

Appendix 4 – Blackline of Proposed Amendments to UMIR (blackline)

POLICY 1.2 - INTERPRETATION

[...]

Part 4 -Applicable Regulatory Standards

Rule 7.1 requires each Participant prior to the entry of an order on a marketplace to comply with applicable regulatory standards with respect to the review, acceptance and approval of orders. Each Participant that is a dealer must be a member of a self-regulatory entity. Each Participant will be subject to the by-laws, regulations and policies as adopted from time to time by the applicable self-regulatory entity. These requirements may include an obligation on the member to “use due diligence to learn and remain informed of the essential facts relative to every customer and to every order or account accepted.” While knowledge by a Participant of “essential facts” of every customer and order is necessary to determine the suitability of any investment for a client, such requirement is not limited to that single application. The exercise of due diligence to learn essential facts “relative to every customer and to every order” is a central component of:

- the “Gatekeeper Obligation” embodied within the trading supervision obligation under Rule 7.1, and 10.16, and
- the reporting requirements under IIROC Rule 3700.

In addition, securities legislation applicable in a jurisdiction may impose review standards on Participants respecting orders and accounts. The regulatory standards that may apply to a particular order may vary depending upon a number of circumstances including:

- the requirements of any self-regulatory entity of which the Participant is a member;
- the type of account from which the order is received or originated; and
- the securities legislation in the jurisdiction applicable to the order.

[...]

POLICY 7.1 – TRADING SUPERVISION OBLIGATIONS

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.

[...]

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

[...]

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 or to IROC if required by IROC Rule 3700. 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.

[...]

UMIR 10.16 Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons

(1) An officer, director, partner or employee of a Participant shall forthwith report to their supervisor or the compliance department of the Participant upon becoming aware of activity in a principal, non-client or client account of the Participant or a related entity that the officer, director, partner or employee believes may be a violation of:

- (a) Subsection (1) of Rule 2.1 respecting specific unacceptable activities;
- (b) Rule 2.2 respecting manipulative and deceptive activities;

(c) Rule 2.3 respecting improper orders and trades;

(d) Rule 4.1 respecting frontrunning;

~~(e) Dealer Member Rule 3300 respecting best execution of client orders;~~

~~(f) Rule 5.3 respecting client priority;~~

(e) Rule 6.4 respecting trades to be on a marketplace; and

(f) Any Requirement that has been designated by the Market Regulator for the purposes of this subsection.

(2) An officer, director, partner or employee of an Access Person shall forthwith report to their supervisor or the compliance department of the Access Person upon becoming aware of activity by the Access Person or a related entity that the officer, director, partner or employee believes may be a violation of:

(a) Subsection (2) of Rule 2.1 respecting specific unacceptable activities;

(b) Rule 2.2 respecting manipulative and deceptive activities;

(c) Rules 2.3 respecting improper orders or trades; and

- (d) any Requirement that has been designated by the Market Regulator for the purposes of this subsection.
- (3) If a supervisor or compliance department of a Participant or Access Person receives a report pursuant to subsection (1) or (2), the supervisor or compliance department shall diligently conduct a review in accordance with the policies and procedures of the Participant adopted in accordance with Rule 7.1 or in accordance with the ordinary practices of the Access Person.
- (4) If the review conducted by the supervisor or compliance department concluded that there may be a violation, the supervisor or compliance department shall:
- (a) make a written record of the report by the officer, director, partner or employee and the review conducted in accordance with subsection (3);
 - (b) diligently investigate the activity that is the subject of the report and review;
 - (c) make a written record of the findings of the investigation; and
 - (d) report the findings of the investigation to the Market Regulator if the finding of the investigation is that a violation of an applicable provision of UMIR has occurred and such report shall be made not later than the 15th day of the month following the month in which the findings are made.
- (5) Each Participant and Access Person shall with respect to the records of the report, the review and the findings required by subsection (4):
- (a) retain the records for a period of not less than seven years from the creation of the record; and
 - (b) allow the Market Regulator to inspect and make copies of the records at any time during ordinary business hours during the period that such record is required to be retained in accordance with clause (a).
- (6) The obligation of a Participant or an Access Person to report findings of an investigation under subsection (4) is in addition to any reporting obligation that may exist in accordance with applicable securities legislation, the requirements of any other self-regulatory entity and any applicable Marketplace Rules.