



**Appendix B – Comments Received in Response to Rules Notice 14-0077 – Rules Notice – Request for Comments
– UMIR– Proposed Amendments to the Definition of Basis Order (March 27, 2014)**

On March 27, 2014, IIROC issued Notice 14-0077 requesting comments on Proposed Amendments to the Definition of Basis Order. IIROC received comments on this Notice from:

BMO Capital Markets (“BMO”)
RBC Capital Markets (“RBC”)
Scotia Capital Inc. (“Scotia”)
National Bank Financial Inc. (“NB”)
TD Securities Inc. (“TD”)

A copy of the comment letters received in response to the Proposed Amendments is publically available on the website of IIROC (www.iiroc.ca under the heading “Notices”, sub-heading “Marketplace Rules” and further sub-heading “Request for Comments”). The following table presents a summary of the comments received on the Proposed Amendments together with the responses of IIROC to those comments. There were no changes made to the Proposed Amendments.

Text of Final Rule (No changes were made to the Proposed Rule)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>1.1 Definitions</p> <p>“Basis Order” means an order for the purchase or sale of:</p> <p>(a) listed securities or quoted securities that comprise at least 80% of the component securities weighting of the underlying interest of:</p> <p>(i) a derivative instrument that is listed on an Exchange or quoted on a QTRS; or</p> <p>(ii) an Exempt Exchange-traded Fund, which will be executed at prices determined in a manner acceptable to a Market Regulator that are based on the price achieved through the execution on that trading day of one or more transactions in the derivative instrument or Exempt Exchange-traded Fund; or</p> <p>(b) a derivative instrument that is a listed or quoted security or an Exempt Exchange-traded Fund, which will be executed at a price determined in</p>	<p>TD – Suggests that consideration be given to defining the order type more broadly to encompass other product types where a transaction may meet the spirit of the rule, but does not meet the strict definition of Exchange-traded Fund. As a start, suggest that consideration is given to related instruments, such as Exchange-traded Notes or products that are not in continuous distribution.</p>	<p>The Proposed Amendments are intended to address current ETF trading practices that have been provided for though the granting of an exemption by IIROC. IIROC believes that the amendments, as proposed, address these current trading practices. IIROC staff would continue to consider granting exemptions on a trade by trade basis for proposed transactions that fall outside the UMIR definition.</p>



Text of Final Rule (No changes were made to the Proposed Rule)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p>a manner acceptable to a Market Regulator that is based on the prices achieved through the execution on that trading day of transactions in the securities that comprise at least 80% of the component security weighting of the underlying interest of the derivative instrument or Exempt Exchange-traded Fund,</p> <p>provided that prior to the entry of the order the Participant or Access Person reports to a Market Regulator its intention to enter the order and the details of the related transactions, in the form and manner required by the Market Regulator.</p>		
<p>Questions</p> <p>1. The current definition of Basis Order requires that the component securities weighting of the executed derivative are comprised of at least 80% listed securities. Is it appropriate that the Proposed Amendments consider component securities other than listed securities (e.g. securities traded on foreign markets and OTC markets)?</p>	<p>BMO,RBC,Scotia,NB,TD – Agree that it is appropriate to consider component securities other than listed securities.</p>	<p>IIROC acknowledges the comment.</p>
<p>2. Similar to the existing definition, the Proposed Amendments require that the executions of the component securities represent at least 80% of the component securities weighting of the underlying interest of the derivative instrument or the ETF. Is 80% an appropriate measure?</p>	<p>BMO,NB – Comment that 80% is an appropriate measure.</p> <p>Scotia, RBC, TD – Comment that while the 80% threshold is appropriate, the requirement that the executions comprise only the actual underlying securities is inflexible and overly restrictive. Suggest that consideration be given to expanding the definition to allow for a test that relies on the execution of the underlying component securities or other related or offsetting securities that demonstrate a high correlation to the ETF and traded in notional amounts that demonstrate an economic offset to the Basis Order.</p>	<p>IIROC acknowledges the comment.</p> <p>IIROC believes that it is appropriate that the hedging requirement respecting a Basis Order be tied directly to the underlying component securities. If the test relating to the hedging component is too broad, the reliability of the calculated price at which the Basis Order is printed may be compromised. IIROC would continue to consider the granting of an exemption on an order by order basis in those cases where the hedging of the actual underlying component securities is either impractical or impossible.</p>



Text of Final Rule (No changes were made to the Proposed Rule)	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
	<p>TD - In respect to part (a) of the proposed definition, comment that where the underlying component securities are traded using the Basis Order type, consideration should be given to ETFs where less than 80% of the holdings are listed or quoted securities.</p>	<p>IIROC believes that when pricing the component listed securities of an ETF at calculated prices that the component listed securities are strongly correlated to the ETF. This ensures that the calculated prices of the component securities are reliable. Where listed securities represent a small portion of the total underlying securities of an ETF it is difficult to assess whether the prices assigned to those particular listed security are reasonable. This is consistent with the current definition of Basis Order as it applies to derivatives, and IIROC is not proposing any changes to this particular aspect of the requirements at this time.</p>
<p>3. Should Basis Orders for units of ETFs which are actively managed be excluded from the definition of Basis Order?</p>	<p>BMO,NB,RBC,Scotia – Comment that Basis Orders for units of ETFs which are actively managed should not be excluded from the definition of Basis Order.</p>	<p>IIROC acknowledges the comment.</p>
<p>4. Should Basis Orders for units of ETFs be limited to include only ETFs that track the performance of a particular index?</p>	<p>BMO,NB,RBC,Scotia,TD – Comment that Basis Orders should not be limited to include only ETFs that track the performance of an index.</p>	<p>IIROC acknowledges the comment.</p>