

IIROC NOTICE

Rules Notice
Notice of Approval / Implementation
UMIR

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Contact:

Sonali GuptaBhaya
Director, Market Regulation Policy
Telephone: 416.646.7272
e-mail: sguptabhaya@iiroc.ca

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Amendments Respecting the Reporting of Certain Trades to Acceptable Foreign Trade Reporting Facilities

Executive Summary

On July 31, 2018, the applicable securities regulatory authorities approved amendments to UMIR (**Amendments**). Among other things, the Amendments:

- introduce a definition of “acceptable foreign trade reporting facility”
- add a new provision to UMIR 6.4(2) that would allow the following trades in a listed security or quoted security to be reported to an acceptable foreign trade reporting facility:
 - over 50 standard trading units and \$100,000 in value
 - originating from a contingent order related to a derivative transaction where the derivative transaction occurs outside of Canada and the trade in the listed security or quoted security is handled by the same intermediary as the derivative transaction (**derivative-related contingent order**).



On April 21, 2016 IIROC published for comment proposed changes relating to acceptable foreign trade reporting facilities in IIROC Notice [16-0082](#) - *Proposed Amendments Respecting the Reporting of Certain Trades on Acceptable Foreign Trade Reporting*. In response to comments received and further industry consultation, we re-published proposed rule changes for comment on May 25, 2017 in IIROC Rules Notice [17-0111](#) *Re-publication of Proposed Amendments Respecting the Reporting of Certain Trades to Acceptable Foreign Trade Reporting Facilities (2017 Proposed Amendments)*. All relevant background information, including the description and impact of the Amendments, is set out in these Notices.

We have not made any changes to the 2017 Proposed Amendments.

The Amendments are effective on **November 7, 2018**.

Comments Received

We received one comment letter in response to IIROC Notice 17-0111. Appendix B provides a summary of the public comments received and our responses.

On December 15, 2014, IIROC published guidance on the definition of FORM (**FORM Guidance**). The FORM Guidance reminded Participants that trading “off-marketplace” must be in compliance with UMIR 6.4 and, specifically, that a Participant who relies on the UMIR 6.4(2)(d) exemption to execute trades in listed securities “off-marketplace” must execute the trades on a FORM.

IIROC received a comment that the 2017 Proposed Amendments do not address the FORM Guidance. We note that the 2017 Proposed Amendments do not make any changes to the FORM definition and we expect each Participant to ensure that its executions outside of Canada comply with UMIR 6.4 requirements.

Attachments

Appendix A – Text of UMIR Amendments

Appendix B – Summary of comments received and IIROC’s responses

Implementation

The Amendments come into force on November 7, 2018, being 90 days after the publication of this Notice.



Appendix A – Text of Final UMIR Amendments

The Universal Market Integrity Rules are hereby amended as follows:

1. Section 1.1 is amended by inserting the following definition of “acceptable foreign trade reporting facility”:

“Acceptable Foreign Trade Reporting Facility” means a trade reporting facility or similar facility outside Canada:

- (a) on which the reporting of trades is monitored for compliance with regulatory requirements at the time of reporting by a self-regulatory organization that is a member of the International Organization of Securities Commissions;
- (b) that displays and provides timely information of the price, volume and security identifier of each trade at the time of the reporting of the trade; and
- (c) included on a list of acceptable foreign trade reporting facilities published on the IIROC website.

2. Subsection (2) of Rule 6.4 is amended by:

- (a) deleting in clause (h) the word “or” immediately following “issuer;”;
- (b) replacing “.” in clause (i) with “; or” ; and
- (c) inserting the following as clause (j):

- (j) **Acceptable Foreign Trade Reporting Facility** – in a listed security or quoted security that is reported to an acceptable foreign trade reporting facility and:
 - (i) is more than 50 standard trading units and has a value of more than \$100,000; or
 - (ii) originated from a contingent order related to a derivative transaction where the derivative transaction occurs outside of Canada and the trade in the listed or quoted security is handled by the same intermediary as the derivative transaction.



Appendix B

Comments Received in Response to

IIROC Notice 17-0111 – Rules Notice - Request For Comments – UMIR

Re-Publication of Proposed Amendments Respecting the Reporting of Certain Trades on Acceptable Foreign Trade Reporting Facilities

On May 25, 2017, IIROC issued Notice 17-0111 requesting comments on proposed amendments respecting the reporting of certain trades on acceptable foreign trade reporting facilities (**2017 Proposed Amendments**). IIROC received comments on the Proposed Amendments from:

Investment Industry Association of Canada (IIAC)

A copy of the comment letter received in response to the 2017 Proposed Amendments is publicly available on IIROC’s website (www.iiroc.ca). The following table presents a summary of the comments received on the 2017 Proposed Amendments together with IIROC’s responses to those comments.

Text of Provision Following Adoption of the 2017 Proposed Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>1.1 Definitions “Acceptable Foreign Trade Reporting Facility” means a trade reporting facility or similar facility outside Canada:</p> <ul style="list-style-type: none"> (a) on which the reporting of trades is monitored for compliance with regulatory requirements at the time of reporting by a self-regulatory organization that is a member of the International Organization of Securities Commissions; (b) that displays and provides timely information of the price, volume and security identifier of each trade at the time of the reporting of the trade; and included on a list of acceptable foreign trade reporting facilities published on the IIROC website; and (c) included on a list of acceptable foreign trade reporting facilities published on the IIROC website. 		



Text of Provision Following Adoption of the 2017 Proposed Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>6.4 Trades to be on a Marketplace</p> <p>(1) A Participant acting as principal or agent may not trade nor participate in a security by means other than the entry of an order on a marketplace.</p> <p>(2) Subsection (1) does not apply to a trade:</p> <p>....</p> <p>(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;</p> <p>(i) Non-Regulatory Halt, Delay or Suspension – in a listed security or quoted security in respect of which trading has been halted, delayed or suspended in circumstances described in clause (3)(a) or subclause (3)(b)(i) of Rule 9.1 that is not listed, quoted or traded on a marketplace other than the Exchange or QTRS on which the security is halted, delayed or suspended provided such trade is reported to a marketplace; or</p> <p>(j) Acceptable Foreign Trade Reporting Facility – in a listed security or quoted security that is reported to an acceptable foreign trade reporting facility and:</p> <p>(i) is more than 50 standard trading units and has a value of more than \$100,000; or</p> <p>(ii) originated from a contingent order related to a derivative transaction where the derivative transaction occurs outside of Canada and the trade in the listed or quoted security is handled by the same intermediary as the derivative transaction,</p>	<p>IIAC – Is of the view that IIROC has not articulated any investor protection issues or market integrity issues with respect to the use of ORF or TRF facilities for retail/smaller investors and it is unclear why acceptable foreign trade reporting facilities should only be available to investors trading over 50 standard trading units and \$100,000.</p>	<p>The policy objective of this provision is to ensure larger, block-type orders that need more liquidity than available domestically have access to foreign liquidity that, under current requirements, may be unaccessible given that it is difficult for foreign providers of this liquidity to execute such trades on a foreign organized regulated market (FORM). We</p>



Text of Provision Following Adoption of the 2017 Proposed Amendments	Commentator and Summary of Comment	IROC Response to Commentator and Additional IROC Commentary
		have consulted with industry representatives who have confirmed that the proposed threshold is an appropriate measure to achieve this policy objective.
	<p>IIAC – Requests clarification as to whether trades for 50 standard trading units and \$100,000 reported to an ORF/TRF are subject to the Order Protection Rule.</p>	<p>The application of the Order Protection Rule would be the same as for any other order routed outside of Canada. An order may not be routed outside of Canada if it would avoid execution against a better-priced Protected Order.</p>
	<p>IIAC – Requests clarification as to whether “trades” reported to acceptable foreign trade reporting facilities must execute greater than 50 standard trading units and greater than \$100,000. If so, then concerned that an “order” for greater than 50 standard trading units and greater than \$100,000 routed to an acceptable foreign trade reporting facility and subsequently executed as multiple trades of less than \$100,000 per trade could be contrary to IROC’s proposed policy.</p>	<p>The 2017 Proposed Amendments would allow only trades that are greater than 50 standard trading units and greater than \$100,000 to be reported to an acceptable foreign trade reporting facility. We would expect that Participants would inform their intermediaries of this restriction when reporting trades to a foreign acceptable trade reporting facility. We are of the view that orders that are split and traded in sizes less than 50 standard trading units and \$100,000 do not require access to “upstairs” liquidity and we would expect such orders to be executed on a FORM.</p>
<p>General</p>	<p>IIAC – The 2017 Proposed Amendments do not address impacts of FORM guidance on retail investors.</p>	<p>We acknowledge the comments. The 2017 Proposed Amendments do not introduce any changes to the current FORM definition. In IROC Notice 17-0111 we confirmed that the 2017 Proposed Amendments do not change the current FORM definition and that dealers must ensure their practices meet current UMIR requirements.</p>
	<p>IIAC – The 2017 Proposed Amendments do not consider Canadian investors who maintain U.S. currency investments trading inter-listed securities who may be subject to a foreign exchange charge if routed to a Canadian marketplace.</p>	<p>The 2017 Proposed Amendments do not restrict orders of any size from executing on a FORM subject to compliance with best execution requirements.</p>