



**Appendix “B”**  
**Comments Received in Response to**  
**Rules Notice 10-0113 – Request For Comments – UMIR**

***Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations***

On April 23, 2010, the Investment Industry Regulatory Organization of Canada (“IIROC”) issued Rules Notice 10-0113 requesting comments on Provisions Respecting Market Maker, Odd Lot and Other Marketplace Trading Obligations (“Proposed Amendments”). IIROC received comments on the Proposed Amendments from:

QJ Trader Software (“QJ”)

A copy of the comment letter in response to the Proposed Amendments is publicly available on the website of IIROC ([www.iiroc.ca](http://www.iiroc.ca) under the heading “Policy” and sub-heading “Market Proposals/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 has been no change in the text of the Amendments from the Proposed Amendments set out in IIROC Notice 10-0113.

Text of Provisions Following Adoption of the Amendments	Commentator and Summary of Comment	IIROC Response to Commentator and Additional IIROC Commentary
<p><b>1.1 Definitions</b></p> <p>"dealer-restricted person" means, in respect of a particular offered security:</p> <p>...</p> <p>(b) a related entity of the Participant referred to in clause (a) but does not include such related entity, or any separate and distinct department or division of the Participant if:</p> <p style="margin-left: 20px;">(i) the Participant maintains and enforces written policies and procedures in accordance with Rule 7.1 that are reasonably designed to prevent the flow of information from the Participant regarding the offered security and the related transaction,</p> <p style="margin-left: 20px;">(ii) the Participant has no officers or employees that solicit client orders or recommend transactions in securities in common with the related entity, department or division, and</p> <p style="margin-left: 20px;">(iii) the related entity, department or division does not during the restricted period in connection with the restricted security:</p> <p style="margin-left: 40px;">(A) act as a market maker (other than pursuant to Marketplace Trading Obligations),</p> <p style="margin-left: 40px;">(B) solicit client orders, or</p> <p style="margin-left: 40px;">(C) enter principal orders or otherwise engage in proprietary trading;</p> <p>...</p>		



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<p><b>1.1 Definitions</b></p> <p><b>“Marketplace Trading Obligations”</b> means obligations imposed by:</p> <p>(a) Marketplace Rules on a member or user or a person employed by a member or user to guarantee:</p> <p>(i) a two-sided market for a particular security on a continuous or reasonably continuous basis, or</p> <p>(ii) the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as designated by the marketplace; or</p> <p>(b) contract between a marketplace and a member, user or subscriber to guarantee the execution of orders for the purchase or sale of a particular security which are less than a minimum number of units of the security as stipulated by the terms of the contract provided such number is less than one standard trading unit and the orders for the member, user or subscriber are automatically generated by the trading system of the marketplace.</p>	<p><b>QJ</b> - Recommends that contractual users should be limited to the predominant marketplace on a particular stock and that such contract should have predetermined limits fixed by IIROC in the trading facilities offered by the marketplace to such user.</p>	<p>The Amendments do not provide any “benefits” relating to a marketplace entering into contractual relationships with a member, user or subscriber as it relates to “Marketplace Trading Obligations”. Any marketplace which intends to introduce “Marketplace Trading Obligations” would be subject to all applicable CSA approvals and any applicable public comment periods. If the activity is governed by “contract”, the maximum obligation must be less than one standard trading unit (100 shares if the security trades for \$1.00 or more; 500 shares for securities trading at \$0.10 or more and less than \$1.00; and 1,000 shares for securities trading at less than \$0.10). In essence, persons with contractual obligations are limited to acting as “Odd Lot” Dealers.</p>
<p><b>2.2 Manipulative and Deceptive Activities</b></p> <p>(3) For greater certainty, the entry of an order or the execution of a trade on a marketplace by a person in accordance with the Marketplace Trading Obligations shall not be considered a violation of subsection (1) or (2) provided such order or trade complies with applicable Marketplace Rules or terms of the contract with the marketplace and the order or trade was required to fulfill applicable Marketplace Trading Obligations.</p>		
<p><b>3.1 Restrictions on Short Selling</b></p> <p>(2) A short sale of a security may be made on a marketplace at a price below the last sale price if the sale is:</p> <p>....</p> <p>(b) made in furtherance of the Marketplace Trading Obligations of that marketplace;</p> <p>....</p>		
<p><b>3.2 Prohibition on Entry of Orders</b></p> <p>(1) A Participant or Access Person shall not enter an order to sell a security on a marketplace that on execution would be a short sale:</p> <p>(a) unless the order is marked as a short sale in accordance with subclause 6.2(1)(b)(viii) or subclause 6.2(1)(b)(ix); or</p>		



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<p>(b) if the security is a Short Sale Ineligible Security at the time of the entry of the order.</p> <p>(2) Clause (a) of subsection (1) does not apply to an order automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace.</p> <p>(3) Clause (b) of subsection (1) does not apply to an order entered on a marketplace:</p> <p>(a) in furtherance of the Marketplace Trading Obligations of that marketplace;</p> <p>....</p>		
<p><b>5.3 Client Priority</b></p> <p>(2) Despite subsection (1) but subject to Rule 4.1, a Participant is not required to give priority to a client order if:</p> <p>....</p> <p>(b) the principal order or non-client order is:</p> <p>(i) automatically generated by the trading system of a marketplace in respect of the Marketplace Trading Obligations of that marketplace,</p> <p>....</p>		
<p><b>7.7 Trading During Certain Securities Transactions</b></p> <p>(7) <b>Transactions by Person with Marketplace Trading Obligations</b> - Despite subsection (1), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in respect of such Marketplace Trading Obligations:</p> <p>(a) with the prior approval of a Market Integrity Official, enter a bid to move the calculated opening price of a restricted security to a more reasonable level;</p> <p>(b) purchase a restricted security pursuant to their Marketplace Trading Obligations; and</p> <p>(c) bid for or purchase a restricted security:</p> <p>(i) that is traded on another marketplace or foreign organized regulated market for the purpose of matching a higher-priced bid posted on such marketplace or foreign organized regulated market,</p> <p>(ii) that is convertible, exchangeable or exercisable into another listed security for the purpose of maintaining an appropriate conversion, exchange or exercise ratio, and</p> <p>(iii) to cover a short position resulting from sales made under their Marketplace Trading Obligations.</p>		



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<p><b>Policy 2.1 - Just and Equitable Principles</b>  <b>Part 1 – Examples of Unacceptable Activity</b>  .....  Without limiting the generality of the Rule, the following are examples of activities that would be considered to be in violation of requirements to conduct business openly and fairly or in accordance with just and equitable principles of trade:  .....  (d) when trading a security on a marketplace that is subject to Marketplace Trading Obligations, intentionally entering on that marketplace on a particular trading day two or more orders which would impose an obligation on the person subject to the Marketplace Trading Obligations:  (i) execute with one or more of the orders, or  (ii) purchase at a higher price or sell at a lower price with one or more of the orders in accordance with the Marketplace Trading Obligations that would not be imposed if the orders had been entered on the marketplace as a single order or entered at the same time.</p>		
<p><b>Policy 7.7- Trading During Certain Securities Transactions</b>  <b>Part 3 – Short Position Exemption</b>  Rule 7.7(4)(h) provides an exemption from the prohibitions in subsection (1) for a dealer-restricted person in connection with a bid for or purchase to cover a short position provided that short position was entered into before the commencement of the restricted period. Short positions entered into during the restricted period may be covered by purchases made in reliance upon the market stabilization exemption in Rule 7.7(4)(a), subject to the price limits set out in that exemption. (See “Part 5 – Trading Pursuant to Marketplace Trading Obligations” for a discussion of the ability of persons with Marketplace Trading Obligations to cover short positions arising during the restricted period pursuant to their Marketplace Trading Obligations.)</p>		
<p><b>Policy 7.7- Trading During Certain Securities Transactions</b>  <b>Part 5 – Trading Pursuant to Marketplace Trading Obligations</b>  Under Rule 7.7(7)(b), a dealer-restricted person with Marketplace Trading Obligations for a restricted security may, for their trading account in connection with such Marketplace Trading Obligations, purchase a restricted security pursuant to their Marketplace Trading Obligations. Not every purchase of a restricted security by a person with Marketplace Trading Obligations will be considered to undertaken pursuant to their Marketplace Trading Obligations. For example, if a market making system of an Exchange or QTRS permits a market maker to voluntarily participate in trades that participation may only result in purchases that are:</p>		



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<ul style="list-style-type: none"><li>• made at prices which are permitted by Rule 7.7(4)(a); or</li><li>• to cover a short position resulting from sales made under their Marketplace Trading Obligations.</li></ul> <p>Use of a voluntary participation feature in other circumstances, may result in the market maker not complying with the prohibitions or restrictions on trading under Rule 7.7.</p>		