

IIROC NOTICE

Rules Notice Technical

UMIR and Dealer Member Rules

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Best Execution Survey Results

Executive Summary

Under securities legislation, a dealer¹ has an obligation to make reasonable efforts to achieve best execution when acting for a client. Every IIROC Dealer Member should have a process that is designed to achieve best execution for its clients. Best execution has been a long-standing UMIR requirement and IIROC has issued several guidance notices to interpret the UMIR best execution rule. A number of Dealer Members have asked for additional guidance on best execution compliance given changes in technology and market structure that have increased order handling complexity.

IIROC staff conducted an online survey from December 2012 to February 2013, of all Dealer Members that execute secondary market trades in listed securities² on behalf of clients, to

¹ "Dealer" is generally defined in securities legislation as a person who is in the business of trading securities as principal or agent.

² UMIR defines "listed security" as a security listed on an Exchange (recognized by the applicable securities regulatory authority under securities legislation to carry on business as an exchange).



gauge the practices Dealer Members currently employ to achieve best execution (the “Survey”).

The purpose of this notice is to summarize the Survey responses. The notice is divided into focus areas, which align with the topics that were covered in the Survey. These topics include:

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

An additional topic raised only with the subset of firms that indicated they engaged in “retail discount”, “on-line trading” or “direct trading” lines of business (collectively “on-line retail trading” firms) was the provision of market data to clients.

The Survey information may be used by IIROC to develop rules and/or guidance to assist Dealer Members in complying with their best execution requirements. At this time, IIROC intends to focus its policy review on the areas of:

- policies and procedures for best execution;
- best execution governance;
- supervision of best execution practices; and
- disclosure of order handling practices.



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1. Survey Objectives and Approach

IIROC conducted the Survey of all Participant³ and non-Participant Dealer Members that execute secondary market trades in listed securities on behalf of clients, to gauge the practices Dealer Members currently employ to comply with the best execution obligation.

A number of Dealer Members have requested additional guidance on best execution given changes in technology and market structure that have increased order handling complexity. IIROC recognizes that the scope of practices that may be employed to achieve best execution has broadened in the multiple marketplace environment. The information provided by the Survey may be used by IIROC to develop rules and/or guidance to assist Dealer Members in complying with their best execution requirements.

The Survey responses will also assist IIROC to:

- generate an inventory of current best execution practices;
- identify trends;
- recognize innovative practices in best execution compliance; and
- identify areas for improvement.

IIROC engaged a third party to conduct the Survey using a common set of questions for all Dealer Members. Responses were collected between December 11, 2012 and February 15, 2013. The identity of Survey participants was kept anonymous and responses to the Survey questions were provided to IIROC in aggregate only. All questions in the Survey were presented within the context of trading in Canada and were designed to elicit industry feedback on certain areas of focus including:

- marketplace access;
- smart order routers (“SORs”) and best execution governance;
- order handling practices;
- treatment of marketplace trading fees and rebates;
- compliance and supervision practices; and
- provision of market data by firms engaged in an on-line retail trading business.

³ A Participant as defined in UMIR is:

(a) a dealer registered in accordance with securities legislation of any jurisdiction and who is

(i) a member of an Exchange,

(ii) a user of a QTRS, or

(iii) a subscriber of an ATS; or

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



Of the total IIROC membership, 143 Dealer Members qualified to participate in the Survey on the basis that these Dealer Members execute secondary market trades in listed securities on behalf of clients. Of these qualifying Dealer Members, approximately 75% are Participants subject to UMIR. Through their Survey responses Dealer Members were segmented in various ways, including by client base (for example, on-line trading for retail clients), by introducing broker status, and by method of market access. Dealer Members were also categorized generally using IIROC-determined peer groups as follows⁴:

Table 1. Dealer Members Surveyed, by IIROC Peer Group Category.

Category of Dealer Member	Number of Firms
Corporate Finance (mainly engaged in the distribution of securities and research)	6
Discount Broker (suitability-exempt)	11
Institutional	37
Integrated (a national firm engaged in proprietary trading, retail and institutional business)	17
Managed Account	6
Proprietary Trading /Other	1
Retail (mainly servicing individual retail clients)	37
Retail Type 1 and 2 Introducing (under Dealer Member Rule 35)	28
Total all Dealer Members Surveyed	143

IIROC would like to thank the qualifying Dealer Members for taking the time to respond to the Survey and their valuable feedback on important areas of focus concerning best execution.

2. Regulatory Background

Under securities legislation, each dealer, **whether or not the dealer is a Participant under UMIR**, has an obligation to make reasonable efforts to achieve best execution (the most advantageous execution terms reasonably available under the circumstances) when acting for a client⁵. To meet the “reasonable efforts” test as outlined in the Companion Policy to National Instrument 23-101 Trading Rules (23-103CP), a dealer should have policies and procedures that require it to follow a client’s instruction and that outline a process designed to achieve best execution. The policies and procedures should describe how the dealer evaluates whether best execution was obtained and should be regularly and rigorously

⁴ The peer group categories used in the Survey are the same peer group categories used by IIROC for Risk Trend Reporting.

⁵ See Part 4 of National Instrument 23-101 – Trading Rules. The best execution obligation applies to all securities – see subsection 4.1(2) of 23-101CP.



reviewed. 23-101CP also indicates that to meet best execution obligations, a dealer should consider information from all appropriate marketplaces.

IIROC Dealer Member Rule 2700 – *Minimum Standards for Institutional Customer Account Opening, Operation and Supervision* reminds Dealer Members of their requirement to comply with other SRO rules and policies and securities legislation, including the best execution obligation when acting for clients. Rule 5.1 of UMIR - *Best Execution of Client Orders* governs Participants specifically and provides that a Participant shall diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances.

Policy 5.1 of UMIR provides four general factors to be considered for best execution:

- price at which the trade would occur;
- speed of execution;
- certainty of execution; and
- overall cost of the transaction⁶.

Policy 5.1 also requires that Participants take into account prevailing market conditions, considering such factors as:

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

Under UMIR Policy 7.1 other factors to be considered include any specific client instructions regarding the execution of the order, and whether a marketplace has demonstrated a reasonable likelihood of liquidity for a specific security relative to the size of the client order.

Rule 7.1 of UMIR requires each Participant to adopt written policies and procedures that ensure compliance with UMIR, including the best execution obligation under Rule 5.1. Part 4 of Policy 7.1 addresses specific procedures respecting best execution and provides, among other things, that the policies and procedures must:

- outline a process designed to achieve best execution;
- require the Participant to follow the instructions of the client and to consider the investment objectives of the client;
- include the process for taking into account order and trade information from all appropriate marketplaces and foreign organized regulated markets; and

⁶ The overall cost of the transaction is meant to include, where appropriate, all costs associated with accessing an order and/or executing a trade that are passed on to a client, including fees arising from trading on a particular marketplace, jitney fees (i.e. any fees charged between dealers to provide trading access) and settlement costs.



- describe how the Participant evaluates whether best execution was obtained.

IIROC has also issued several notices which provide guidance⁷ on practices to be used in achieving best execution.

3. Summary of Survey Results

This notice does not present an exhaustive review of all information received from the Survey. Rather, information was selected from the Survey to give an overview of key areas concerning best execution practices identified by IIROC staff. The summary information presented below highlights results based solely on the responses to the Survey questions from the qualifying Dealer Members, including responses that may seem inconsistent. Percentages have been rounded to the nearest full percent. For certain questions, more than one response could apply and therefore the aggregate response percentage for certain questions could add to more than 100%. **Responses to the Survey questions may reveal acceptable variations in best execution practices given the different trading and business models by the different Dealer Member peer groups.**

3.1 Marketplace Access

3.1.1 Access to Protected Marketplaces⁸

Of the 143 qualifying Dealer Members that responded to the Survey:

- 46% are Participants that are members of or subscribers to all protected marketplaces;
- 29% are Participants that are members of or subscribers to some protected marketplaces and employ another Participant to enter orders on a marketplace (an “Executing Participant”) some or all of the time; and
- 26% are not members of or subscribers to any protected marketplace and always rely on an Executing Participant to enter orders on to a protected marketplace.

⁷ See MIN 2006-017 *Guidance – Securities Trading on Multiple Marketplaces* (September 1, 2006); MIN 2007-015 *Guidance – Specific Questions Related to Trading on Multiple Marketplaces* (August 10, 2007); MIN 2007-019 *Guidance – Entering Client Orders on Non-Transparent Marketplaces and Facilities* (September 21, 2007); IIROC Notice 09-0244 *Guidance Note – UMIR – “Best Execution” and “Best Price” Obligations For Securities Listed On TSX Venture Exchange* (August 27, 2009); IIROC Notice 11-0043 *Guidance Note - UMIR – Guidance on “Locked” and “Crossed” Markets* (February 1, 2011); IIROC Notice 11-0113 *Guidance Note -- UMIR – Guidance on Best Execution and Management of Orders* (March 30, 2011); and IIROC Notice 11-0114 *Guidance Note -- UMIR – Guidance Respecting the Use of Certain Order Types* (March 30, 2011).

⁸ “Protected marketplace” is defined in UMIR as a marketplace that:

- (a) disseminates order data in real-time and electronically to the information processor or one or more information vendors in accordance with the Marketplace Operation Instrument;
- (b) permits dealers to have access to trading in the capacity as agent;
- (c) provides fully-automated electronic order entry; and
- (d) provides fully-automated order matching and trade execution.



Integrated firms (82%) are most likely to be members of all protected marketplaces, followed by Institutional firms (65%). Retail Type 1 and 2 Introducers (7%) are least likely to be a member of or subscriber to all protected marketplaces. Table 2 shows the various ways that different categories of Dealer Members access marketplaces.

Table 2. Method of Marketplace Access. Percentage by Dealer Member Category.

Category of Dealer Member (Number of Firms)	Member of all marketplaces Never use Executing Participant.	Member of some marketplaces Sometimes use Executing Participant	Member of some marketplaces Always use Executing Participant	Not a marketplace member Always use Executing Participant
Corporate Finance (6)	33%	33%	17%	17%
Discount Broker (11)	46%	9%	27%	18%
Institutional (37)	65%	24%	5%	5%
Integrated (17)	82%	12%	0%	6%
Managed Account (6)	0%	33%	0%	67%
Proprietary Trading (1)	100%	0%	0%	0%
Retail (37)	46%	8%	11%	35%
Retail Type 1 and 2 Introducers (28)	7%	18%	25%	50%
All Dealer Members Surveyed (143)	46%	17%	12%	26%

3.1.2 Dark Marketplaces

Of the 143 Dealer Members:

- 60% are not subscribers to a dark marketplace;
- 5% subscribe to all dark marketplaces; and
- 35% subscribe to one or more dark marketplaces.

Integrated firms have the greatest degree of access to a dark marketplace with 65% accessing at least one and 24% accessing all dark marketplaces. Retail Type 1 and 2 Introducers comprise the category of Dealer Members that is least likely to subscribe to a dark marketplace, with only 4% of firms in that category accessing at least one dark marketplace. See subsection 3.2.6 Routing to Dark Marketplaces for further information.



3.2 Smart Order Routers and Best Execution Governance

3.2.1 Input into Routing Strategies

Of 89 Participants reporting that they sometimes or never rely on an Executing Participant to enter orders on a marketplace, 82 indicated that they use a SOR. Table 3 shows the breakdown of these 82 Participants, indicating their ability to adjust SOR settings.

Table 3. Ability of Participants using a SOR to adjust router settings.

Category of Participant (Number of Firms)	Can adjust ALL router settings	Can adjust SOME router settings	CANNOT adjust router settings
Corporate Finance (4)	25%	50%	25%
Discount Broker (6)	50%	50%	0%
Institutional (30)	47%	33%	20%
Integrated (14)	50%	36%	14%
Managed Account (2)	50%	50%	0%
Proprietary Trading (1)	0%	100%	0%
Retail (19)	37%	42%	21%
Retail Type 1 and 2 Introducing (6)	33%	17%	50%
All Participants Using a SOR (82)	43%	38%	20%

In the case of Dealer Members (whether a Participant or not) that reported always using an Executing Participant to enter orders on a marketplace (54 firms total), only 6% provide input to their Executing Participant as to how their orders should be routed. However, all Integrated firms captured in the 6% provide input into routing strategies.

3.2.2 SOR Source and Type

Of the 82 Participants that use a SOR:

- 57% use a SOR from a third-party vendor;
- 16% use a SOR that is marketplace-provided;
- 10% use a proprietary SOR developed internally;
- 1% use a proprietary SOR developed by a third party for the firm's exclusive use;
- 62% use spray strategies;
- 42% use a combination of serial and spray strategies; and



- 38% use serial strategies.

Introducers are most likely to source their SOR from third-party vendors providing generic strategies (63%) and from marketplaces (20%). Non-Introducers are more likely to have developed a proprietary SOR internally (15%) and to use more than one source for their SORs (22%).

3.2.3 Sole Reliance on Reject/Re-price Facilities

Of Participants that sometimes or never rely on an Executing Participant to enter orders on a marketplace (89 in total), 7% indicated that they rely solely on reject/re-price facilities offered by marketplaces to comply with the Order Protection Rule (and do not use a SOR). Only Integrated and Retail Type 1 and 2 firms (13% and 14% respectively) and Retail and Managed Accounts firms (5% and 6% respectively) use reject/re-price facilities.

3.2.4 Best Execution Governance

Participants that sometimes or never rely on an Executing Participant to enter orders on a marketplace (89 in total) reported how they determine their best execution approach:

- 95% report having a process to comply with best execution, of which:
 - 55% have their head trader or another senior member of the firm make the determination;
 - 27% have a best execution or order handling committee / working group that meets regularly; and
 - 14% have different approaches for different streams of their business.
- Of the 5% reporting having no process for determining how to achieve best execution, two are Retail firms and two are Institutional firms.

Participants that reported having a process for determining the approach to best execution (85 in total) specified the frequency of any best execution or order handling committee meetings, with:

- most (45%) holding meetings on an *ad hoc* basis;
- 25% meeting at least quarterly;
- 11% meeting annually; and
- 13% not holding meetings.

Table 4 provides information on the frequency of meetings, by category, for those Participants that reported having a process for determining a best execution approach.



Table 4. Frequency of meetings to determine best execution approach.

Category of Dealer Member (Number of Firms)	Ad Hoc	Meet at least Quarterly	Meet Annually	Never meet
Corporate Finance (4)	100%	0%	0%	0%
Discount Broker (8)	17%	50%	17%	17%
Institutional (31)	45%	26%	10%	13%
Integrated (14)	31%	44%	6%	13%
Managed Account (2)	50%	0%	0%	50%
Proprietary Trading (1)	100%	0%	0%	0%
Retail (18)	50%	17%	17%	11%
Retail Type 1 and 2 Introducing (7)	57%	0%	14%	14%
Total Participants with Best Execution Process (85)	45%	25%	11%	13%

Numbers may not add to 100%, as Dealer Members were permitted to answer this question with the response of “other”.

Only 38% of these 85 Participants record and retain minutes of proceedings or router decisions made. 50% of Integrated firms, 50% of Discount Brokers and 42% of Institutional firms have this protocol in place.

Comments provided in the responses included that the best execution review process is engaged by the Dealer Member’s carrying broker, and that the use of SORs ensures best execution.

3.2.5 Events Triggering a Review of Router Preferences

The 82 Participants reporting the use of a SOR were asked about events that would precipitate a review of the SOR’s routing table:

- 83% reported that they would review their routing tables immediately upon the launch of a new, protected marketplace;
- 53% would make routing table changes following a change in liquidity patterns;
- 65% would undertake a review based on changes in internal technology;
- 62% would undertake a review based on changes in marketplace fees;
- 51% would undertake a review based on the launch of a dark marketplace; and
- 5% indicate that none of these events would precipitate a review.



3.2.6 Routing to Dark Marketplaces

Of the 82 Participants that report use of a SOR, 38% indicated they do not route orders to any dark marketplaces. Only half of Managed Account, Discount Broker and Corporate Finance firms route orders to dark marketplaces. None of the Retail Type 1 and 2 Introducers that are Participants route orders to dark marketplaces.

The primary reasons cited by two-thirds of those respondents for not accessing dark marketplaces for price improvement were (1) “evaluating subscriptions” for those marketplaces; and (2) a decision to only transact in lit markets due to lack of transparency in the dark markets and/or extra cost. Other comments included that “the carrying broker does not support access to dark marketplaces”, “there is no client demand to trade on dark marketplaces”, “trade in large cap”, “it is not mandatory”, “engagement in mainly retail trading” or that “dark liquidity should not be permitted”.

3.2.7 IIROC Observations on SOR Use

The Survey showed that various SOR strategies (serial, spray and a combination of these methods) are used by Participants. IIROC believes that each strategy may be beneficial to a specific type of client; therefore each Participant should be cognizant of the type of SOR strategy that will assist in achieving best execution for its clients.

The Survey information indicates a relatively low ability for Participants to adjust SOR settings. Participants should consider whether their best execution practices enable them to take into account, and if deemed appropriate respond to, changing market conditions. Dealer Members that use Executing Participants retain a best execution obligation to their clients, and as such, these Dealer Members should understand the routing practices of their Executing Participant in order for the Dealer Member to be confident that it can achieve best execution for its clients.

The Survey information also indicates that a significant percentage of Participants that use SORs do not route orders to dark marketplaces. Comments received suggested that some Participants may not be adequately considering possible liquidity on dark marketplaces when they pursue best execution for their clients⁹. These Participants may be missing price improvement opportunities for their clients and they should consider reviewing whether the reasons supporting their decision to not access dark liquidity are appropriate.

⁹ Part 2 of UMIR Policy 5.1 provides that in determining whether a Participant has diligently pursued the best execution of a client order, the Market Regulator will consider a number of specific factors, including whether the Participant has considered possible liquidity on dark marketplaces if:

- the displayed volume in the consolidated market display is not adequate to fully execute the client order on advantageous terms for the client, and
- the dark marketplace has demonstrated that there is a reasonable likelihood that the marketplace will have liquidity for the specific security.



3.3 Order Handling Practices

*3.3.1 Retail Order Handling before 9:30 a.m. and after 4:00 p.m.*¹⁰

Participants that indicated that they engage in full service retail or on-line retail trading business that use a SOR (total of 51) reported on the handling of orders received before 9:30 a.m.:

- 57% are sent to a marketplace with a pre-open call;
- 28% are handled according to client instructions; and
- 16% are entered on a marketplace that is already open.

The same group of Participants reported that orders received after 4:00 p.m. are most frequently held until the next day (53%). 43% handle these orders according to client instructions and 4% enter them on an open marketplace.

3.3.2 Criteria Influencing Retail Routing Strategy

The same Participants that are engaged in full service retail or on-line retail trading business that use a SOR, rated on a scale of 1 to 10 the importance of selected criteria in influencing routing strategy for retail orders entered during regular trading hours (9:30 a.m. to 4:00 p.m.).

The top tier of important factors included:

- current likelihood of execution (average score 8.7/10 and 49% assigning it an importance rating of 10); and
- likelihood of price improvement opportunities (8.2 and 35% rating it a '10').

The second tier of important factors included:

- historically demonstrated liquidity in a security (7.5 and 18% rating it a '10');
- latency of execution (7.4 and 22%);
- latency of data (6.7 and 18%); and
- client preference (6.2 and 28%).

The third tier of important factors included:

- potential crossing/internalization opportunities (5.1 and 4% rating it a '10'); and
- cost/opportunity to capture rebates (5.0 and 6%).

The least important factor was "a firm's ownership or potential ownership of a marketplace" (1.7 and 0%). "Order-to-trade ratio" was another reported minor factor influencing retail routing strategy.

¹⁰ Due to an error in the questions posed on this topic only results respecting retail order handling before 9:30 a.m. and after 4:00 p.m. are provided.



3.3.3 *Criteria Influencing Institutional Routing Strategy*

Participants that are engaged in institutional trading and use a SOR (total of 55) were asked to rate on a scale of 1 to 10 the importance of selected criteria in influencing routing strategy for institutional orders entered during regular trading hours (9:30 a.m. to 4:00 p.m.).

The top tier of important factors included:

- current likelihood of execution (8.8/10 and 49% rating it a '10'); and
- price improvement opportunity (8.2 and 38%).

The second tier of important factors included:

- client preference (7.7 and 43% rating it a '10');
- historically demonstrated liquidity in a security (7.5 and 25%);
- latency of execution (7.2 and 24%); and
- latency of data (7.0 and 22%).

The third tier of important factors included:

- potential crossing/internalization opportunities (5.5 and 12% rating it a '10'); and
- cost/opportunity to capture rebates (5.1 and 6%).

The least important factor was “a firm’s ownership or potential ownership of a marketplace (1.9 and 3%). “Order-to-trade ratio” was another reported minor factor influencing institutional routing strategy.

3.3.4 *Retail Order Routing to the US*

Of Participants that engage in full service retail or on-line retail trading business and that use a SOR or rely solely on reject/re-price facilities (total of 55), 66% reported that they route retail orders for inter-listed securities to US market centres. Discount Brokers (50%), Institutional (50%) and Retail Type 1 and 2 (29%) have the lowest incidence of routing retail orders for inter-listed securities to the US.

The Participants from this group that route retail orders for inter-listed securities to the US reported on when they do so:

- 61% only do so when the client directs that the order be sent to the US;
- 25% only do so when their firm’s SOR detects that US markets are displaying a better “effective” quote (i.e. including foreign exchange conversion); and
- 3% do so when the client account is denominated in US funds or when there is the same or better effective quote in the US.

3.3.5 *Order Handling Disclosure*

All Dealer Members surveyed were asked about order handling disclosure, including whether their disclosure describes practices during different times of the trading day:



- 62% disclose their order handling practices for the regular trading day (i.e. for the period between 9:30 a.m. and 4:00 p.m.);
- 57% disclose how orders entered prior to 9:30 a.m. are handled;
- 58% disclose how orders entered after 4:00 p.m. are handled;
- 28% provide information regarding where passive client orders are booked;
- 14% provide information on which dark marketplaces are accessed; and
- 14% provide information about the method of order routing.

34% reported that they do not provide order handling information to clients. Table 5 provides some information on certain types of disclosure, broken down by category of Dealer Member.

Table 5. Disclosure of Order Handling Practices: Dark Markets Accessed and Method of Order Routing.

Category of Dealer Member (Number of Firms)	Disclose Dark Markets Accessed	Disclose Method of Order Routing	No Order Handling Disclosure
Corporate Finance (6)	0%	0%	33%
Discount Broker (11)	18%	27%	9%
Institutional (37)	30%	24%	38%
Integrated (17)	24%	6%	0%
Managed Account (6)	0%	0%	67%
Proprietary Trading (1)	0%	0%	100%
Retail (37)	8%	16%	32%
Retail Type 1 and 2 Introducing (28)	0%	4%	54%
All Dealer Members Surveyed (143)	14%	14%	34%

Numbers do not add to 100% as other types of order handling information Dealer Members were asked about have not been included in this Table.

Dealer Members that provide order handling disclosure to clients (94 in total) most frequently disseminate it by:

- posting on the Dealer Member’s website (65%); and/or
- making it available on request (54%).

Integrated, Retail and Discount Brokers are more likely to post this information on their website (94%, 76% and 100% respectively).



3.4 Treatment of Marketplace Trading Fees and Rebates

3.4.1 Are Marketplace Rebates Passed on to Clients?

Of the Participants that sometimes or never rely on an Executing Participant to enter orders on a marketplace (total of 89) the majority (76%) do not pass marketplace rebates on to their clients.

Discount Brokers and Institutional firms are most likely to pass marketplace rebates on to some (33% and 21% respectively) or all (17% and 18% respectively) of their clients.

3.4.2 Disclosure of Marketplace Rebates Earned by Firm

Of Participants that do not pass on marketplace rebates for passive orders to their clients (81 in total), only 11% indicated they provide this disclosure to all of their clients. Discount Brokers are the most likely to disclose this information to their clients (40%) followed by Institutional firms (15%).

3.4.3 Are Marketplace Trading Fees Passed on to Clients?

Participants that do not pass on marketplace rebates for passive orders to their clients (81 in total) were also asked whether or not they pass marketplace trading fees on to their clients. Overall, 73% do not pass marketplace trading fees on to their clients. However, 21% that retain marketplace rebates do pass marketplace trading fees through to some of their clients; and 6% pass these charges on to all clients. Discount Brokers are most likely to pass these charges along to some or all of their clients (80%) followed by Institutional (34%) and Retail Type 1 or 2 (14%).

3.4.4 Disclosure of Trading Fees Passed on to Clients

Of Participants that pass marketplace fees to at least some of their clients; 91% disclose that fact to them. Only Institutional firms do not provide this disclosure 100% of the time.

3.4.5 IIROC Observations on Treatment of Marketplace Trading Fees and Rebates

The majority of Participants do not pass marketplace rebates on to their clients; however only a minority disclose this to all their clients. A minority of those Participants also pass marketplace fees to some clients. Most Participants only disclose the passing of marketplace fees. IIROC is concerned that disclosure about these fees and rebates may be incomplete or inconsistent among Participants.

3.5 Compliance and Supervision Practices

3.5.1 Compliance Procedures

Of the 143 Dealer Members that completed the Survey, 73% reported that they have procedures specifically in place to supervise compliance with best execution. Of the Participants that are members of some marketplaces and always use an Executing Participant



to enter orders on a marketplace (17 in total), 65% responded that they have procedures in place to supervise compliance with best execution. Of the non-Participant Dealer Members (37 in total) 49% reported that they have procedures for best execution supervision. Table 6 shows supervision of best execution compliance, broken down by category of Dealer Member.

Table 6. Dealer Members that Supervise Best Execution Compliance. Percentage by Dealer Member Category.

Category of Dealer Member (Number of Firms)	Procedures to Supervise Best Execution Compliance
Corporate Finance (6)	50%
Discount Broker (11)	82%
Institutional (37)	95%
Integrated (17)	82%
Managed Account (6)	67%
Proprietary Trading (1)	100%
Retail (37)	68%
Retail Type 1 and 2 Introducing (28)	50%
Total all Dealer Members Surveyed (143)	73%

3.5.2 Internal Testing for Compliance and Record Retention

Overall, 59% of the 143 Dealer Members reported performing internal testing for compliance with best execution. Retail and Retail Type 1 and 2 are least likely to conduct this internal testing to ensure compliance with best execution (49% and 29% respectively).

Dealer Members reporting testing for compliance with best execution (85 in total), were asked whether or not records of compliance testing were being retained. While Managed Accounts and Retail Type 1 and 2 firms had the lowest retention of compliance testing records (75% and 88% respectively), overall, 97% of firms testing for compliance with best execution retain the records of that testing.

3.5.3 Confidence Firm is Achieving Best Execution Without Compliance Oversight

Of Dealer Members (63 in total) that reported not having either supervisory procedures for compliance with best execution or internal testing or record retention of testing, one quarter responded that they were fully confident they are achieving best execution for clients (scoring 10 on a scale of 1 to 10), while another third of these Dealer Members reported a confidence level of 9. The average score across these Dealer Members was 8.4/10.



3.5.4 IIROC Observations on Compliance and Supervision Practices

A significant proportion of non-Participant Dealer Members reported that they do not have procedures to supervise compliance with best execution. At the same time, a number of these Dealer Members report feeling very confident that they are achieving best execution for their clients. As part of IIROC's policy development process, we may review whether there is a need for IIROC to better articulate Dealer Members' best execution supervisory obligations.

3.6 Provision of Market Data by On-Line Retail Trading Firms

3.6.1 Type of Market Data Provided

Firms that indicated they engage in on-line retail trading business (total of 25) reported on the type of market data they make available to their clients:

- 72% provide level 1 (top of book) quote data to their clients in real time;
- 52% provide level 2 (full depth of book) quote data to their clients; and
- 32% provide post-trade data.

There is a positive correlation between the size of the firm (as measured by revenue) and the provision of market data to its clients.

Of the firms engaged in on-line retail trading business that reported providing level 1 or 2 market data to their clients (19 in total):

- 42% reported that the data provided is the same for all clients;
- 16% confirmed that they give their clients pre-trade market data from all protected marketplaces;
- 53% reported that they give their clients a subset of market data which does not include the complete Canadian best bid/offer from all protected marketplaces;
- 100% reported providing a consolidated order book to their clients;
- 63% reported that they provide real-time data to all clients; and
- 32% reported that they provide real-time data for some clients.

For firms engaged in on-line retail trading business reporting that they provide delayed data to their clients (7 in total), 57% reported that clients are made aware that the data is delayed.

3.6.2 IIROC Observations on Provision of Market Data

IIROC is concerned that firms engaged in the on-line retail trading business that provide limited market data may not be clearly describing the scope of the market data offered. Clients that are unaware of the constraints of the market data provided may make uninformed and therefore sub-optimal order entry decisions. IIROC believes it is important for firms to provide disclosure that describes the scope of market data provided to clients.



4. Next Steps

The Survey results give IIROC a better understanding of the industry's approach to achieving best execution. Certain areas of focus have been identified by IIROC to be addressed during Trading Conduct Compliance examinations of Participants. These are discussed in IIROC's [Annual Consolidated Compliance Report](#) for 2013/2014 and include:

- insufficient processes for making order handling decisions, including determining order routing preferences;
- inadequate post-trade supervision of best execution practices; and
- failure to seek price improvement opportunities in dark marketplaces.

The Survey results will also be used by IIROC to inform policy initiatives that may lead to the development of rule and/or guidance proposals for Participant and non-Participant Dealer Members. At this time, IIROC intends to concentrate on the areas of:

- policies and procedures for best execution;
- best execution governance;
- supervision of best execution practices; and
- disclosure of order handling practices.