the basic integrity of the Canadian marketplace, UMIR proposes a number of additional rules including requirements for:

- Participants to adopt written policies and procedures to ensure compliance with UMIR;
- Participants to review orders prior to entry to ensure compliance with UMIR and the policies and procedures;
- Participants to supervise trading activities of employees;
- Participants to ensure employees demonstrated proficiency in UMIR;
- ATs to ensure that Non-Dealer Subscribers are trained in UMIR;
- Restrictions on trading during a securities exchange take-over bid apply in all marketplaces; and
- Restrictions on trading listed or quoted securities by market makers and specialists in derivatives apply in all marketplaces.

These additional requirements in UMIR are designed to reflect that the primary responsibility for compliance with the integrity rules must continue to rest with the persons who have been granted access to trading in the Canadian marketplace. These additional rules, together with the requirements on order marking described above, ensure that the existence of multiple marketplaces for the trading of securities does not allow persons with access to “sidestep” integrity rules.

## **7. *Principal Trading***

The CSA Trading Rules provided that a Participant with a client order of \$100,000 or less could execute that order in a principal transaction provided the client was given a better price. UMIR proposes to modify this requirement by using the threshold of 50 standard trading units (the same level as for the order exposure rules in Rule 6.3) while retaining the \$100,000 cap. UMIR also proposes to expand the requirement by:

- extending the restriction to cover client trades with non-client orders (as well as principal orders);

- requiring that the Participant take reasonable steps to ensure that the price to the client is the “best available price” taking into account the condition of the market; and
- confirming that trading with a client order which is larger than the thresholds is nonetheless still subject to the requirement for “best execution” of client orders (under Rule 5.1).

UMIR also provides a number of exemptions from the client-principal trading rule where the transaction is undertaken at a price determined by the marketplace and where a better price would not be expected, such as with an Opening Order, Market-on-Close Order and Volume-Weighted Average Price Order.

## **8. *Regulatory Halts***

Under the CSA Trading Rules, trading was not permitted on a marketplace if a securities regulatory authority, recognized exchange or recognized quotation and trade reporting system prohibited trading in a particular security. UMIR proposes to continue this basic requirement but clarify that trading in other marketplaces may continue if trading in one or more securities on the exchange or quotation and trade reporting system has been:

- halted or delayed as a result of technical problems affecting only the trading system or the exchange or recognized quotation and trade reporting system;
- suspended for failure to meet minimum listed or quotation requirements; and
- suspended for failure of the issuer to pay any fees to the exchange or the recognized quotation and trade reporting system.

UMIR also proposes to clarify that where trading in a security has been halted on marketplaces, a Participant may execute a trade in the security, if permitted by applicable securities legislation, outside of Canada on an exchange or organized regulated market that publicly disseminates detail of trades.

## **9. *Trading Hours***

CDNX and RS were of the opinion that the inclusion of a provision on the establishment of “Trading Hours” by a marketplace was unnecessary in UMIR as such a provision is more properly a business rule established by each marketplace.

## **10. Monitoring and Enforcement**

The CSA Trading Rules were premised on the ability of marketplaces to negotiate contracts with their “approved agent” and for the marketplaces and approved agents to negotiate arrangements for enforcement and compliance including the sharing of information. In drafting UMIR, CDNX and RS were of the opinion that reliance on “negotiated arrangements” would lead to uncertainties and potentially uneven application of the basic market integrity rules. UMIR has been drafted therefore to impose a direct obligation on marketplace participants to comply with the rules and clear obligations on marketplace participants who are Members or Participating Organizations in exchanges to submit to the jurisdiction of the Market Regulator if these rules are breached. UMIR also imposes a positive obligation on the part of marketplaces to share information with one another for surveillance, investigative and enforcement purposes. UMIR proposes to set out specifically the powers that each Market Regulator will have in the administration of the integrity rules (and these powers are similar to those provided to Market Surveillance Officials under the current TSE Rules). A marketplace would be able to engage a Market Regulator to provide additional services but UMIR would establish the base responsibilities and powers rather than leaving such matters to negotiation.

The CSA Trading Rules did not specify any penalty for breach of the rules. Under UMIR, a breach of the rules by a Participant who is a Member, Participating Organization or Approved Participant of an Exchange will result in disciplinary and enforcement action by the Market Regulator in accordance with the established practice and procedure of the Exchange. In these circumstances, the Market Regulator may impose of such penalty or remedy as may be authorized by any requirement of the Exchange. For other Participants and for Non-Dealer Subscribers, a breach of UMIR may result in:

- a reprimand;
- a fine net to exceed the greater of \$1,000,000 and an amount equal to triple the financial benefit resulting from the breach of UMIR;
- suspension of access to the marketplace; and
- revocation of access to the marketplace.

If the access of any person to the marketplace is suspended or revoked by a Market Regulator, such suspension or revocation shall automatically apply to all other marketplaces unless the applicable securities regulatory authority shall otherwise determine.

UMIR extends the ambit of certain rules (just and equitable principles of trade, manipulative and deceptive method of trading, short sale) to related entities of a Participant or a Non-Dealer Subscriber and to directors, officers, partners and employees of the Participant, Non-Dealer Subscriber or their related entity. UMIR also extends the frontrunning rule to persons connected to a Participant. As the frontrunning rule does not apply to Non-Dealer Subscribers, UMIR does not extend it to persons connected to a Non-Dealer Subscriber. In addition, UMIR proposes a general anti-avoidance rule that permits a Market Regulator to designate a person as acting in conjunction with a person otherwise subject to UMIR. Any designation by a Market Regulator would be subject to review by the applicable securities regulatory authority.

## **11. *Audit Trail Requirements***

The CSA Trading Rules proposed to introduce an electronic order trail. That concept has been retained in UMIR though the information to be retained and transmitted has been amended. Ultimately, it is intended that the information will be provided to the applicable Market Regulator in an electronic format. It is recognized that technical constraints may make such a requirement impractical for implementation concurrent with the introduction of the Marketplace Operation Instrument. As such, the application of Rule 10.5(5) may be deferred until a future time. Prior to subsection (5) coming into force, Participants nonetheless would be required to maintain the information otherwise required for the “order record” as set out in subsections (1) to (4) of Rule 10.5.

The CSA Trading Rules proposed that a dealer retain records of trades for a period of seven years with the records being in a readily accessible location during the first two years. UMIR proposes to continue these requirements even though it is recognized that this retention period is in excess of that required under certain securities regulatory provisions.

On a purely administrative level, UMIR proposes that each Participant and marketplace be assigned a unique identifier for trading purposes and that each security that trades on a marketplace also be assigned a unique symbol for trading purposes. Such measures are designed to facilitate market surveillance and compliance activities by marketplace participants. Unless otherwise provided, such identifiers and symbols shall be assigned by the TSE after consultation with BDM and CDNX.

## 12. Exemption

Under the CSA Trading Rules, an exemption from the rules had to be granted by the securities regulatory authority. Under UMIR, each Market Regulator would have discretion to grant exemptions to a particular person or transaction if the Market Regulator was satisfied that the exemption would not be contrary to applicable securities legislation nor prejudicial to the public interest or maintenance of a fair and orderly market. Under UMIR, exemptions of “general application” would be achieved by an amendment to UMIR or, where appropriate, the adoption of a policy to elaborate on the workings of a particular UMIR provision. Any amendment to UMIR or adoption of a policy would require the approval of the applicable securities regulatory authorities.

UMIR also proposes to introduce a mechanism whereby any direction, order or decision of a Market Regulator may be reviewed by the applicable securities regulatory authority.

### **IDENTIFICATION OF OUTSTANDING ISSUES**

In formulating UMIR as an alternative to replace the CSA Trading Rules, CDNX and RS have consulted with the advisory committees and the boards of directors of CDNX and TSE and the Regulation Committee of RS. In addition, comments were received from representatives of the CSA and from the Bourse de Montréal.

While “common ground” was often found on the general principles that should be included in the market integrity rules, a number of the suggestions and comments were not easily reconciled. Among the issues that remain “under discussion” and for which comment is particularly sought are the following:

- **“Universal” Application**
  - UMIR has been drafted to replace the CSA Trading Rules and to provide a base of market integrity rules to apply in all marketplaces to permit the proper functioning of the “integrated market” contemplated by the ATS Proposal.
  - In the opinion of RS and CDNX, the adoption of a single set of integrity rules to be applied and enforced in competitive marketplaces is the only practicable solution which ensures that trading is carried out in a fair and orderly manner.
  - *Comment is requested on the following questions:*
    - *Is it acceptable to have multiple Market Regulators if there is a single set of market integrity rules applicable in all marketplaces?*

- *How would overall market integrity be assured in an “integrated market” if each Market Regulator adopts different standards and rules to govern trading in their particular marketplace?*
  
- ***Extent of Jurisdiction of the Market Regulator***
  - The initial draft of UMIR prepared by CDNX and the TSE contemplated that the securities regulatory authorities would retain enforcement and disciplinary jurisdiction over subscribers who were not Participating Organizations or Members of an Exchange.
  - CSA staff requested that UMIR contain provisions for the Market Regulator to exercise jurisdiction over “Non-Dealer Subscribers (on the basis that such persons will be direct participants in the marketplace).
  - The proposed UMIR provides jurisdiction to each Market Regulator for the marketplace for which Market Regulator is retained to provide regulation services, respecting the activities of dealers participating in the marketplace and Non-Dealer Subscribers who have access to the marketplace.
  - *Comment is requested on the following questions:*
    - *Is it appropriate for a Market Regulator to have enforcement and disciplinary jurisdiction over subscribers who are not dealers under applicable securities legislation? In particular, if retail investors or non-residents are subscribers to an ATS should the jurisdiction of the Market Regulator extend to such persons?*
    - *What should be the responsibility of the ATS in these circumstances?*
    - *Should a marketplace be permitted to have more than one Market Regulator provided each Market Regulator applies the same set of integrity rules?*
  
- ***Supervision of Trading and Proficiency***
  - UMIR requires dealers who are Members or Participating Organizations of an Exchange or subscribers to an ATS to adopt policies and procedures for trading and to supervise trading by their employees to ensure compliance with UMIR and other regulatory requirements.
  - UMIR proposes that these provisions not apply to Non-Dealer Subscribers to an ATS, but that the ATS would have an obligation to train the Non-Dealer Subscriber in UMIR.
  - *Comment is requested on the following questions:*

- *As a dealer, should an ATS have “compliance responsibility” for monitoring trading activity of subscribers who are not dealers?*
  - *Should subscribers to an ATS who are not dealers be limited to “trading for their own account”?*
  - *To what extent should “subscribers” be considered “clients” of the ATS in its capacity as a dealer?*
- **Order Exposure**
    - UMIR proposes that a client order for 50 “standard trading units” or less must be entered on a marketplace subject to a number of exemptions. An exemption is available if:
      - a Participant executing the client order at a “better price”;
      - a Participant withholding the order if the Participant “determines based on market conditions that entering the order would not be in the best interest of the client”;
      - the order is an Opening Order, Special Terms Order, Volume-Weighted Average Price Order or Market-on-Close Order; and
      - the value of the order exceeds \$100,000 (the threshold proposed in the CSA Trading Rules).
    - Presently, the TSE Rule requires the exposure of client orders for 1,200 shares or less and provides exemptions for certain types of securities (such as preferred shares, limited partnership units and securities trading in US funds).
      - *Comment is requested on the following questions:*
        - *Are the proposed exemptions from the requirement to expose client orders appropriate?*
        - *Is a variable threshold preferable to a fixed dollar amount (e.g. \$100,000 as proposed in the CSA Trading Rules) or fixed share amount (e.g. 1,200 shares as in the present TSE Rules)?*
  - **Client/Principal Trading**
    - UMIR proposes that the requirement to provide clients with a “better price” would apply to client orders for 50 “standard trading units” or less with a value of \$100,000 or less.
    - Presently, the TSE rule applies to an order for 5,000 shares or less (with no cap on the value of the order). The 50 “standard trading unit” requirement would be the same as the present TSE rule for securities trading at \$1.00 or more. The UMIR proposal would increase the threshold to 25,000 shares for

securities at \$0.10 or more and less than \$1.00 and to 50,000 shares for securities trading at less than \$0.10.

- *Comment is requested on the following questions:*
  - *Is it appropriate to retain the \$100,000 “cap” originally proposed in the CSA Trading Rules?*
  - *Is a variable threshold preferable to a fixed dollar amount (e.g. \$100,000 as proposed in the CSA Trading Rules) or fixed share amount (e.g. 5,000 shares as in the present TSE Rules)?*
  
- **Order Designations**
  - UMIR proposes to adopt specific order designation requirements to ensure that orders can be compared between marketplaces. Each marketplace would still be able to establish its own rules with respect to the trading of orders.
  - UMIR requires particular order designations for securities listed on the TSE to ensure that the market-making system is not compromised. An order entered through an ATS may not trade on the TSE under the market-making system (including the Minimum Guaranteed Fill and odd-lot facilities) if the order would not have been eligible to participate in the TSE’s market-making structure if entered directly on the TSE.
  - With the introduction of multiple and competitive marketplaces, UMIR proposes to introduce a requirement that an order to buy or sell a security by an insider or significant shareholder of the issuer of the security be marked at the time of entry.
  - UMIR contemplates that each marketplace may decide whether the identification number assigned to a Participant should be disclosed with the order information in the consolidated market display.
  - *Comment is requested on the following questions:*
    - *Are the proposed order designations and, in particular the requirement to mark orders by insiders and significant shareholders, appropriate?*
    - *Should the marketplace be allowed to decide whether the identification number of Participants is included in the consolidated market display?*
  
- **Best Execution Obligation**
  - UMIR proposes that a Participant diligently pursue the execution of each client order on the most advantageous terms for the client as expeditiously as practicable under prevailing market conditions.

- UMIR also proposes a more specific test in that the Participant must make reasonable efforts to ensure that client orders are executed at the best available price on a marketplace as displayed in the consolidated market display. Special Terms Orders (defined to include orders for less than a standard trading unit and orders subject to a condition or non-standard settlement terms) would not be subject to the best available price obligation unless the order was otherwise immediately tradable. Nonetheless, a Special Terms Order would be subject to the more general “execution obligation”. Special Terms Orders would not be taken into account to establish the best available price.
- *Comment is requested on the following questions:*
  - *Should a Special Terms Order be taken into account to establish the best available price?*
  - *Should a dealer have an obligation imposed under UMIR to check market prices for a particular security trading on exchanges or organized markets outside of Canada before trading the security on a marketplace?*
- **Trading Increments**
  - In order to ensure comparability of orders between marketplaces, UMIR proposes to prohibit orders for part of a share (“fractional shares”) and at a price which includes a fraction or a part of a cent.
  - *Comment is requested on the following questions:*
    - *Should each marketplace be able to determine whether it will trade fractional shares and at prices of less than a cent? Should this depend on the specific type of security being traded?*
    - *Should the matter be determined by the systems capacity of the data consolidator and/or data vendors?*
- **Short Sale Rule**
  - The TSE presently provides that short sales may be undertaken at a price below the last sale on the TSE if undertaken at a price above the last sale on a recognized exchange in the United States.
  - The exemption was not carried over in UMIR for logistical reasons (e.g. in a penny increment trading environment, the application of varying exchange rates between marketplaces and participants would result in an unequal playing field).
  - *Comment is requested on the following questions:*

- *Is a special mechanism required to govern the short sale of securities that are also listed on an exchange or traded on an organized market in the United States?*
  - *What provision, if any, should be made for securities which are listed on exchanges in jurisdictions other than the United States?*
- **Definitions**
    - UMIR would permit an “arbitrage account” to undertake a short sale below the last sale price and to trade ahead of an otherwise undisclosed client order. An arbitrage account has been defined as a principal account that makes a usual practice of trading to take advantage of the difference in the price of securities in different markets or between convertible or exchangeable securities.
    - UMIR proposes that various prices (including last sale price, best ask price and best bid price) and thresholds (Rule 6.3 on Exposure of Client Orders and Rule 8.1 on Client-Principal Trading) be established in part by reference to “standard trading units”. Essentially, the definition incorporates the existing definition of “board lot” used by the TSE and CDNX and also provides that for derivative instruments the standard trading unit will be 1 contract. For securities trading at \$1.00 or more, the standard trading unit is 100 shares.
    - *Comment is requested on the following questions:*
      - *Should the definition of “arbitrage account” be expanded to include client and non-client accounts?*
      - *Is the definition of “standard trading unit” appropriate, and in particular, should less than 100 shares be adopted as a standard trading unit for higher-priced securities (what number at what price level)?*
  - **Continuous/Timely Disclosure**
    - The TSE and CDNX presently require issuers to provide notice to the exchanges prior to the issuance of press releases. This information is used to determine whether a halt should be imposed on trading for the dissemination of the information and as an alert to watch for unusual trading patterns.
    - *Comments are solicited on whether UMIR should be expanded to include specific responsibilities for the Market Regulator in respect of continuous/timely disclosure by issuers of securities that would trade on a marketplace. In particular:*
      - *Should the requirements for disclosure be limited only to the issuers of securities listed on an Exchange or quoted on a recognized quotation and trade reporting system?*

- *Should the disclosure requirements be standard or should each Exchange and recognized quotation and trade reporting system be able to establish their own policy?*
  
- **Negative Commissions/Payment for Order Flow**
  - UMIR incorporates provisions preventing “negative commissions” in the context of trading client orders to ensure the comparability of displayed prices for a security between marketplaces.
  - *Comments are requested on whether “payment for order flow” by a marketplace should be prohibited, restricted or regulated in the context of UMIR.*
  
- **Application to Derivative Instruments**
  - The CSA Trading Rules proposed to extend the requirement for exposing client orders and the restrictions on principal client trading to derivative securities. Presently, the BDM does not have any such requirements or restrictions for the trading of derivative instruments listed on the BDM.
  - UMIR has been drafted to apply the integrity rules (including Rule 6.3 on the Exposure of Client Orders and Rule 8.1 on Client-Principal Trading) to all forms of securities traded on a marketplace.
  - *Comment is specifically requested on the following questions:*
    - *Should trading of derivative instruments on a marketplace be subject to UMIR?*
    - *Should an exemption be granted to BDM from Rule 6.3 and 8.1 to accommodate their current market structure?*
    - *Should there be any other exemptions or additional integrity provisions in connection with the trading of derivative instruments?*
  
- **Application to Debt Securities**
  - The CSA Trading Rules proposed that all of the basic market integrity rules (with the exception of the short sale rule) would apply to the trading of debt securities on a marketplace. However, the July 28, 2000 version of the Marketplace Operation Rule excluded “inter-dealer bond brokers” from the definition of a marketplace.
  - Presently, the “short sale” rules of the CDNX and the TSE apply to the trading of debt securities listed on those exchanges.

- UMIR would apply to the trading of a debt security listed on an Exchange or quoted on a recognized quotation and trade reporting system. UMIR has also been drafted so that it could apply to the trading of a debt security that is not otherwise listed or quoted but which trades on an ATS.
- *Comment is specifically requested on the following questions:*
  - *Should trading of debt securities on a marketplace be subject to UMIR?*
  - *Should an exemption from Rule 3.1 on short selling be granted for trading in debt securities (including listed or quoted debt securities)?*
  - *Should there be any other exemptions or additional integrity provisions in connection with the trading of debt securities?*

## **Questions**

Questions concerning this request for comments may be directed to Maryn Sigurdson, Vice-President, Regulatory Affairs & Corporate Secretary, 1-403-974-7466 or Sandy Jakab-Hancock, Legal Counsel (Policy), 1-604-643-6565.



## Universal Market Integrity Rules for Canadian Marketplaces

### APPENDIX “A”

#### SUMMARY OF OBLIGATIONS OF MARKETPLACES AND PERSONS WITH ACCESS

UMIR Section	Rule Description	Marketplaces		Persons with Access		
		Exchange	ATS	PO/Member	Dealer Subscriber	Non-Dealer Subscriber
<b>Part 2</b>	<b>Manipulative or Deceptive Method of Trade</b>					
2.1	Just and Equitable Principles – requirement to conduct business on a marketplace openly and fairly			v	v	v
2.2	Manipulative or Deceptive Method of Trading – prohibition on certain practices when trading on a marketplace			v	v	v
<b>Part 3</b>	<b>Short Selling</b>					
3.1	Restrictions on Short Selling – restrictions on selling securities short at a price below the last sale price			v	v	v
<b>Part 4</b>	<b>Frontrunning</b>					
4.1	Frontrunning – prohibition on frontrunning client orders			v	v	
<b>Part 5</b>	<b>Best Execution Obligation</b>					
5.1	Best Execution of Client Orders – general obligation to ensure a client order is executed on most advantageous terms			v	v	
5.2	Best Price Obligation – obligation to ensure a client order could not be executed on another marketplace at a better price			v	v	
5.3	Client Priority – priority for client orders over principal and non-client orders			v	v	
<b>Part 6</b>	<b>Order Entry and Exposure</b>					
6.1	Entry of Orders to a Marketplace – establishment of standard trading increments for orders and all orders to be subject to special trading rules issued by an exchange or recognized quotation and trade reporting system	v	v	v	v	v
6.2	Disclosure of Designations and Identifiers – requirement for standard designations and identifiers to be on each order entered on a marketplace	v	v	v	v	v 1
6.3	Exposure of Client Orders – requires client orders below specified size to be immediately entered on a marketplace			v	v	
6.4	Trades to be on a Marketplace – general requirement that trades by dealers and related entities be on a marketplace			v	v	

UMIR Section	Rule Description	Marketplaces		Persons with Access		
		Exchange	ATS	PO/Member	Dealer Subscriber	Non-Dealer Subscriber
<b>Part 7</b>	<b>Trading in a Marketplace</b>					
7.1	Clearing Obligations – requirement that all persons with access to a marketplace have satisfactory clearing and settlement arrangements			v	v	v
7.2	Trading Supervision Obligations – requirement to have written trading policies and procedures, appointment of supervisory staff and review of orders prior to entry to a marketplace			v	v	
7.3	Proficiency Obligations – requirement that persons entering orders to a marketplace have demonstrated proficiency in trading rules and the ATS to have the obligation to ensure Non-Dealer Subscribers are trained in the rules		v 2	v	v	
7.4	Liability for Bids, Offers and Trades – provides that all bids and offers accepted on marketplace become binding contracts and the responsibility for the order and contracts by a Participant or ATS where the order has been entered on the ATS by a Non-Dealer Subscribers		v 3	v	v	
7.5	Contract Record and Official Transaction Record – contract record of marketplace to govern settlement and disputes – obligation of marketplace to provide information on trades to the data consolidator	v	v			
7.6	Record Prices – limits negative commissions on trade with clients			v	v	
7.7	Cancelled Trades – provides that a cancelled trade does not effect validity of subsequent trades	v	v	v	v	v
7.8	Restrictions on Trading by a Participant Involved in a Distribution – restricts trading in a listed security or quoted on a marketplace by an underwriter			v	v	
7.9	Restrictions on Trading During a Securities Exchange Take-over Bid – restricts transactions by a dealer-manager on a marketplace in a security offered as consideration under a take-over bid			v	v	
7.10	Trading in Listed or Quoted Securities by Market Makers and Specialists – requires compliance with additional requirements of any exchange or recognized quotation and trade reporting system			v	v	
<b>Part 8</b>	<b>Principal Trading</b>					
8.1	Client-Principal Trading – general obligation of a dealer when trading a client order against a principal or non-client order			v	v	
<b>Part 9</b>	<b>Trading Halts, Delays and Suspensions</b>					
9.1	Trading Halts, Delays and Suspensions – establishes uniform provisions for halts, delays and suspensions to be observed on all marketplaces	v	v	v	v	v

UMIR Section	Rule Description	Marketplaces		Persons with Access		
		Exchange	ATS	PO/Member	Dealer Subscriber	Non-Dealer Subscriber
<b>Part 10</b>	<b>Compliance</b>					
10.1	Enforcement and Compliance – general requirement to comply with UMIR and framework for enforcement proceedings			v	v	v 4
10.2	Extension of Restrictions – extends the application of certain rules to related entities of persons with market access and to directors, officers, partners and employees of the person with access and related entities			v	v	v
10.3	Power of Market Integrity Officials – provides the general power required to administer UMIR and regulate the marketplaces	v	v	v	v	v
10.4	Report of Short Positions – requirement to provide information on short positions to the Market Regulator			v	v	v
10.5	Audit Trail Requirements – requirement that each dealer record and provide information on each order entered to a marketplace to the Market Regulator and for each dealer and Non-Dealer Subscriber to provide such additional information as may be required regarding the trade or prior or subsequent orders for the same security or a related security			v	v	v 5
10.6	Retention and Inspection of Records and Instructions – requirement that dealers retain records of orders and that dealers and Non-Dealer Subscriber allow an appropriate Market Regulator to inspect the records			v	v	v 6
10.7	Exchange and Provision of Information by Market Regulators – requires Market Regulators to provide information and assistance to other regulatory entities for the administration and enforcement of the rules	v	v			
10.8	Synchronization of Clocks – requires all marketplaces and participants to synchronize clocks for the recording of data	v	v	v	v	
10.9	Assignment of Identifiers and Symbols – provides a mechanism for the assignment of unique identifiers to marketplaces and dealers and for unique symbols to securities which are eligible to trade on a marketplace	v	v	v	v	v
<b>Part 11</b>	<b>Administration of Rules</b>					
11.1	General Exemptive Relief – provides each Market Regulator with the power to exempt a particular person or transaction from the application of a rule	v	v	v	v	v
11.2	General Prescriptive Power – provides each Market Regulator with the power to make a policy to aid in the administration of a rule	v	v	v	v	v
11.3	Review of Market Regulator Decisions - any decision of a Market Regulator or Market Integrity Official may be reviewed by a securities regulatory authority	v	v	v	v	v

**Notes:** Certain provisions of UMIR would have a limited application to either ATs or Non-Dealer Subscribers. In particular:

1. Rule 6.2 – Certain order designations are applicable to dealers only (such as the requirement to mark a principal order, non-client order, jitney order etc.). Non-Dealer Subscribers would be required to mark orders as to type, including whether the order is a short sale, and whether the Non-Dealer Subscriber is an insider or significant shareholder of the security subject to the order.
2. Rule 7.3 – An ATS would be under an obligation ensure that a Non-Dealer Subscriber has been trained in the Rules.
3. Rule 7.4 – An ATS has responsibility for all trades arising from orders entered through the ATS subject to the obligation of a Non-Dealer Subscriber for compliance with the requirements of the Rules and each Policy.
4. Rule 10.1 – For failure to comply with the requirements of the Rules, the penalties which may be imposed on a Non-Dealer Subscriber are more limited in scope than those which would apply to a member or a participating organization of an Exchange.
5. Rule 10.5 – A Non-Dealer Subscriber is not required to maintain or to transmit an electronic record of an order to a Market Regulator. A Non-Dealer Subscriber is under an obligation to provide to the Market Regulator of the marketplace on which an order was entered or executed certain information respecting that order or trade or other prior or subsequent orders or trades in the same security or a related security.
6. Rule 10.6 - A Non-Dealer Subscriber is not required to maintain specific records of each order. However, the Market Regulator of the marketplace on which an order was entered or executed may inspect any records which are maintained by the Non-Dealer Subscriber regarding an order or trade.



## *Universal Market Integrity Rules for Canadian Marketplaces*

### APPENDIX “B”

#### TEXT OF THE UNIVERSAL MARKET INTEGRITY RULES

##### PART 1 – DEFINITIONS AND INTERPRETATION

###### 1.1 Definitions

In these Rules, unless the subject matter or context otherwise requires:

“**arbitrage account**” means a principal account in which the holder makes a usual practice of buying and selling:

- (a) securities in different markets to take advantage of differences in prices available in each market; or
- (b) securities which are or may become convertible or exchangeable by the terms of the securities or operation of law into other securities in order to take advantage of differences in prices between the securities.

“**BDM**” means the Bourse de Montréal Inc.

“**best ask price**” means the lowest price of an order on any marketplace as displayed in the consolidated market display to sell a particular security, but does not include the price of any Special Terms Order.

“**best bid price**” means the highest price of an order on any marketplace as displayed in the consolidated market display to buy a particular security, but does not include the price of any Special Terms Order.

“**better price**” means, in respect of a particular security:

- (a) a price lower than the best ask price, in the case of a purchase; and
- (b) a price higher than the best bid price, in the case of a sale.

“**CDNX**” means the Canadian Venture Exchange Inc.

“**client order**” means an order for the purchase or sale of a security received or originated by a Participant for the account of a client of the Participant or a client of an affiliated entity of the Participant, but does not include a principal order or a non-client order.

**“derivative market maker account”** means the account of a person who performs the function ordinarily associated with a market maker or specialist on the BDM in connection with a derivative instrument.

**“Exchange”** means:

- (a) the BDM;
- (b) the CDNX;
- (c) the TSE; and
- (d) a person recognized by the applicable securities regulatory authority under securities legislation to carry on business as an exchange.

**“hedge”** means the purchase or sale of a security by a person to offset, in whole or in part, the risk assumed on a prior purchase or sale or to be assumed on a subsequent purchase or sale of that security or a related security.

**“insider”** means a person who is an insider of an issuer for the purpose of applicable securities legislation.

**“intentional cross”** means a trade resulting from the entry by a Participant of both the order to purchase and the order to sell a security, but does not include a trade in which the Participant has entered one of the orders as a jitney order.

**“internal cross”** means an intentional cross between two client accounts of a Participant which are managed by a single firm acting as a portfolio manager with discretionary authority to manage the investment portfolio granted by each of the clients and includes a trade where the Participant is acting as a portfolio manager in authorizing the trade between the two client accounts.

**“jitney order”** means an order entered on a marketplace by a Participant acting for or on behalf of another Participant.

**“last sale price”** means the price of the last sale of at least one standard trading unit of a particular security displayed in the consolidated market display.

**“limit order”** means an order to:

- (a) buy a security to be executed at a specified maximum price; or
- (b) sell a security to be executed at a specified minimum price.

**“listed security”** means a security listed on an Exchange.

**“market order”** means an order to:

- (a) buy a security to be executed upon entry to a marketplace at the best ask price; or
- (b) sell a security to be executed upon entry to a marketplace at the best bid price.

**“Market-on-Close Order”** means an order for the purchase or sale of a security:

- (a) received by a Participant during a Regular Session of an Exchange to execute at the closing price of the listed security in the Regular Session on that Exchange on that trading day; or
- (b) entered on a special facility operated by a marketplace for the purpose of calculating and executing at the closing price of the security on that marketplace.

**“Market Regulator”** means:

- (a) in respect of the TSE, [RS Inc.];
- (b) in respect of the CDNX, [RS Inc.];
- (c) in respect of the BDM, the Regulatory Division of BDM; and
- (d) in respect of any other marketplace, the person approved by the applicable securities regulatory authority to administer these Rules in connection with trades in that marketplace.

**“Market Integrity Official”** means an employee of a Market Regulator designated by the Market Regulator to exercise the powers of the Market Regulator under these Rules.

**“non-client order”** means an order for the purchase or sale of a security received or originated by a Participant for an account:

- (a) for a partner, director, officer or a person holding a similar position or acting in a similar capacity of the Participant or of a related entity of the Participant;
- (b) for an employee of the Participant or of a related entity of the Participant who holds approval from an Exchange or a self-regulatory entity; or
- (c) which is considered to be an employee account or a non-client account by a self-regulatory entity, but does not include a principal account.

**“net cost”** means the amount by which the sum of the total cost of the trade on the purchase of securities based on the purchase price on the marketplace and any commission charged to the client by the Participant exceeds the amount of any allowance, discount, rebate and any other benefit with a monetary value that is allowed to the client on the trade by the Participant or any other person.

**“net proceeds”** means the amount by which the sum of the total proceeds of the trade on the sale of securities based on the sale price on the marketplace and the amount of any allowance, discount, rebate and other benefit with a monetary value that is allowed to the client on the trade by the Participant or any other person exceeds any commission charged to the client by the Participant.

**“Non-Dealer Subscriber”** means a subscriber who is not:

- (a) registered as a dealer under the securities legislation of any jurisdiction; or
- (b) a related entity of a Participant.

**"offered security"** means the security offered in a securities exchange take-over bid.

**"Opening Order"** means an order for the purchase or sale of a security:

- (a) entered by a Participant prior to a Regular Session of an Exchange to execute at the opening price of the listed security in the Regular Session on that Exchange on that trading day; or
- (b) entered on a special facility operated by a marketplace for the purpose of calculating and executing the opening price of the security on that marketplace.

**"Participant"** means:

- (a) a dealer registered in accordance with securities legislation of any jurisdiction and who is:
  - (i) an Approved Participant of the BDM,
  - (ii) a Member or Participating Organization of the CDNX,
  - (iii) a Participating Organization of the TSE,
  - (iv) a subscriber; or
- (b) a person who has been granted trading access to a marketplace and who performs the functions ordinarily associated with a market maker, specialist or restricted permit holder on the BDM.

**"Policy"** means a policy statement adopted by a Market Regulator in connection with the administration or application of these Rules as such policy statement is amended, supplemented and in effect from time to time.

**"principal account"** means an account in which a Participant or a related entity of the Participant holds a direct or indirect interest other than an interest in the commission charged on a transaction.

**"principal order"** means an order for the purchase or sale of a security received or originated by a Participant for a principal account.

**"quoted security"** means a security quoted on a recognized quotation and trade reporting system.

**"Regular Session"** means the time period during a trading day when an Exchange is ordinarily open for trading, but does not include any extended or special trading facility of the Exchange.

**“related entity”** means, in respect of a particular person:

- (a) an affiliated entity of the particular person which carries on business in Canada and is registered as a dealer or adviser in accordance with applicable securities legislation; and
- (b) a person who has been designated by a Market Regulator in accordance with Rule 10.2(3) as a person who acts in conjunction with the particular person.

**“related security”** means, in respect of a particular security:

- (a) a security which is convertible or exchangeable into the particular security;
- (b) a security into which the particular security is convertible or exchangeable;
- (c) a derivative instrument for which the particular security is the underlying interest;
- (d) a derivative instrument for which the market price varies materially with the market price of the particular security; and
- (e) if the particular security is a derivative instrument, a security which is the underlying interest of the derivative instrument or a significant component of an index which is the underlying interest of the derivative instrument.

**"restricted person"** means, in respect of a securities exchange take-over bid:

- (a) the Participant appointed by the offeror to be dealer-manager or manager in respect of such securities exchange take-over bid;
- (b) a related entity of the Participant;
- (c) a partner, director, officer or a person holding a similar position or acting in a similar capacity, of the Participant or of a related entity of the Participant; or
- (d) an employee of the Participant or of a related entity of the Participant who has been granted approval from an Exchange or a self-regulatory entity.

**"Rules"** means these Universal Market Integrity Rules as amended, supplemented and in effect from time to time.

**“securities exchange take-over bid”** means a take-over bid where the consideration for the securities of the offeree is to be, in whole or in part, securities traded on a marketplace.

**“short sale”** means a sale of a security, other than a derivative instrument, which the seller does not own either directly or through an agent or trustee and, for this purpose, a seller shall be considered to own a security if the seller:

- (a) has purchased or has entered into an unconditional contract to purchase the security, but has not yet received delivery of the security;

- (b) has tendered such other security for conversion or exchange or has issued irrevocable instructions to convert or exchange such other security;
- (c) has an option to purchase the security and has exercised the option;
- (d) has a right or warrant to subscribe for the security and has exercised the right or warrant; or
- (e) is making a sale of a security that trades on a when issued basis and the seller has entered into a contract to purchase such security which is binding on both parties and subject only to the condition of issuance of distribution of the security,

but a seller shall be considered not to own a security if:

- (f) the seller has borrowed the security to be delivered on the settlement of the trade and the seller is not otherwise considered to own the security in accordance with this definition; or
- (g) the security held by the seller is subject to any restriction on sale imposed by applicable securities legislation or by an Exchange or recognized quotation and trading reporting system as a condition of the listing or quoting of the security.

**“significant shareholder”** means any person holding separately, or in combination with other persons, more than 20 per cent of the outstanding voting securities of an issuer.

**“Special Terms Order”** means an order for the purchase or sale of a security:

- (a) for less than a standard trading unit;
- (b) the execution of which is subject to a condition other than as to price or date of settlement; or
- (c) that on execution would be settled on a date other than:
  - (i) the third business day following the date of the trade, or
  - (ii) any settlement date specified in a special rule or direction referred to in Rule 6.2(2) that is issued by an Exchange or recognized quotation and trade reporting system.

**“standard trading unit”** means, in respect of:

- (a) a derivative instrument, 1 contract;
- (b) a debt security, \$1,000 in principal amount;
- (c) any equity or similar security:
  - (i) 1,000 units of a security trading at less than \$0.10 per unit,

- (ii) 500 units of a security trading at \$0.10 or more per unit and less than \$1.00 per unit, and
- (iii) 100 units of a security trading at \$1.00 or more per unit;
- (d) a particular listed security or class of listed securities, such other number of units of the security as may be specified from time to time by the Exchange on which such security is listed; or
- (e) a particular quoted security or class of quoted securities, such other number of units of the security as may be specified from time to time by the quotation and trade reporting system on which such security is quoted.

**“trades on a when issued basis”** means purchases or sales of a security to be issued pursuant to:

- (a) a prospectus offering where a receipt for the final prospectus for the offering has been issued by the applicable securities regulatory authority but the offering has not closed and settled;
- (b) a proposed plan of arrangement, an amalgamation or a take-over bid prior to the effective date of the amalgamation or the arrangement or the expiry date of the take-over bid; or
- (c) any other transaction that is subject to the satisfaction of certain conditions, and the trade is to be settled only if the security is issued and the trade in the security prior to the issuance would not contravene the applicable securities legislation.

**“trading day”** means a calendar day during which trades are executed on a marketplace.

**“TSE”** means The Toronto Stock Exchange Inc.

**“Volume-Weighted Average Price Order”** means an order for the purchase or sale of a security:

- (a) entered by a Participant prior to a Regular Session of an Exchange to be executed at an average price of the listed security traded on that Exchange during that Regular Session weighted in accordance with the volume traded at each price increment; or
- (b) entered on a special facility operated by a marketplace for the purpose of executing trades at an average price of the security traded on that marketplace.

## 1.2 Interpretation

- (1) Unless otherwise defined or interpreted, every term used in these Rules that is:
  - (a) defined in subsection 1.1(3) of National Instrument 14-101 – Definitions has the meaning ascribed to it in that subsection;
  - (b) defined or interpreted in National Instrument 21-101 – Marketplace Operation has the meaning ascribed to it in that National Instrument; and
  - (c) a reference to a requirement of an Exchange or a recognized quotation and trade reporting system shall have the meaning ascribed to it in the applicable by-law, rule or policy of the Exchange or recognized quotation and trade reporting system.
- (2) For the purposes of these Rules, the following terms shall be as defined by applicable securities legislation except that:

“**person**” includes any corporation, incorporated association, incorporated syndicate or other incorporated organization.

“**trade**” includes a purchase or acquisition of a security for valuable consideration.
- (3) In determining the value of an order for the purposes of Rule 6.3 and 8.1, the value shall be calculated as of the time of the receipt or origination of the order and shall be calculated by multiplying the number of units of the security to be bought or sold under the order by :
  - (a) in the case of a limit order for the purchase of a security, the specified maximum price in the order;
  - (b) in the case of a limit order for the sale of a security, the specified minimum price in the order;
  - (c) in the case of a market order for the purchase of a security, the best ask price; and
  - (d) in the case of a market order for the sale of a security, the best bid price.
- (4) For the purposes of determining the “last sale price”, if a sale of at least a standard trading unit of a particular security has not been previously displayed in the consolidated market display the last sale price shall be deemed to be the price:
  - (a) of the last sale of the security on an Exchange, if the security is a listed security;
  - (b) of the last sale of the security on a recognized quotation and trade reporting system, if the security is a quoted security;

- (c) at which the security has been issued or distributed to the public, if the security has not previously traded on a marketplace;
  - (d) which has been accepted by a Market Regulator, in any other circumstance.
- (5) For the purposes of determining the price at which a security is trading for the purposes of the definition of a “standard trading unit”, the price shall be the last sale price of the particular security on the immediately preceding trading day.

## **PART 2 – MANIPULATIVE OR DECEPTIVE METHOD OF TRADING**

### **2.1 Just and Equitable Principles**

A Participant or Non-Dealer Subscriber shall transact business openly and fairly and in accordance with just and equitable principles of trade when:

- (a) trading on a marketplace; or
- (b) trading or otherwise dealing in securities which are eligible to be traded on a marketplace.

### **2.2 Manipulative or Deceptive Method of Trading**

- (1) A Participant or Non-Dealer Subscriber shall not, directly or indirectly, use nor knowingly facilitate nor participate in the use of any manipulative or deceptive method of trading in connection with the entry of an order or orders to trade on a marketplace for the purchase or sale of any security which creates or which could reasonably be expected to create a false or misleading appearance of trading activity or an artificial price for the security or a related security.
- (2) Without limiting the generality of subsection (1), the following activities when undertaken on a marketplace constitute deceptive and manipulative methods of trading:
  - (a) making a fictitious trade;
  - (b) effecting a trade in a security which involves no change in the beneficial or economic ownership;
  - (c) effecting trades by a single interest or group with the intent of limiting the supply of a security for settlement of trades made by other persons except at prices and on terms arbitrarily dictated by such interest or group; and
  - (d) purchasing a security with the intention of making a sale of the same or a different number of units of the security or a related security on a

marketplace at a price which is below the price of the last sale of a standard trading unit of such security displayed in the consolidated market display.

- (3) Without limiting the generality of subsection (1), the following activities shall be considered deceptive and manipulative methods of trading when undertaken on a marketplace with the intention of creating a false or misleading appearance of trading activity or an artificial price for a security or a related security:
  - (a) entering an order or orders for the purchase of a security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the sale of that security, has been or will be entered by or for the same or different persons;
  - (b) entering an order or orders for the sale of a security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the purchase of that security, has been or will be entered;
  - (c) making purchases of, or offers to purchase, a security at successively higher prices;
  - (d) making sales of or offers to sell a security at successively lower prices;
  - (e) entering an order or orders for the purchase or sale of a security to:
    - (i) establish a predetermined price or quotation,
    - (ii) effect a high or low closing price or closing quotation, or
    - (iii) maintain the trading price, ask price or bid price within a predetermined range; and
  - (f) entering a series of orders for a security that are not intended to be executed.
- (4) A price will be considered artificial if the price is not justified by real demand or supply in a security.
- (5) For the purposes of subsection (4), a price in a security may be considered not justified by real demand or supply if:
  - (a) the price is higher or lower than the previous price and the market immediately returns to the previous price following the trade; and
  - (b) the bid price is raised or the ask price is lowered by an order which, at the time of entry, is the only order at that price and the order is cancelled prior to trading.

## **PART 3 – SHORT SELLING**

### **3.1 Restrictions on Short Selling**

- (1) Except as otherwise provided, a Participant or Non-Dealer Subscriber shall not make a short sale of a security on a marketplace unless the price is at or above the last sale price.
- (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:
  - (a) a program trade in accordance with the requirements of an Exchange;
  - (b) for the account of the Responsible Registered Trader and made in accordance with the requirements of the TSE;
  - (c) for the account of the market maker for the security on a recognized quotation and trade reporting system and is made in accordance with the requirements of that recognized quotation and trade reporting system;
  - (d) for an arbitrage account and the seller knows or has reasonable grounds to believe that an offer enabling the seller to cover the sale is then available and the seller intends to accept such offer immediately;
  - (e) for a derivative market maker account and is made:
    - (i) in accordance with the market making obligations of the seller in connection with the security or a related security, and
    - (ii) to hedge a pre-existing position in the security or a related security;or
  - (f) the first sale of the security on any marketplace made on an ex-dividend, ex-rights or ex-distribution basis and the price of the sale is not less than the last sale price reduced by the cash value of the dividend, right or other distribution.

## **PART 4 - FRONTRUNNING**

### **4.1 Frontrunning**

- (1) A Participant with knowledge of a client order that on entry could reasonably be expected to affect the market price of a security, shall not, prior to the entry of such client order,
  - (a) enter a principal order or a non-client order on a marketplace, stock exchange or market, including any over-the-counter market, for the purchase or sale of the security or any related security;

- (b) solicit an order from any other person for the purchase or sale of the security or any related security; or
  - (c) inform any other person, other than in the necessary course of business, of the client order.
- (2) A Participant does not contravene subsection (1) if:
- (a) no director, officer, partner, employee or agent of the Participant who made or participated in making the decision to enter a principal order or to solicit an order had actual knowledge of the client order;
  - (b) an order is entered or trade made for the benefit of the client for whose account the order is to be made;
  - (c) an order is solicited to facilitate the trade of the client order;
  - (d) a principal order is entered to hedge a position that the Participant had assumed or agreed to assume before having actual knowledge of the client order provided the hedge is:
    - (i) commensurate with the risk assumed by the Participant, and
    - (ii) entered into in accordance with the ordinary practice of the Participant when assuming or agreeing to assume a position in the security;
  - (e) a principal order is made to fulfil a legally binding obligation entered into by the Participant before having actual knowledge of the client order; or
  - (f) the order is entered for an arbitrage account.

## **PART 5 – BEST EXECUTION OBLIGATION**

### **5.1 Best Execution of Client Orders**

A Participant shall diligently pursue the execution of each client order on the most advantageous terms for the client as expeditiously as practicable under prevailing market conditions.

### **5.2 Best Price Obligation**

- (1) A Participant shall make reasonable efforts prior to the execution of a client order to ensure that:
- (a) in the case of an offer by the client, the order is executed at the best bid price; and

- (b) in the case of a bid by the client, the order is executed at the best ask price.
- (2) Subsection (1) does not apply to the execution of an order which is:
- (a) required or permitted by a Market Regulator to be executed other than on a marketplace in order to maintain a fair or orderly market;
  - (b) a Special Terms Order unless:
    - (i) the security is a listed security or quoted security and the rules of the Exchange or recognized quotation and trade reporting system governing the trading of a Special Terms Order provide otherwise, or
    - (ii) the order could be executed in whole, according to the terms of the order, on a marketplace or with a market maker displayed in the consolidated market display;
  - (c) a Volume-Weighted Average Price Order;
  - (d) a Market-on-Close Order; or
  - (e) an Opening Order.
- (3) For the purposes of subsection (1), the Participant may take into account any transaction fees that would be payable to the marketplace in connection with the execution of the order as set out in the schedule of transaction fees disclosed to the data consolidator.

### **5.3 Client Priority**

- (1) A Participant shall give priority to a client order of the Participant over all principal orders and non-client orders of the Participant for the same security at the same price on the same side of the market which are received, originated or entered on a marketplace after the receipt of the client order.
- (2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:
- (a) the client specifically has consented to the Participant entering principal orders and non-client orders for the same security at the same price on the same side of the market; or
  - (b) the client order has not been entered on a marketplace as a result of:
    - (i) the client specifically instructing the Participant to deal otherwise with the particular order,
    - (ii) the client specifically granting discretion to the Participant with respect to entry of the order, or

- (iii) the Participant determining, based on market conditions, that entering the order would not be in the best interests of the client, and no director, officer, partner, employee or agent of the Participant with knowledge that the client order has not been entered on a marketplace enters a principal order or a non-client order for the same security on the same side of the market.

## **PART 6 – ORDER ENTRY AND EXPOSURE**

### **6.1 Entry of Orders to a Marketplace**

- (1) No order to purchase or sell a security shall be entered to trade on a marketplace at a price that includes a fraction or a part of a cent.
- (2) Each order to purchase or sell a listed security or a quoted security entered to trade on a marketplace shall be subject to any special rule or direction issued by the Exchange on which the security is listed or by the recognized quotation and trade reporting system on which the security is quoted with respect to:
  - (a) clearing and settlement; and
  - (b) entitlement of the purchaser to receive a dividend, interest or any other distribution made or right given to holders of that security.

### **6.2 Disclosure of Designations and Identifiers**

- (1) Each order entered on a marketplace shall contain:
  - (a) the identifier of:
    - (i) the Participant entering the order as assigned to the Participant in accordance with Rule 10.9, or
    - (ii) the ATS on which the order is entered as assigned to the ATS in accordance with Rule 10.9, if the order has been entered by a Non-Dealer Subscriber;
  - (b) a designation acceptable to the Market Regulator for the marketplace on which the order is entered, if the order is:
    - (i) an Opening Order,
    - (ii) a Market-on-Close Order,
    - (iii) a Special Terms Order,
    - (iv) a Volume-Weighted Average Price Order,
    - (v) a short sale,

- (vi) part of a program trade in accordance with the requirements of an Exchange,
  - (vii) a non-client order,
  - (viii) a principal order,
  - (ix) a jitney order,
  - (x) part of an intentional cross,
  - (xi) for a derivative market maker account,
  - (xii) for the account of a person who is an insider of the issuer of the security which is the subject of the order,
  - (xiii) for the account of a person who is a significant shareholder of the issuer of the security which is the subject of the order, or
  - (xiv) of a type for which the Market Regulator may from time to time require a specific or particular designation; and
- (c) if the order is for the purchase or sale of a security listed on the TSE, a designation acceptable to [RS Inc.], if the order is, in accordance with the requirements of the TSE:
- (i) for the account of a Registered Trader,
  - (ii) an internal cross,
  - (iii) ineligible to participate in the Minimum Guaranteed Fill facility, or
  - (iv) of a type for which [RS Inc.] may from time to time require a specific or particular designation.
- (2) If the order entered on a marketplace is a Special Terms Order, the order shall contain, in addition to all designations and identifiers required by subsection (1), information in such form as is acceptable to the Market Regulator of the marketplace on which the order is entered respecting:
- (a) any condition on the execution of the order; and
  - (b) the settlement date.
- (3) If following the entry of an order on a marketplace for the sale of security that has not been designated as a short sale such order would become a short sale on execution, the order shall be modified to include the short sale designation required by subsection (1).
- (4) Each order entered on a marketplace including all designations and identifiers required by subsection (1) shall be disclosed to each Market Regulator.

- (5) The marketplace on which the order is entered shall determine if the identifier of the Participant or the ATS shall be displayed in the consolidated market display.

### **6.3 Exposure of Client Orders**

- (1) A Participant shall immediately enter on a marketplace a client order to purchase or sell 50 standard trading units or less of a security unless:
  - (a) the client has specifically instructed the Participant to deal otherwise with the particular order;
  - (b) the Participant executes the order upon receipt at a better price;
  - (c) the Participant returns the order for confirmation of the terms of the order;
  - (d) the Participant withholds the order pending confirmation that the order complies with applicable securities requirements or, if applicable, the requirements of any Exchange on which the security is listed or of any recognized quotation and trade reporting system on which the security is quoted;
  - (e) the Participant determines based on market conditions that entering the order would not be in the best interests of the client;
  - (f) the order has a value of more than \$100,000;
  - (g) the order is part of a trade to be made in accordance with Rule 6.4 by means other than entry on a marketplace; or
  - (h) the order is:
    - (i) an Opening Order,
    - (ii) a Special Terms Order,
    - (iii) a Volume-Weighted Average Price Order,
    - (iv) a Market-on-Close Order, or
    - (v) part of a wide distribution made in accordance with the requirements of the TSE.
- (2) If a Participant withholds a client order from entry based on market conditions in accordance with clause (1)(e), the Participant may enter the order in parts over a period of time or adjust the terms of the order prior to entry but the Participant must guarantee that the client receives:
  - (a) a price at least as good as the price the client would have received if the client order had been executed on receipt by the Participant; and

- (b) if the Participant executes the client order against a principal order or non-client order, a better price than the price the client would have received if the client order had been executed on receipt by the Participant.

#### 6.4 Trades to be on a Marketplace

A Participant acting as principal or agent may not trade nor participate in a trade in a security by means other than the entry of an order on a marketplace unless the trade is:

- (a) **Unlisted or Non-Quoted Security** - in a security which is not a listed security or a quoted security;
- (b) **Regulatory Exemption** – required or permitted by a Market Regulator to be executed other than on a marketplace in order to maintain a fair or orderly market and provided, in the case of a listed security or quoted security, the Market Regulator requiring or permitting the order to be executed other than on a marketplace shall be the Market Regulator of the Exchange on which the security is listed or of the recognized quotation and trade reporting system on which the security is quoted;
- (c) **Error Adjustment** - to adjust by a journal entry an error in connection with a client order;
- (d) **On Another Market** – on another exchange or organized regulated market that publicly disseminates details of trades in that market;
- (e) **Outside of Canada** – as principal with a non-Canadian account or as agent if both the purchaser and seller are non-Canadian accounts provided such trade is reported to an Exchange or to a stock exchange or organized regulated market that publicly disseminates details of trades in that market;
- (f) **Term of Securities** – as a result of a redemption, retraction, exchange or conversion of a security in accordance with the terms attaching to the security;
- (g) **Options** – as a result of the exercise of an option, right, warrant or similar pre-existing contractual arrangement;
- (h) **Prospectus and Exempt Distributions** – pursuant to a prospectus, take-over bid, issuer bid, amalgamation, arrangement or similar transaction including any distribution of previously unissued securities by an issuer.

## **PART 7 – TRADING IN A MARKETPLACE**

### **7.1 Clearing Obligations**

- (1) Each Participant and Non-Dealer Subscriber shall:
  - (a) at the time of the entry to a marketplace of an order for the purchase or sale of a security other than a derivative instrument:
    - (i) be a participant of Canadian Depository for Securities Limited, or
    - (ii) have entered into an arrangement for the clearing and settlement of trades with a person which is a participant of the Canadian Depository for Securities Limited and such arrangement shall be in a form which is satisfactory to the Canadian Depository for Securities Limited; and
  - (b) at the time of the entry to a marketplace of an order for the purchase or sale of a derivative instrument:
    - (i) be a member of Canadian Derivatives Clearing Corporation, or
    - (ii) have entered into an arrangement for the clearing and settlement of trades with a person which is a member of the Canadian Derivatives Clearing Corporation and such arrangement shall be in a form which is satisfactory to the Canadian Derivatives Clearing Corporation.
- (2) A marketplace shall not permit a Participant or Non-Dealer Subscriber to enter an order for the purchase or sale of a security on that marketplace, if the Participant or Non-Dealer Subscriber is not in compliance with the requirements of subsection (1).

### **7.2 Trading Supervision Obligations**

- (1) Each Participant shall adopt written policies and procedures to be followed by directors, officers, partners and employees of the Participant which are adequate, taking into account the business and affairs of the Participant, to ensure compliance with these Rules and each Policy.
- (2) Prior to the entry of an order on a marketplace by a Participant, the Participant shall comply with:
  - (a) applicable regulatory standards with respect to the review and approval of orders;
  - (b) the policies and procedures adopted in accordance with subsection (1);
  - (c) all requirements of these Rules and each Policy.

- (3) Each Participant shall appoint a head of trading who shall be responsible to supervise the trading activities of the Participant in a marketplace.
- (4) The head of trading together with each person who has authority or supervision over or responsibility to the Participant for an employee of the Participant shall fully and properly supervise such employee as necessary to ensure the compliance of the employee with these Rules and each Policy.

### **7.3 Proficiency Obligations**

- (1) No order to purchase or sell a security shall be entered by a Participant on a marketplace unless the Participant or the director, officer, partner or employee of the Participant entering the order or responsible for the order has:
  - (a) completed the Trader Training Course of the Canadian Securities Institute;
  - (b) received approval of an Exchange for the entry of orders to the trading system of the Exchange; or
  - (c) completed such course, examination or other means of demonstrating proficiency in these Rules and Policies as may be acceptable to the Market Regulator of the marketplace on which the order is entered or the applicable securities regulatory authority.
- (2) An ATS shall ensure that each Non-Dealer Subscriber of the ATS is trained in these Rules and Policies.
- (3) Training materials which an ATS proposes to use for the purposes of subsection (2) must be approved by the Market Regulator of the ATS prior to use.

### **7.4 Liability for Bids, Offers and Trades**

- (1) All bids and offers for securities made and accepted on a marketplace shall be binding and all contracts thereby effected shall be subject to the exercise by the marketplace on which the trade is executed of the powers vested in the marketplace and the Market Regulator of that marketplace.
- (2) A Participant shall be responsible for all bids and offers that are entered into, or arise by operation of the trading system of a marketplace and that originate from any terminal or computer system allowing access to trading on the marketplace that is operated by or is under the control of that Participant whether or not the Participant has authorized the entry of the order.

- (3) Subject to the obligation of a Non-Dealer Subscriber for compliance with these Rules and each Policy, an ATS shall be responsible for all bids and offers that are entered into, or arise by operation of the trading system of the ATS and that originate from any terminal or computer system allowing access to trading on the ATS that is operated by or is under the control of the Non-Dealer Subscriber of that ATS whether or not the Non-Dealer Subscriber has authorized the entry of the order.

## **7.5 Contract Record and Official Transaction Record**

- (1) The electronic record of a trade in a security as maintained by the data consolidator is the official transaction record for the purpose of determining:
  - (a) best ask price;
  - (b) best bid price; and
  - (c) last sale price.
- (2) Despite subsection (1), the electronic record of a trade in a security as maintained by the marketplace on which the trade occurred shall be the record of the contract made on that trade and in the event of a dispute between parties to the contract or discrepancy with the records of the clearing agency effect shall be given to the record of the marketplace.
- (3) Each marketplace shall provide to the data consolidator information respecting each cancellation, variation or correction of a trade as soon as practicable after the cancellation, variation or correction has been made to the record of the contract as maintained by the marketplace and the data consolidator shall amend the official transaction record accordingly.

## **7.6 Recorded Prices**

- (1) No Participant acting as agent shall execute a transaction through a marketplace in which the price recorded on the marketplace is:
  - (a) in the case of a purchase by a client, higher than the net cost to the client; or
  - (b) in the case of a sale by a client, lower than the net proceeds to the client.
- (2) No Participant acting as principal shall execute a transaction through a marketplace in which the price recorded on the marketplace is:
  - (a) in the case of a sale to a client, lower than the net cost to the client by more than the usual agency commission that would be charged by that Participant to that client for an order of the same size; and

- (b) in the case of a purchase from a client, higher than the net proceeds to the client by more than the usual agency commission that would be charged by that Participant to that client for an order of the same size.

### **7.7 Cancelled Trades**

If a trade is cancelled, a subsequent trade on any marketplace which was:

- (a) executed as a result of the price of the cancelled trade; or
- (b) permitted only as a result of the price of the cancelled trade,

shall stand unless cancelled by the consent of the buyer and the seller or by a Market Integrity Official who is of the opinion that the cancellation of the subsequent trade is appropriate under the circumstances.

### **7.8 Restrictions on Trading by a Participant Involved in a Distribution**

If a Participant is involved in the distribution of a listed security or quoted security as an underwriter, the Participant shall comply with any restriction or prohibition on the trading of the security and any related security during the distribution as established by the requirements of the Exchange on which the security is listed or the recognized quotation and trade reporting system on which the security is quoted.

### **7.9 Restrictions on Trading During a Securities Exchange Take-over Bid**

- (1) A restricted person shall not bid for nor purchase the offered security at any time from the first public announcement of a securities exchange take-over bid until the termination of the period during which securities may be deposited under such bid, including any extension thereof, or the bid is withdrawn.
- (2) Despite subsection (1), a restricted person may bid for or purchase the offered security as agent for an unsolicited client order provided the client is not:
  - (a) the offeror;
  - (b) an insider of the offeror; or
  - (c) an associate or affiliated entity of the offeror.

### **7.10 Trading in Listed or Quoted Securities by Market Makers and Specialists**

A Participant who performs the function ordinarily associated with a market maker, specialist or restricted permit holder on the BDM shall comply when trading on any marketplace with such additional requirements as may be required by:

- (a) an Exchange when trading on that Exchange in listed securities; and
- (b) a recognized quotation and trade reporting system when trading on that recognized quotation and trade reporting system in quoted securities.

## **PART 8 – PRINCIPAL TRADING**

### **8.1 Client-Principal Trading**

- (1) A Participant that receives a client order for 50 standard trading units or less of a security with a value of \$100,000 or less may execute the client order against a principal order or non-client order at a better price provided the Participant has taken reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market at that time.
- (2) A Participant that receives a client order for more than 50 standard trading units of a security or with a value of more than \$100,000 may execute the client order against a principal order or non-client order provided the Participant has:
  - (a) complied with Rule 5.1; and
  - (b) taken reasonable steps to ensure that the price is the best available price for the client taking into account the condition of the market at that time.
- (3) Subsections (1) and (2) do not apply if the client order is:
  - (a) an Opening Order;
  - (b) a Market-on-Close Order; or
  - (c) a Volume-Weighted Average Price Order.

## **PART 9 – TRADING HALTS, DELAYS AND SUSPENSIONS**

### **9.1 Trading Halts, Delays and Suspensions**

- (1) No order for the purchase or sale of a security shall be executed on a marketplace or over-the-counter, at any time while:
  - (a) an order of a securities regulatory authority to cease trading in the security remains in effect;
  - (b) in the case of a listed security, the Market Regulator of the Exchange on which the security is listed has delayed, halted or suspended trading in the security in accordance with the requirements of the Exchange while such delay, halt or suspension remains in effect;

- (c) in the case of a quoted security, the Market Regulator of the quotation and trade reporting system has delayed, halted or suspended trading in the security in accordance with the requirements of the recognized quotation and trade reporting system while such delay, halt or suspension remains in effect; and
  - (d) in the case of any security listed on a stock exchange or organized market in a foreign jurisdiction in which the securities regulatory authority is a member of the International Organization of Securities Commissions, a Market Regulator has halted trading for the purposes of the public dissemination of material information.
- (2) Despite subsection (1), an order may trade on a marketplace, if the Exchange or recognized quotation and trading system has:
- (a) suspended trading in the security by reason only that the issuer of the security has:
    - (i) ceased to meet minimum listing or quotation requirements, or
    - (ii) failed to pay to the Exchange or recognized quotation and trading system any fees in respect of the listing or quotation of securities of the issuer; or
  - (b) delayed or halted trading in the security as a result of technical problems affecting only the trading system of the Exchange or recognized quotation and trading system.
- (3) If trading in a security has been prohibited on a marketplace in accordance with clauses (1)(b), (c) or (d), a Participant may execute a trade in the security, if permitted by applicable securities legislation, outside of Canada on an exchange or organized regulated market that publicly disseminates details of trades in that market.

## **PART 10 – COMPLIANCE**

### **10.1 Enforcement and Compliance**

- (1) Each Participant and Non-Dealer Subscriber shall comply with these Rules and any Policies.
- (2) If a Participant which is an Approved Participant, Participating Organization or Member of an Exchange has failed to comply with any requirement of these Rules, the Market Regulator for the Exchange may take such disciplinary and enforcement action in accordance with the established practice and procedure of the Exchange as against the Participant and may impose such penalty or remedy as may be authorized by any requirement of the Exchange.

- (3) If a Non-Dealer Subscriber or a Participant which is not an Approved Participant, Participating Organization or Member of an Exchange has failed to comply with any requirement of these Rules, the Market Regulator for the marketplace on which the person has been granted access for trading purposes may take such disciplinary and enforcement action in accordance with the practice and procedure established by Policy and may impose, as the Market Regulator considers appropriate in the circumstances, one or more of the following penalties or remedies:
  - (a) a reprimand;
  - (b) a fine not to exceed the greater of:
    - (i) \$1,000,000, and
    - (ii) an amount equal to triple the financial benefit which accrued to the person as a result of committing the violation;
  - (c) the suspension of access to the marketplace for such period and upon such terms and conditions, if any, considered appropriate; and
  - (d) the revocation of access to the marketplace.
- (4) For greater certainty, any enforcement or disciplinary action as against a person by a Market Regulator for failure to comply with these Rules and any applicable Policies shall not affect or limit any enforcement or disciplinary action as against the person by any securities regulatory authority, self-regulatory entity or other Market Regulator with jurisdiction over the Participant.
- (5) If a Market Regulator suspends or revokes the access of any person to a marketplace in accordance with any enforcement or disciplinary action under subsection (2) or (3), such person shall be denied access to any other marketplace and shall have any access to any other marketplace automatically suspended or revoked unless the applicable securities regulatory authority otherwise determines in a review of the decision of the Market Regulator undertaken in accordance with Rule 11.3.
- (6) Upon a Market Regulator suspending or revoking the access of any person to a marketplace, the Market Regulator shall provide notice of such revocation to:
  - (a) the person whose access has been revoked;
  - (b) each marketplace;
  - (c) each Market Regulator; and
  - (d) each applicable securities regulatory authority.

## 10.2 Extension of Restrictions

- (1) A related entity of a Participant and a director, officer, partner or employee of the Participant or a related entity of the Participant shall:
  - (a) comply with the provisions of these Rules and any Policies with respect to just and equitable principles of trade, manipulative and deceptive method of trading, short sales and frontrunning as if references to "Participant" in Rules 2.1, 2.2, 3.1 and 4.1 included reference to such person; and
  - (b) in respect of the failure to comply with the Rules and Policies referred to in clause (a), be subject to the practice and procedures and to penalties and remedies set out in Rule 10.1(3) unless such person is subject to the jurisdiction of an Exchange.
- (2) A related entity of a Non-Dealer Subscriber and a director, officer, partner or employee of the Non-Dealer Subscriber or a related entity of the Non-Dealer Subscriber shall in respect of trading on a marketplace on behalf of the Non-Dealer Subscriber or related entity of the Non-Dealer Subscriber:
  - (a) comply with the provisions of these rules and any Policies with respect to just and equitable principles of trade, manipulative and deceptive method of trading and short sales as if references to "Non-Dealer Subscriber" in Rules 2.1, 2.2 and 3.1 included reference to such person; and
  - (b) in respect of the failure to comply with the Rules and Policies referred to in clause (a), be subject to the practice and procedures and to the penalties and remedies set out in Rule 10.1(3).
- (3) If, in the opinion of a Market Regulator, a particular person to whom these Rules apply, including any particular person to whom these Rules have been extended in accordance with subsection (1) and (2), has organized their business and affairs for the purpose of avoiding the application of any provision of these Rules, the Market Regulator may designate any person involved in such business and affairs as a person acting in conjunction with the particular person.
- (4) Upon a Market Regulator making a designation in accordance with subsection (3), the Market Regulator shall provide notice of such designation to:
  - (a) the particular person;
  - (b) the designated person;
  - (c) each Market Regulator; and
  - (d) each applicable securities regulatory authority.

### 10.3 Power of Market Integrity Officials

- (1) A Market Integrity Official may, in governing trading in securities on the marketplace:
  - (a) refuse to allow any bid price or ask price to be recorded at any time if, in the opinion of such Market Integrity Official, such quotation is unreasonable or not in compliance with these Rules or any Policy;
  - (b) settle any dispute arising from trading in securities on the marketplace where such authority is not otherwise provided for in any requirement governing trading on the marketplace;
  - (c) disallow or cancel any trade which, in the opinion of such Market Integrity Official, is unreasonable or not in compliance with these Rules or any Policy;
  - (d) vary or cancel any trade upon application of the buyer and seller provided such application has been made by the end of trading on the day following the day on which the trade was made or such earlier time as may be established in any requirement of the marketplace on which the trade was executed;
  - (e) in respect of any trade which has not complied with the requirements of Part 5, correct the price of the trade to a price at which the trade would have complied with such requirement, or
  - (f) require the Participant to satisfy the better bid or offer up to the volume of the trade which failed to comply with the requirements of Part 5;
  - (g) provide to any person an interpretation of any provision of these Rules and any Policy in accordance with the purpose and intent of provision and shall ensure that any such interpretation is observed by such person;
  - (h) exercise such powers as are specifically granted to a Market Regulator or Market Integrity Official by these Rules and any Policy; and
  - (i) exercise such powers as are specifically granted to the Market Regulator by the marketplace where the marketplace is entitled to grant such powers.
- (2) In determining whether any quotation or trade in a security is unreasonable, the Market Regulator shall consider:
  - (a) prevailing market conditions;
  - (b) the last sale price of the security as displayed in the consolidated market display;

- (c) patterns of trading in the security on the marketplace including volatility, volume and number of transactions;
- (d) whether material information concerning the security is in the process of being disseminated to the public; and
- (e) the extent of the interest of the person for whose account the order is entered in changing the price or quotation for the security.

#### **10.4 Report of Short Positions**

- (1) A Participant shall calculate, as of 15<sup>th</sup> day and as of the last day of each calendar month, the aggregate short position of each individual account in respect of each listed security and quoted security.
- (2) Unless a Participant maintains the account in which a Non-Dealer Subscriber has the short position in respect of a listed security or quoted security, the Non-Dealer Subscriber shall calculate, as of the 15<sup>th</sup> day and as of the last day of each calendar month, the aggregate short position of the Non-Dealer Subscriber in respect of each listed security and quoted security.
- (3) Unless otherwise provided, each Participant and Non-Dealer Subscriber shall file a report of the calculation with [RS Inc.] in such form as may be required by [RS Inc.] not later than two trading days following the date on which the calculation is to be made.

#### **10.5 Audit Trail Requirements**

- (1) **Recording Requirements for Receipt or Origination of an Order** – Immediately following the receipt or origination of an order, a Participant shall record:
  - (a) the order identifier;
  - (b) the trading symbol of the security;
  - (c) the number of units of the security to which the order applies;
  - (d) the strike date and strike price, if the security is a derivative instrument;
  - (e) whether the order is a buy or sell order;
  - (f) all order designations required by Rules 6.2(1)(b) and (c);
  - (g) whether the order is a market order, limit order or other type of order, and if the order is other than a market order, the price at which the order is to trade;

- (h) the date and time the order is originated or received by the Participant;
  - (i) the client account number or client identifier or, in the case of a jitney order, the identifier of the Participant placing the order;
  - (j) the identifier of any investment adviser or registered representative receiving the order;
  - (k) the date and time that the order expires;
  - (l) any client instructions or consents respecting the handling or trading of the order, if applicable;
  - (m) any information respecting the special terms attaching to the order required by Rule 6.2(2), if applicable; and
  - (n) the currency of the order.
- (2) **Recording Requirements for Entry of an Order** – Immediately following the entry of an order to trade on a marketplace, a Participant shall add to the record maintained in accordance with subsection (1):
- (a) the identifier of the Participant through which any trade would be cleared and settled;
  - (b) the identifier assigned to the Participant entering the order;
  - (c) the marketplace on which the order is entered; and
  - (d) the date and time the order is entered.
- (3) **Recording Requirements for Variation, Correction or Cancellation of an Order** – Immediately following the modification or cancellation of an order, a Participant shall add to the record maintained in accordance with subsection (1):
- (a) the date and time the variation, correction or cancellation was originated or received;
  - (b) whether the order was varied, corrected or cancelled on the instructions of the client;
  - (c) in the case of variation or correction, the information required by subsection (1) which has been changed; and
  - (d) the date and time the variation, correction or cancellation of the order is entered.
- (4) **Recording Requirements for Execution of an Order** – Immediately following the execution in whole or in part of an order, a Participant shall add to the record maintained in accordance with subsection (1):

- (a) the marketplace where the order was executed or the identifier of the Participant executing the order if the order has not been executed on a marketplace;
  - (b) the date and time of the execution of the order;
  - (c) whether the Participant has executed the order as principal;
  - (d) if the order has been partially executed, the number of units of the security bought or sold if shares or contracts;
  - (e) the price at which the order was executed; and
  - (f) in the case of a client order, the commission charged.
- (5) **Transmittal of Order Information to a Marketplace** - Immediately following the execution of an order, the Participant shall transmit the record of the order required to be maintained by the Participant by this section to:
- (a) the Market Regulator for the marketplace on which the trade was executed; or
  - (b) if the order was not executed on a marketplace,
    - (i) a Market Regulator if the security is not listed on an Exchange or traded on a recognized quotation and trade reporting system, and
    - (ii) the Market Regulator for the Exchange or recognized quotation and trade reporting system on which the security is listed or quoted,
- in such manner and form as may be required by the Market Regulator.
- (6) **Provision of Additional Information** – In addition to any information provided by a Participant to a Market Regulator in accordance with subsection (5), the Participant shall provide to the Market Regulator forthwith upon request in such form and manner as may be reasonably required by the Market Regulator:
- (a) any additional information respecting the order or trade reasonably requested; and
  - (b) information respecting any prior or subsequent order or trade in the security or a related security undertaken by the Participant whether or not such order was entered or executed on the marketplace of the Market Regulator.
- (7) **Provision of Information by a Non-Dealer Subscriber** – Where an order has been entered on a marketplace by a Non-Dealer Subscriber, the Non-Dealer Subscriber shall provide to the Market Regulator of the marketplace on which the order was entered or the Market Regulator of the marketplace on which the

order was executed forthwith upon request in such form and manner as may be reasonably required by the Market Regulator:

- (a) any information respecting the order or trade reasonably requested; and
- (b) information respecting any prior or subsequent order or trade in the security or a related security undertaken by the Non-Dealer Subscriber whether or not such order was entered or executed on the marketplace of the Market Regulator making the request.

## **10.6 Retention and Inspection of Records and Instructions**

(1) A Participant shall retain:

- (a) the record of each order as required by Rule 10.5; and
- (b) sufficient information to identify the beneficial owner of each account for which a record of an order is retained,

for a period of not less than seven years from the creation of the record of the order, and for the first two years, such record and information shall be kept in a readily accessible location.

(2) A Participant shall allow the Market Regulator of the marketplace:

- (a) of which the Participant is a Member, Participating Organization, Approved Participant or subscriber;
- (b) on which the order was entered; or
- (c) on which the order was executed,

to inspect and make copies of the record of an order, any record related to the order required to be maintained by the Participant in accordance with applicable securities legislation or the requirements of any self-regulatory organization of which the Participant is a member and information on the beneficial owner of the account at any time during ordinary business hours during the period that such record and information is required to be retained by the Participant.

(3) A Non-Dealer Subscriber shall allow the Market Regulator of the marketplace:

- (a) of which the Non-Dealer Subscriber is a subscriber; or
- (b) on which the order was executed,

to inspect and make copies of any information respecting an order at any time during ordinary business hours during the period of not less than seven years

from the date of the origination of the order, and for the first two years, such information shall be kept in a readily accessible location.

#### **10.7 Exchange and Provision of Information by Market Regulators**

Each Market Regulator shall provide information and other forms of assistance for market surveillance, investigative, enforcement and other regulatory purposes including the administration and enforcement of these Rules to:

- (a) a self-regulatory entity;
- (b) a self-regulatory organization in a foreign jurisdiction;
- (c) a securities regulatory authority;
- (d) a securities regulatory authority in a foreign jurisdiction; and
- (e) another Market Regulator.

#### **10.8 Synchronization of Clocks**

Each marketplace, Participant and Market Regulator shall synchronize the clocks used for recording the time and date of any event that must be recorded pursuant to these Rules to the clock used by the data consolidator for this purpose.

#### **10.9 Assignment of Identifiers and Symbols**

- (1) Each Participant and marketplace shall be assigned a unique identifier for trading purposes.
- (2) Unless otherwise provided, the TSE shall assign each identifier for the purposes of subsection (1) after consultation with BDM and CDNX.
- (3) Each security that trades on a marketplace shall be assigned a unique symbol for trading purposes.
- (4) Unless otherwise provided, the TSE shall assign each symbol for the purposes of subsection (3) after consultation with BDM and CDNX.

### **PART 11 – ADMINISTRATION OF RULES**

#### **11.1 General Exemptive Relief**

A Market Regulator may exempt any particular person or particular transaction from the application of a Rule, if in the opinion of the Market Regulator, the provision of such exemption:

- (a) would not be contrary to the provisions of any applicable securities legislation and the regulation and rules thereunder;
- (b) would not be prejudicial to the public interest or to the maintenance of a fair and orderly market; and
- (c) is warranted after due consideration of the circumstances of the particular person or transaction.

## **11.2 General Prescriptive Power**

- (1) A Market Regulator may, from time to time, make or amend a Policy.
- (2) A Policy or an amendment to a Policy shall not become effective without the approval of the applicable securities regulatory authority.

## **11.3 Review of Market Regulator Decisions**

Any person directly affected by any direction, order or decision of a Market Regulator or Market Integrity Official made in connection with the administration and enforcement of these Rules and any Policy may apply to the applicable securities regulatory authority for a hearing and review of such direction, order or decision in accordance with the procedure for a hearing and review as established from time to time by the securities regulatory authority.