



Attachment A – Final Amendments to UMIR 7.1 and 7.13

The Universal Market Integrity Rules are hereby amended as follows:

1. Rule 7.1 is amended by deleting subsection (1) and replacing with the following:

7.1 Trading Supervision Obligations

- (1) Each Participant shall develop, implement and maintain written policies and procedures to be followed by directors, officers, partners and employees of the Participant that are reasonably designed, taking into account the business and affairs of the Participant, to ensure compliance with UMIR and each Policy.

2. Policy 7.1 is amended by:

- (a) deleting Part 2 and replacing with the following:

Part 2 – Minimum Elements of a Supervision System

For the purposes of Rule 7.1, a supervision system consists of both policies and procedures aimed at preventing violations from occurring and compliance procedures aimed at detecting whether violations have occurred.

The Market Regulator recognizes that there is no one supervision system that will be appropriate for all Participants. Given the differences among firms in terms of their size, the nature of their business, whether they are engaged in business in more than one location or jurisdiction, the experience and training of their employees and the fact that effective compliance can be achieved in a variety of ways, this Policy does not mandate any particular type or method of supervision of trading activity. Furthermore, compliance with this Policy does not relieve Participants from complying with specific Requirements that may apply in certain circumstances. In particular, in accordance with subsection (2) of Rule 10.1, orders entered (including orders entered by a client under direct electronic access, an investment dealer or foreign dealer equivalent under a routing arrangement or by a client through an order execution service) must comply with the Marketplace Rules on which the order is entered and the Marketplace Rules on which the order is executed.

Participants must develop, implement and maintain supervision and compliance procedures that exceed the elements identified in this Policy where the circumstances warrant. For example, previous disciplinary proceedings, warning and caution letters from the Market Regulator or the identification of problems with the supervision system or procedures by the Participant or the Market Regulator may warrant the implementation of more frequent supervision or compliance testing and more detailed supervision or compliance procedures.

Regardless of the circumstances of the Participant, however, every Participant must:



1. *Identify the relevant Requirements, securities laws and other regulatory requirements that apply to the lines of business in which the Participant is engaged (the “Trading Requirements”).*
2. *Document the supervision system by preparing a written policies and procedures manual. The manual must be accessible to all relevant employees. The manual must be kept current and Participants are advised to maintain an historical copy.*
3. *Ensure that employees responsible for trading in securities are appropriately registered and trained and that they are knowledgeable about the Trading Requirements that apply to their responsibilities. Persons with supervisory responsibility must ensure that employees under their supervision are appropriately registered and trained. Each Participant should provide a continuing training and education program to ensure that its employees remain informed of and knowledgeable about changes to the rules and regulations that apply to their responsibilities.*
4. *Designate individuals responsible for supervision and compliance. The compliance function must be conducted by persons other than those who supervise the trading activity.*
5. *Develop and implement supervision and compliance procedures that are appropriate for the Participant’s size, lines of business in which it is engaged and whether the Participant carries on business in more than one location or jurisdiction.*
6. *Identify the steps the Participant will take when a violation or possible violation of a Requirement or any regulatory requirement has been identified. These steps shall include the procedure for the reporting of the violation or possible violation to the Market Regulator if required by Rule 10.16. If there has been a violation or possible violation of a Requirement identify the steps that would be taken by the Participant to determine if:*
 - *additional supervision should be instituted for the employee, the account or the business line that may have been involved with the violation or possible violation of a Requirement; and*
 - *the written policies and procedures that have been adopted by the Participant should be amended to reduce the possibility of a future violation of the Requirement.*
7. *Review the supervision system at least annually to ensure it continues to be reasonably designed to prevent and detect violations of Requirements. More frequent reviews may be required if past reviews have detected problems with supervision and compliance.*
8. *Document each step of the compliance review process to include details of the following:*



- *individual(s) who conducted the review*
 - *date(s) of the review*
 - *sources of information used to conduct the review, including the initial alert that may have been triggered*
 - *sample(s) used to conduct the review and the criteria for sample selection (if samples are used)*
 - *queries made to the trader, client, and anyone else who handled the order, if any*
 - *results of the review*
 - *measures taken to escalate concerns , if any*
 - *corrective actions taken, if any.*
9. *Maintain results of all reviews for at least five years.*
10. *Report to the board of directors of the Participant or, if applicable, the partners, a summary of the compliance reviews conducted and the results of the supervision system review. These reports must be made at least annually. If the Market Regulator or the Participant identifies significant issues concerning the supervision system or compliance procedures, the board of directors or, if applicable, the partners, must be advised immediately.*
- (b) deleting Part 3 and replacing with the following:

Part 3 – Supervision and Compliance Procedures for Trading on a Marketplace

Each Participant must develop, implement and maintain supervision and compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements. Participants must identify any high-risk areas and ensure that their policies and procedures are adequately designed to address these heightened risks.

In developing supervision systems, Participants must identify any exception reports, trading data and any other relevant documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

Each Participant must develop written policies and procedures in relation to all Requirements that apply to their business activities. A Participant's supervision system must at a minimum include the regular review of compliance with respect



to the following provisions for trading on a marketplace where applicable to their lines of business:

- *Audit Trail requirements (Rule 10.11)*
- *Electronic Access to Marketplaces (Rule 7.1)*
- *Specific Unacceptable Activities (Rule 2.1)*
- *Manipulative and Deceptive Activities (Rule 2.2)*
- *Trading in restricted securities (Rule 7.7)*
- *Trading of grey list securities (Rule 2.2)*
- *Disclosure requirements (Rule 10.1)*
- *Frontrunning (Rule 4.1)*
- *Client/Principal Trading (Rule 8.1)*
- *Client Priority (Rule 5.3)*
- *Best Execution (Rule 5.1)*
- *Order Exposure requirements (Rule 6.3)*
- *Time synchronization requirements (Rule 10.14).*

Each Participant must develop, implement and maintain a risk-based supervision system that identifies and prioritizes those areas that pose the greatest risk of violations of Requirements. This enables the Participant to focus its review on the areas that pose a higher risk of non-compliance with Requirements. The frequency of review and sample size used in reviews must be commensurate with, among other things:

- *the Participant's size (considering factors such as revenue, market share, market exposure and volume of trades)*
- *the Participant's organizational structure*
- *number and location of the Participant's offices*
- *the nature and complexity of the products and services offered by the Participant*
- *the number of registrants assigned to a location*
- *the disciplinary history of registered representatives or associated persons*
- *the risk profile of the Participant's business and any indicators of irregularities or misconduct i.e. "red flags".*

(c) deleting Part 4 and replacing with the following:

Part 4 – Specific Procedures Respecting Client Priority and Best Execution

Each Participant must develop, implement and maintain a supervision system to ensure its trading does not violate Rule 5.3 or 5.1. A Participant must have policies and procedures in place to "diligently pursue the execution of each client order on the most advantageous execution terms reasonably available under the circumstances". The policies and procedures must:

- *outline a process designed to achieve best execution;*



- *require the Participant, subject to compliance by the Participant with any Requirement, 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*
- *describe how the Participant evaluates whether “best execution” was obtained.*

In order to demonstrate that a Participant has “diligently pursued” the best execution of a particular client order, the Participant must be able to demonstrate that it has abided by the policies and procedures. At a minimum, the written compliance procedures must address employee education and post-trade monitoring.

The purpose of the Participant’s compliance review is to ensure that inventory or non-client orders are not knowingly traded ahead of client orders. This would occur if a client order is withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the client. Withholding an order for normal review and order handling is allowed under Rules 5.3 and 5.1, as this is done to ensure that the client gets a good execution. To ensure that a supervision system is effective it must address potential problem situations where trading opportunities may be taken away from clients.

(d) deleting Part 5 and replacing with the following:

Part 5—Specific Procedures Respecting Manipulative and Deceptive Activities and Reporting and Gatekeeper Obligations

Each Participant must develop, implement and maintain a supervision system to ensure that orders entered on a marketplace by or through a Participant are not part of a manipulative or deceptive method, act or practice nor an attempt to create an artificial price or a false or misleading appearance of trading activity or interest in the purchase or sale of a security.

In particular, the policies and procedures must address:

- *the steps to be taken to monitor the trading activities of:*
 - o *an insider or an associate of an insider*
 - o *part of or an associate of a promotional group or other group with an interest in effecting an artificial price, either for banking and margin purposes, for purposes of effecting a distribution of the securities of the issuer or for any other improper purpose*
- *the steps to be taken to monitor the trading activity of any person who has multiple accounts with the Participant including other accounts in which*



the person has an interest or over which the person has direction or control

- those circumstances when the Participant is unable to verify certain information (such as the beneficial ownership of the account on behalf of which the order is entered, unless that information is required by applicable regulatory requirements)*
- the fact that orders which are intended to or which affect an artificial price are more likely to appear at the end of a month, quarter or year or on the date of the expiry of options where the underlying interest is a listed security, and*
- the fact that orders which are intended to or which affect an artificial price or a false or misleading appearance of trading activity or investor interest are more likely to involve securities with limited liquidity.*

A Participant will be able to rely on information contained on a “New Client Application Form” or similar know-your-client record maintained in accordance with requirements of securities legislation or a self-regulatory entity provided such information has been reviewed periodically in accordance with such requirements and any additional practices of the Participant.

While a Participant cannot be expected to know the details of trading activity conducted by a client through another dealer, nonetheless, a Participant that provides advice to a client on the suitability of investments should have an understanding of the financial position and assets of the client and this understanding would include general knowledge of the holdings by the client at other dealers or directly in the name of the client. The supervision system of the Participant should allow the Participant to take into consideration, information which the Participant has collected respecting accounts at other dealers as part of the completion and periodic updating of the “New Client Application Form”. Each Participant must review a sample of its trading for manipulative and deceptive activities at least on a quarterly basis.

(e) deleting Part 6 and replacing with the following:

Part 6– Specific Provisions Respecting Trade-throughs

Each Participant must develop, implement and maintain a supervision system to ensure that an order:

- marked as “directed action order” in accordance with Rule 6.2 does not result in a trade-through other than a trade-through permitted under Part 6 of the Trading Rules; or*
- entered on a foreign organized regulated market complies with the conditions in subsection (3) of Rule 6.4.*



Each Access Person must adopt written policies and procedures reasonably designed to detect and prevent an order marked as a “directed action order” in accordance with Rule 6.2 from resulting in a trade-through other than a trade-through permitted under Part 6 of the Trading Rules.

The policies and procedures must set out the steps or process to be followed by the Participant or Access Person to ensure that the execution of an order does not result in a trade-through. The policies and procedures must specifically address the circumstances when the bypass order marker will be used in conjunction with a “directed action order”. These policies and procedures must address the steps which the Participant or Access Person will undertake on a regular basis, which shall not be less than monthly, to test that the policies and procedures are adequate.

- (f) amending Part 7 by:
 - (i) deleting “,” following “thresholds” in the first sub bullet
 - (ii) deleting “,” following “securities” in the third sub bullet
 - (iii) inserting “applicable” following “with” in the second bullet
 - (iv) deleting “,” following “requirements in the second bullet
 - (v) deleting “; and” following “Access Person” in the third bullet.
- (g) amending Part 8 by deleting “exceed the marketplace thresholds applicable to the marketplace on which the order is entered or would otherwise” following “not to” in the fourth paragraph.
- (h) amending Part 9 by:
 - (i) deleting “the” before “trading” in the first paragraph and replacing with “other”
 - (ii) deleting “in Parts 1,2,3,5,7 and 8” following “requirements” in the first paragraph.
- (i) adding the following as Part 10:

Part 10 – Specific Procedures Respecting Audit Trail and Record Retention Requirements

Each Participant must develop, implement and maintain a supervision system to ensure that an accurate and complete audit trail of orders and trades under Rule 10.11 and Rule 10.12 is recorded and maintained.

At a minimum, policies and procedures regarding audit trail requirements must ensure the accurate recording of the following information for each order and trade as applicable:

- *date and time of entry, amendment, cancellation, execution and expiration*
- *quantity*



- *buy, sell or short-sale marker*
- *market or limit order marker*
- *price (if limit order)*
- *security name or symbol*
- *identity of order recipient or trader*
- *client name or account number and special client instructions*
- *client consent*
- *applicable designations and identifiers under Rule 6.2 (identifier would allow compliance and regulators to track the history of the order, from time of order entry to execution or expiration)*
- *for CFOD orders, subsequent time of entry and quantity or price changes.*

Sample sets must be randomly selected to proportionately cover orders and trades related to all lines of business of a Participant. Reviews for compliance with Audit Trail Requirements must be carried out at least on a quarterly basis and reviews for compliance with Record Retention Requirements must be carried out at least annually.

- (j) adding the following as Part 11:

Part 11– Specific Procedures Respecting Order Handling

Each Participant must develop, implement and maintain a supervision system to ensure that its trading does not violate order exposure requirements under Rule 6.3 or client priority requirements under Rule 8.1. Reviews for compliance with these provisions must at a minimum include:

- *verifying that client orders of 50 standard trading units or less are not withheld from the market without a valid exemption from order exposure rule*
- *reviewing client-principal trades of 50 standard trading units or less with a trade value of \$ 100,000 or less for compliance with client-principal rules.*

Each Participant must review the order entry and trading described above at least quarterly.

- (k) adding the following as Part 12:

Part 12–Specific Provisions Respecting Grey List and Restricted Securities

Each Participant must develop, implement and maintain a supervision system to review securities:

- *about which a Participant may have non-public information (e.g. Grey or Watch list)*
- *subject to trading restrictions with respect to Rule 7.7 or any other Requirement (e.g. Restricted List)*
- *trading outside Canada during Regulatory halts, delays and suspensions (e.g. CTO halts).*



Policies and procedures designed to monitor trading around Grey and Restricted list securities must consider:

- *insider trading requirements under subsection 76.(1) of Securities Act (Ontario) and similar provisions that prohibit a person or company in a special relationship with a reporting issuer from purchasing or selling such securities with knowledge of a material change that has not been generally disclosed*
- *OSC Policy 33-601- Guidelines for Policies and Procedures Concerning Insider Information.*

Each Participant must review the trading described above on a daily basis.

(l) adding the following as Part 13:

Part 13— Specific Provisions Respecting Client Disclosures

Each Participant must develop, implement and maintain a supervision system to verify that appropriate trade disclosures are made on client confirmations. To comply with IIROC rules, such disclosures must include:

- *the quantity and description of the security purchased or sold*
- *whether or not the person or company that executed the trade acted as principal or agent*
- *the consideration of the trade (may include average price of the security traded)*
- *the related issuers of the security traded*
- *the date of the trade and name of the marketplace on which the transaction took place (if applicable, Participants may use a general statement that the transaction took place on more than one marketplace or over more than one day)*
- *the name of the salesperson responsible for the transaction*
- *the settlement date of the trade.*

Each Participant must review a sample of trade confirmations at least on a quarterly basis.

(m) adding the following as Part 14:

Part 14 - Specific Provisions Applicable to Normal Course Issuer Bids (“NCIBs”) and Sales from Control Blocks

Each Participant must develop, implement and maintain a supervision system to review NCIB-related trading to ensure:

- *maximum daily and annual stock purchase limits are observed*



- *purchases for NCIBs do not occur while a sale from control for the same security is in effect*
- *NCIB purchases are not made on upticks*
- *NCIB trade reporting to Exchange (if the firm reports on behalf of issuer).*

Each Participant must review trading related to NCIBs described above at least quarterly.

Supervisory policies and procedures must also be designed to review trading related to sales from control blocks. Such reviews must be carried out as when determined necessary by the Participant and must include:

- *reviewing of all known sales from control blocks to ensure regulatory requirements have been met*
- *sampling of large trades to determine if they are undisclosed sales from a control block.*

3. Rule 7.13 (3) is amended by deleting subsection (c) and replacing with the following:

- “(c) in the case of a routing arrangement agreement, the investment dealer or foreign dealer equivalent will not allow any order entered electronically by a client of the investment dealer or foreign dealer equivalent to be entered directly to a marketplace unless:
- (i) the client’s order is transmitted through the systems of the investment dealer or foreign dealer equivalent, prior to being transmitted through the systems of the Participant for automatic onward transmission to a marketplace or transmitted directly to a marketplace without being electronically transmitted through the system of the Participant, and
 - (ii) the client’s order is subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the investment dealer or foreign dealer equivalent.”.