

6.3 Exposure of Client Orders

- (1) A Participant shall immediately enter on a marketplace that displays orders in accordance with Part 7 of the Marketplace Operation Instrument 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 Marketplace Rules of any Exchange on which the security is listed or of any QTRS 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 client has directed or consented to the order being entered on a marketplace as:
 - (i) a Call Market Order,
 - (ii) an Opening Order,
 - (iii) a Special Terms Order,
 - (iv) a Volume-Weighted Average Price Order,
 - (v) a Market-on-Close Order,
 - (vi) a Basis Order, or
 - (vii) a Closing Price Order.
- (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.

POLICY 6.3 – EXPOSURE OF CLIENT ORDERS

Part 1 – Reviewing Small Orders for Market Impact

Rule 6.3 requires a Participant to immediately enter client orders for the purchase or sale of 50 standard trading units or less on a marketplace. This requirement is subject to certain exceptions. The Participant may withhold the order based on a determination that market conditions were such that immediate entry of the order would not be in the best interests of the client. If the order is withheld the Participant must guarantee that the client receives a price at least as good as the price the client would have received had the client order been executed on receipt by the Participant. If the order is executed against a principal order or non-client order the client must receive a better price.

Part 2 – Confirmation of Order Terms

Pursuant to Rule 6.3, a Participant may withhold entry of the order and return the order to its source for confirmation of its terms. For example, a Participant who receives an order to sell a security at \$3 in a stock trading at \$20 may return the order to the branch, as it is likely that either the price or the stock symbol is wrong.

Part 3 – Client Request to Withhold Order

A Participant does not have to immediately enter a client order on a marketplace if the client has requested that the order be withheld (for example, the client does not want the order executed in the open market but wishes to do a tax-related trade with their spouse). Any request must be specific to that order. A client cannot give a blanket request to withhold any future orders the client may give the Participant. Furthermore, the Participant may not solicit a request to withhold the order. A Participant must keep a record of the client's request to withhold orders for seven years from the date of the instruction and, for the first two years, the request must be kept in a readily accessible location.

Defined Terms: NI 21-101 section 1.1 – “order”

UMIR section 1.1 – “Basis Order”, “Call Market Order”, “client order”, “Closing Price Order”, “Exchange”, “Market-on-Close Order”, “marketplace”, “Marketplace Operation Instrument”, “Marketplace Rules”, “non-client order”, “Opening Order”, “Participant”, “principal order”, “QTRS”, “Special Terms Order”, “standard trading unit” and “Volume-Weighted Average Price Order”

UMIR section 1.2(2) – “trade”

Related Provision: UMIR section 1.2(3) - Interpretation

Regulatory History: Effective April 8, 2005, the applicable securities commissions approved an amendment to clause (h) of subsection (1) of Rule 6.3 to add subclause (vi).

Effective March 9, 2007, the applicable securities commissions approved an amendment to subsection (1) of Rule 6.3 to add the phrase “that displays orders in accordance with Part 7 of the Marketplace Operation Instrument” after the first occurrence of the word “marketplace” and to amend clause (h) to add subclause (vii).

Market Integrity Notice: The following is the relevant text of Market Integrity Notice 2007-019 issued on September 21, 2007 under the heading “**Guidance – Entering Client Orders on Non-Transparent Marketplaces and Facilities**”. Additional text is set out under Rules 5.1, 5.2, and 5.3:

Questions and Answers

The following are the most frequently asked questions regarding the obligations of a Participant when entering a client order on a non-transparent marketplace or facility and the responses of IIROC to each:

1. May “small” client orders that are subject to the Order Exposure Rule be entered on a non-transparent marketplace or facility?

Rule 6.3 of UMIR requires, subject to certain enumerated exceptions, that client orders to purchase or sell 50 standard trading units or less of a security be immediately entered on a marketplace. As such, the obligation applies to a client order to purchase or sell:

- 5,000 or less units of a security trading at \$1.00 or more per unit;
- 25,000 or less units of a security trading at \$0.10 or more per unit and less than \$1.00 per unit; and
- 50,000 or less units of a security trading at less than \$0.10 per unit.

The purpose of the rule is to ensure that client orders are exposed to the market. The exposure of such client orders contributes to the operating of the price discovery mechanism to establish the “best bid price” and “best ask price” used in various UMIR provisions including the best price obligation.

The policy objectives behind Rule 6.3 are not met if the client order is entered on a marketplace that does not provide information on the order to an information vendor for inclusion in a consolidated market display. Effective March 9, 2007, Rule 6.3 was amended to require the entry of the client order that is subject to the exposure requirements of that Rule on a marketplace that discloses order information in a consolidated market display.

In the view of IIROC, client orders which are routed to a non-transparent marketplace or facility to determine if liquidity is available on that marketplace or facility at prices that are the same or better than displayed in a consolidated market display would comply with the requirements of Rule 6.3 provided any unexecuted portion of the client order was then immediately entered on a marketplace that did provide order transparency.

Disciplinary Proceedings: Rule 6.3(1) was considered ***In the Matter of TD Securities Inc. (“TDSI”) (July 5, 2006) DN 2006-007***. See Disciplinary Proceedings under Rule 5.1.