

# Re M Partners

IN THE MATTER OF:

**The Rules of the Investment Industry Regulatory Organization of  
Canada**

**and**

**The Universal Market Integrity Rules**

**and**

**M Partners Inc.**

2015 IIROC 11

Investment Industry Regulatory Organization of Canada  
Hearing Panel (Ontario District)

Heard: February 23, 2015 at Toronto, Ontario  
Oral Decision: February 23, 2015  
Written Decision: March 10, 2015

## **Hearing Panel:**

Edward T. McDermott, Chair, Richard E. Austin and Nick Savona

## **Appearances:**

Charles Corlett, Senior Enforcement Counsel  
Alistair Crawley, Counsel for M Partners Inc.

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## **REASONS FOR DECISION**

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### **INTRODUCTION**

¶ 1 On February 23, 2015, this Hearing Panel of the Investment Industry Regulatory Organization of Canada (“IIROC”) was constituted pursuant to IIROC Transitional Rule No. 1, Schedule C.1 for the purpose of determining whether the Hearing Panel was prepared to accept or reject the terms of a Settlement Agreement, which had been entered into by IIROC and the Respondent, M Partners Inc., pursuant to an offer of settlement made by IIROC and accepted by the Respondent in writing, a copy of which, for ease of reference, is attached as Schedule “1” to these Reasons for Decision.

¶ 2 As is noted from the introduction to the Settlement Agreement, IIROC seeks sanctions against the Respondent pursuant to Rule 10.5 of the Universal Market Integrity Rules (“UMIR”), which sanctions had been agreed to by the Respondent subject to approval by this Hearing Panel in accordance with Part 3 of UMIR Policy 10.8.

¶ 3 It is not contested that the Respondent is governed by the Rules and Policies of UMIR and that IIROC has the jurisdiction to investigate and seek the enforcement of the UMIR Rules and Policies including the administration of sanctions for contravention thereof.

¶ 4 Upon convening this hearing and receiving the Settlement Agreement, the Hearing Panel satisfied itself that the terms of the Settlement Agreement contained all of the requirements as set forth in Part 3 of UMIR

Policy 10.8, which provides as follows:

### **3.2 Contents of Offer of Settlement**

An Offer of Settlement must:

- (a) be in writing;
- (b) be signed by the President of the Market Regulator or such other officer of the Market Regulator as is authorized to make an Offer of Settlement;
- (c) specify, that if the Offer of Settlement is accepted, the date on or before which the Settlement Agreement must be served on the Market Regulator provided that the date shall not be earlier than 20 days after the Offer of Settlement has been served;
- (d) contain a reference to the Statement of Allegations intended to be relied upon by the Market Regulator;
- (e) specify the penalties or remedies to be imposed by the Market Regulator pursuant to Rule 10.5 and the assessment of any expenses to be made pursuant to Rule 10.7; and
- (f) contain a statement that if the Offer of Settlement is accepted by the person on whom it is served:
  - (i) the resulting Settlement Agreement is conditional upon the approval of the Hearing Panel, and
  - (ii) the person shall waive all rights under UMIR and the other Requirements to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.

### **THE CONTRAVENTIONS**

¶ 5 The terms of the Settlement Agreement contain an admission on the part of the Respondent that it has contravened the following requirements of UMIR:

7. The Respondent agrees that during November 2012 it contravened the following Requirements of UMIR:
  - (i) failed to comply with its trading supervision obligations contrary to UMIR 7.1 and Policy 7.1; and
  - (ii) failed on receipt or origination of certain orders to record specific information relating to the orders as required by Part 11 of the Trading Rules (National Instrument 23-101) contrary to UMIR 10.11(1).

¶ 6 The applicable policies and trading rules are annexed as Schedule “A” to Appendix “A” to the Settlement Agreement appended to these reasons for decision.

¶ 7 In its essence, the contraventions which have been acknowledged by the Respondent to have occurred, involved a failure by the Respondent to provide appropriate and effective supervision in order to ensure that the information required upon the receipt or origination of an order was received and recorded at the required time, and in sufficient detail, to comply with the obligations set forth in the audit trail requirements specified in Part 11 of the Trading Rules (National Instrument 23-101) and to actually comply with such Trading Rules contrary to UMIR 7.1 and Policy 7.1 and UMIR 10.11(1), respectively, as set forth in Schedule “A” to the Statement of Allegations annexed as Appendix “A” to the Settlement Agreement..

¶ 8 As can be seen from the Statement of Allegations, as a result of investigation by IIROC’s Staff, significant audit trail deficiencies and improper order handling practices were uncovered relating to the

Respondent's use of Accumulation Accounts during the month of November 2012.

¶ 9 The Statement of Relevant Facts in the Statement of Allegations specifies a number of illustrations of the sloppy and inadequate manner in which the Respondent's trade desk received and placed orders without properly recording required information on the manual trade tickets they were at that time required to complete pursuant to the Respondent's recording systems. The trade desk also failed to time-stamp many of the manual trade tickets or even to fill them out on certain occasions. Accordingly, not only were the efforts at recording the required information incomplete, on some occasions they simply did not exist.

¶ 10 This, of course, resulted in a great deal of confusion and uncertainty as to whether the completed purchases and sales were properly allocated to the correct client and/or non-client accounts. The situation was further aggravated by the fact that on several occasions trades for which no ticket or record existed were first allocated to an Accumulation Account and then later allocated to other client or non-client accounts, without any backup evidence that they were in fact the proper recipients of the shares.

¶ 11 In one example, thirteen clients and non-clients participated in an accumulation of shares in an Accumulation Account but when the allocations were made, trade tickets were only found for eleven client and non-client accounts. In another situation, trades to acquire shares for which no trade ticket or record of the account number or identifier existed were allocated to an Accumulation Account and later allocated to a non-client account which did not at the time have sufficient funds to purchase the shares on the trade date. The problems which these situations created were accentuated by the fact that settlement and allocation dates were allowed to slide for various periods of time, which only served to increase the difficulty in properly identifying the correct client and non-client accounts for the transactions.

¶ 12 In the result, the Respondent's failure to properly implement and oversee/supervise proper audit trail and order-handling procedures of its trade desk resulted in the Respondent being unable to discharge its obligations under the UMIR which required it to be able to demonstrate and evidence compliance with the UMIR requirements for order handling and the creation of adequate and timely records to ensure the existence of a proper audit trail of such orders.

¶ 13 We agree with Senior Enforcement Counsel that compliance with the UMIR requirements and the maintenance of required records to track all order transactions provide the foundation for ensuring that security transactions are handled in a clear, open and transparent manner in the interests of the trading public as well as the Dealer Member/Participant whose capital is at risk if these procedures are not appropriately implemented and followed. It is accordingly of considerable importance that the necessary policies and procedures to comply with these rules be put in place, followed, and monitored and tested on a regular and ongoing basis in order to ensure that the type of deficiencies which came to light in this particular case simply do not occur. The Respondent clearly failed in its obligation to supervise and comply with these important regulatory requirements.

## **THE PENALTY**

¶ 14 In accordance with the terms of the Settlement Agreement, the parties have agreed on the following sanctions which are set forth in the Settlement Agreement and are subject to acceptance by this Hearing Panel:

- (i) a fine of \$40,000 payable by the Respondent to IIROC; and
- (ii) costs of \$5,000 payable by the Respondent to IIROC.

## **THE ROLE OF THE HEARING PANEL**

¶ 15 In *Re Melville* (2014 IIROC 51) the Hearing Panel capsulized the role of a Hearing Panel in reviewing the Settlement Agreement in the following terms:

9. In the recent decision of *Re Faber*, 2014 IIROC 14 (CanLII), the panel commented on the role of a Hearing Panel in considering a Settlement Agreement in the following terms:
  9. Under the provisions of IIROC's Rule 20.36, it is open to this Hearing Panel to either accept or reject the Settlement Agreement tendered upon us by the parties.

It is not a question of whether the agreed-upon penalties are ones which this Panel would have imposed had the matter come before us for determination at a hearing. It is also not open to us to amend, re-write or alter the terms of the agreement reached between the parties.

10. It is however our fundamental responsibility to be satisfied that the penalties set forth in the agreement are within a reasonable range of appropriateness in the circumstances set forth in the agreed-upon statement of facts.

11. The following excerpts from previously decided cases as recorded in the decision of *Re Ast* (2012 IIROC 38) set forth the parameters of the Hearing Panel's decision making processes when reviewing a Settlement Agreement presented to us by the parties to the dispute:

### **Standard for Reviewing a Settlement Agreement**

**13** The standard for reviewing a Settlement Agreement was well-stated in a recent Pacific District hearing, *Re Johnson* (2012 IIROC 19), where the panel stated:

‘The test applicable to a decision whether to accept or reject a settlement is well-known. Simply put, a panel should accept such an agreement unless it considers the penalty provided for clearly to fall outside a reasonable range of appropriateness.’

**14** There are many similar statements. See, for example, *Re Jiwa and Hoffar* (2012 IIROC 9), which adopted an earlier IDA decision, stating: ‘It will not reject a settlement unless it views the penalty as clearly falling outside a reasonable range of appropriateness.’ Another recent example is *Re Trapeze Capital* (2012 IIROC 25), where the panel states:

‘It is clear from jurisprudence emanating from the courts and from Hearing Panels of IIROC, Investment Dealers Association and the Mutual Fund Dealers Association, that our task is not to decide whether, in this case, we would have arrived at the same decision as that reached by the parties. Rather, our duty is to determine whether the penalty is a reasonable one and that it meets the objectives of the disciplinary process which are to maintain the integrity of the investment industry.’

**15** And, finally, see the statement in *Re Rotstein and Zackheim* (2012 IIROC 27):

‘Based upon this material it is our responsibility to review the agreement in order to satisfy ourselves that it falls within a reasonable range of appropriateness to the offence and circumstances recorded in the agreement and that there is nothing in the agreement which would be contrary to the public interest or bring the administration of the Rules of IIROC into public disrepute. If we are satisfied that the Settlement Agreement does not offend these principles then it should be accepted.’

¶ 16 This Hearing Panel endorses and adopts the above noted statements of the standard of review for the penalty arrived at in a Settlement Agreement between the parties to a proceeding under the IIROC Rules or UMIR and has reviewed the instant settlement agreement in the context of these parameters. At the conclusion of the hearing, this Hearing Panel recessed and subsequently advised the parties that it had made a determination that the Settlement Agreement was accepted and executed a copy of the Settlement Agreement confirming such acceptance with written reasons to follow.

## REASONS FOR ACCEPTING THE AGREEMENT

¶ 17 Both Enforcement Staff and the Respondent, by entering into the Settlement Agreement, have requested this Hearing Panel to accept their joint recommendation that the Respondent be required to pay a fine in the amount of \$40,000 as well as costs to IIROC in the amount of \$5,000.

¶ 18 As we have noted in paragraph 13, *supra*, we consider the UMIR requirements to create and maintain a fulsome and detailed record of orders and to implement and monitor appropriate written supervisory systems (including all necessary rules, policies and procedures) to ensure that such information is properly received and recorded is part of the bedrock of an effective and orderly securities regulation system. The amount of the fine for a contravention of these obligations should be sufficient to serve as a specific deterrent to the particular Respondent, as well as a general deterrent to others who might be inclined to ignore or overlook their obligations to ensure that these procedures and policies are followed.

¶ 19 In considering the appropriateness of this penalty, we have taken into account the fact that Senior Enforcement Counsel has brought to our attention that the Respondent is a relatively small brokerage house for which a penalty of this magnitude might be considered to be substantial. In addition, we were advised that once the matters were brought to its attention, the Respondent quite quickly acknowledged that it was in breach of its obligations and intended to take all necessary steps to rectify the deficiencies that had come to light as a result of IIROC's investigation. The Respondent (as it is required to do) provided IIROC with its full and complete cooperation during its investigation and was quite proactive in subsequently addressing the deficiencies which had been uncovered in its order taking and audit trail protocols. The Respondent's cooperation and remedial efforts were also of assistance to IIROC in helping to conserve the resources necessary to prosecute this matter and in addressing the deficiencies which IIROC had uncovered.

¶ 20 We were also informed that the Respondent had in fact implemented numerous changes to rectify the audit trail deficiencies and improper order handling practices and to provide the necessary supervision to ensure that all trading in securities complies with the applicable regulatory requirements. Such measures included the following:

- (i) hiring a new Chief Compliance Officer;
- (ii) implementing new audit trail policies and procedures;
- (iii) providing training to Trade Desk employees with respect to audit trail requirements and proper order handling practices;
- (iv) conducting daily testing of trade tickets for completeness and accuracy of audit trail information;
- (v) conducting expanded monthly testing for completeness and accuracy of audit trail information;
- (vi) identifying on a timely basis any deficiencies that need to be addressed; and
- (vii) quantifying and summarizing the results of the monthly testing on a quarterly basis for the Board of Directors.

¶ 21 IIROC Staff advised this Hearing Panel that they were fully satisfied that the measures undertaken by the Respondent to address the various deficiencies it had identified in its investigation have been effective.

¶ 22 This Hearing Panel has also taken into account the recently revised sanction guidelines published by IIROC Staff and have noted that no information was placed before us that the Respondent had any prior disciplinary record; or that the Respondent or anyone associated with it derived financial benefit as a result of the contraventions which were the subject matter of this proceeding; or that any client suffered financial harm as a result of the contraventions. As Senior Enforcement Counsel indicated, there was no evidence to support a conclusion that the audit trail contraventions and untimely trade allocations from the Accumulation Accounts were intentionally deceptive or were being undertaken systematically for the purpose of providing an advantage to any particular client or non-client.

¶ 23 Having taken all of these matters into account (including previous precedents referred to by Senior Enforcement Counsel) we have concluded that the sanctions agreed to in the Settlement Agreement satisfy the objectives of specific and general deterrence and are within a reasonable range of appropriateness in all of the circumstances. We are also of the view that the amount agreed to be paid by way of costs to IIROC is within acceptable parameters. We accordingly have accepted the Settlement Agreement placed before this Hearing Panel and hereby issue an order in accordance with Part 3.6 (a) of UMIR Policy 10.8 that the Settlement Agreement is binding on the parties and enforceable in accordance with its terms.

DATED at Toronto this 10th day of March 2015.

Edward T. McDermott

Chair

Richard E. Austin

Industry Representative

Nick Savona

Industry Representative

### **SCHEDULE "1"**

#### **INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

#### **IN THE MATTER OF:**

**THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**  
**AND**  
**THE UNIVERSAL MARKET INTEGRITY RULES**  
**AND**  
**M PARTNERS INC.**

#### **OFFER OF SETTLEMENT**

##### **A. INTRODUCTION**

1. The Enforcement Department Staff (Staff) of the Investment Industry Regulatory Organization of Canada (IIROC) has conducted an investigation (the Investigation) into the conduct of M Partners Inc. (the Respondent).
2. The Investigation has disclosed matters for which IIROC seeks certain sanctions against the Respondent pursuant to Rule 10.5 of the Universal Market Integrity Rules (UMIR).
3. If this Offer of Settlement is accepted by the Respondent, the resulting settlement agreement (the Settlement Agreement), which has been negotiated in accordance with Part 3 of UMIR Policy 10.8, is conditional upon the approval by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1 (the Hearing Panel).
4. The Respondent agrees to waive all rights under UMIR to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.
5. The Respondent consents to be subject to the jurisdiction of IIROC and its relevant disciplinary process and rules in relation to this matter.
6. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement.

**B. AGREEMENT AS TO REQUIREMENTS CONTRAVENED**

7. The Respondent agrees that during November 2012 it contravened the following Requirements of UMIR:
- (i) failed to comply with its trading supervision obligations contrary to UMIR 7.1 and Policy 7.1; and
  - (ii) failed on receipt or origination of certain orders to record specific information relating to the orders as required by Part 11 of the Trading Rules (National Instrument 23-101) contrary to UMIR 10.11(1).

**C. ADMITTED FACTS**

8. For the purposes of this Settlement Agreement, Staff and the Respondent agree with and rely upon the admitted facts and conclusions which are set out in the Statement of Allegations attached as Appendix A to this Settlement Agreement.

**D. DISPOSITION**

9. For the contraventions in paragraph 7 above, Staff and the Respondent have agreed upon disposition as follows:
- (i) a fine of \$40,000 payable by the Respondent to IIROC; and
  - (ii) costs of \$5,000 payable by the Respondent to IIROC.
10. If this Settlement Agreement is accepted by a Hearing Panel, the Respondent agrees to pay the amounts referred to in paragraph 9 within 30 days of such acceptance.

**E. PROCEDURES FOR ACCEPTANCE OF OFFER OF SETTLEMENT AND APPROVAL OF SETTLEMENT AGREEMENT**

11. The Respondent shall have until the close of business on February 13, 2015 to accept the Offer of Settlement and serve an executed copy thereof on Staff.
12. This Settlement Agreement shall be presented to a Hearing Panel at a public hearing (the Approval Hearing) held for the purpose of approving the Settlement Agreement, in accordance with the procedures described in UMIR Policy 10.8 in addition to any other procedures as may be agreed upon between the parties. The Respondent acknowledges that IIROC shall notify the public and media of the Approval Hearing in such manner and by such media as IIROC sees fit.
13. Pursuant to Part 3.4 of UMIR Policy 10.8, the Hearing Panel may accept or reject this Settlement Agreement.
14. In the event the Settlement Agreement is accepted by a Hearing Panel, the matter becomes final, there can be no appeal or review of the matter, the disposition of the matter agreed upon in this Settlement Agreement will be included in the permanent record of IIROC in respect of the Respondent and IIROC will publish a summary of the Requirements contravened, the facts, and the disposition agreed upon in the Settlement Agreement.
15. In the event the Hearing Panel rejects the Settlement Agreement, IIROC may proceed with a hearing of the matter before a differently constituted Hearing Panel pursuant to Part 3.7 of UMIR Policy 10.8 and this Settlement Agreement may not be referred to without the consent of both parties.
16. The Respondent agrees that, in the event it fails to comply with any of the terms of the Settlement Agreement, IIROC may enforce this settlement in any manner it deems appropriate and may, without limiting the generality of the foregoing, suspend the Respondent's access to marketplaces regulated by IIROC until IIROC determines that the Respondent is in full compliance with all terms of the Settlement Agreement.

17. The Respondent agrees that neither it, nor anyone on its behalf, will make a public statement inconsistent with this Settlement Agreement.

IN WITNESS WHEREOF the parties have signed this Settlement Agreement as of the dates noted below.

DATED at Toronto, Ontario on the 23<sup>rd</sup> day of February, 2015.

“Witness” \_\_\_\_\_

Witness Signature

\_\_\_\_\_  
Name of Witness

\_\_\_\_\_  
Address of Witness

“Steven Isenberg” \_\_\_\_\_

On behalf of M Partners Inc.

DATED at Toronto, Ontario on the 30<sup>th</sup> day of January, 2015.

Per: “Elsa Renzella” \_\_\_\_\_

Elsa Renzella

Vice President, Enforcement

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

Suite 2000, 121 King Street West

Toronto, Ontario M5H 3T9

This foregoing Settlement Agreement is hereby approved this 23<sup>rd</sup> day of February, 2015 by the following hearing panel constituted to review the terms thereof:

Per: “Edward McDermott” \_\_\_\_\_

Edward McDermott

Panel Chair

Per: “Richard Austin” \_\_\_\_\_

Richard Austin

Panel Member

Per: “Nick Savona” \_\_\_\_\_

Nick Savona

Panel Member

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**IN THE MATTER OF:**

**THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF  
CANADA**

**AND**

## **STATEMENT OF ALLEGATIONS**

### **I. REQUIREMENTS CONTRAVENED**

1. During November 2012, M Partners Inc. (“M Partners”) contravened the following Requirements of the Universal Market Integrity Rules (“UMIR”):
  - (i) failed to comply with its trading supervision obligations contrary to UMIR 7.1 and Policy 7.1; and
  - (ii) failed on receipt or origination of certain orders to record specific information relating to the orders as required by Part 11 of the Trading Rules (National Instrument 23-101) contrary to UMIR 10.11(1).
2. Schedule “A” sets out the text of the relevant UMIR Requirements.

### **II. RELEVANT FACTS AND CONCLUSIONS**

#### **Overview**

3. During November 2012, M Partners failed to comply with its trading supervision obligations and to meet its audit trail requirements. During the period, there were significant audit trail deficiencies and improper order handling practices relating to the firm’s use of accumulation accounts.

#### **Background**

4. M Partners is registered as an investment dealer, is a member and subscriber to IIROC-regulated marketplaces, and therefore is a Participant under UMIR.
5. The orders and trades at issue were entered and executed on IIROC-regulated marketplaces.
6. M Partners is a full service brokerage, primarily engaged in corporate finance activities. During November 2012, there were four individuals at M Partners who were permitted to enter orders to IIROC-regulated marketplaces (the “Trade Desk”).
7. The Trade Desk had access to firm inventory accounts for the purpose of accumulating shares when handling institutional orders and for large client orders (“Accumulation Account” or “Accumulation Accounts”). Non-client orders could be ticketed through the Accumulation Accounts where the non-client order was trading alongside a client order (with prior consent of the client) or where the non-client order was accumulating a position.
8. The Trade Desk does not use the electronic order entry system’s electronic trade ticketing feature in order to capture the required audit trail information. Instead, the Trade Desk was required, pursuant to the firm’s policies and procedures, to time stamp and complete manual trade tickets for all client and non-client orders prior to the submission of the order.

#### **Audit Trail Deficiencies and Improper Order Handling Practices**

9. IIROC Staff’s detailed review of trading by M Partners in November 2012 revealed significant audit trail deficiencies and improper order handling practices in connection with the Trade Desk’s use of the Accumulation Accounts.
10. During November 2012, the Trade Desk placed orders without properly completing trade tickets, including preparing tickets without identifying a client account number or identifier. In addition, there were numerous orders placed during the period for which M Partners cannot supply a trade ticket.
11. On several occasions, trades for which there is no trade ticket or record of the account number or identifier that placed the order were allocated to an Accumulation Account. Certain of these positions

remained in the Accumulation Account, sometimes past regular settlement date, and were sold at a profit. The completed purchases and sales were then allocated to client and/or non-client accounts on the same day.

12. For example, on November 7, 2012, the Trade Desk accumulated 27,800 shares of a security at an average price of \$2.9552 per share and allocated the purchase to an Accumulation Account. The shares were sold on November 9, 2012 from the Accumulation Account at an average price of \$3.2743 per share for settlement on November 15, 2012. There is no trade ticket or record of the account number or identifier that placed the order(s). The position was allocated to thirteen client and non-client accounts on November 15, 2012. At that time, buy and sell trade tickets were prepared for eleven accounts indicating the account names and the quantity of shares bought and sold. The tickets were time-stamped on November 15, 2012. For two accounts that participated in the trade, no trade ticket could be provided.
13. On several occasions, trades for which there is no trade ticket or record of the account number or identifier were allocated to an Accumulation Account and then later allocated to a non-client account that did not have sufficient funds to purchase the shares on the trade date.
14. For example, on November 19, 2012, the Trade Desk accumulated 56,500 shares of a security at an average price of \$0.7386 per share for which no trade ticket or record of the account number or identifier exists. On November 22, 2012 (the settlement date), 10,000 shares were allocated to a non-client account which sold the shares at \$0.76 per share on the same date. The 46,500 shares remained in the Accumulation Account until November 30, 2012. On that date, the non-client account sold 25,000 shares at \$0.77 with the remaining 21,500 shares being allocated to the non-client account for settlement on December 5, 2012.
15. The failure to allocate trades to client and non-client accounts on a timely basis was contrary to M Partners' policies and procedures.

#### **Failure to properly supervise the Trade Desk**

16. M Partners failed to properly supervise the audit trail deficiencies and improper order handling procedures that occurred during November 2012. There is evidence that the audit trail deficiencies continued until late 2013.
17. During this period, M Partners' monitoring and testing of the audit trail and use of the Accumulation Accounts was inadequate and did not detect or address the deficiencies.
18. M Partners' compliance staff, which suffered repeated turnover during this period, was not able to provide proper oversight of the Trade Desk's audit trail practices.

#### **Remedial Steps Taken by M Partners**

19. M Partners' acknowledged at an early juncture its supervision failures with respect to the audit trail deficiencies and improper order handling practices.
20. Since late 2013, M Partners has implemented numerous changes to rectify the audit trail deficiencies and improper order handling practices, including:
  - (i) hiring a new Chief Compliance Officer;
  - (ii) implementing new audit trail policies and procedures;
  - (iii) providing training to Trade Desk employees with respect to audit trail requirements and proper order handling practices;
  - (iv) conducting daily testing of trade tickets for completeness and accuracy of audit trail information;
  - (v) conducting expanded monthly testing for completeness and accuracy of audit trail information;
  - (vi) identifying on a timely basis any deficiencies that need to be addressed; and

(vii) quantifying and summarizing the results of the monthly testing on a quarterly basis for the Board of Directors.

21. The results of the monthly testing demonstrate that the remedial steps above have been effective.

### III. CONCLUSION

22. Participants must supervise their employees to ensure that trading in securities on a marketplace is carried out in compliance with the applicable Requirements, which include provisions of securities legislation, UMIR, the Trading Rules and the Marketplace Rules of any applicable Exchange.

23. Participants must comply strictly with audit trail requirements. Such compliance is a cornerstone of effective compliance and supervision. A complete and proper audit trail is the foundation on which Participants demonstrate and evidence compliance with regulatory requirements.

January 30, 2015

## INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

Suite 2000, 121 King Street West

Toronto, Ontario M5H 3T9

### SCHEDULE "A"

#### EXCERPTS FROM THE UNIVERSAL MARKET INTEGRITY RULES

##### 7.1 Trading Supervision Obligations

- (1) Each Participant shall adopt written policies and procedures to be followed by directors, officers, partners and employees of the Participant that are adequate, taking into account the business and affairs of the Participant, to ensure compliance with these Rules and each Policy.
- (2) Prior to the entry of an order on a marketplace by a Participant, the Participant shall comply with:
  - (a) applicable regulatory standards with respect to the review, acceptance and approval of orders;
  - (b) the policies and procedures adopted in accordance with subsection (1); and
  - (c) all requirements of these Rules and each Policy.

...

##### 10.11 Audit Trail Requirements

- (1) **Order and Trade Record** - In addition to any information required to be recorded by a Participant in accordance with Part 11 of the Trading Rules, a Participant shall:
  - (a) immediately following the receipt or origination of an order, record:
    - (i) all order designations required by clause (b) of subsection (1) of Rule 6.2,
    - (ii) the identifier of any investment adviser or registered representative receiving the order, and
    - (iii) any information respecting the special terms attaching to the order required by subsection (2) of Rule 6.2, if applicable;
  - (b) immediately following the entry of an order to trade on a marketplace, add to the record :
    - (i) the identifier of the Participant through which any trade would be cleared and settled,

- (ii) the identifier assigned to the marketplace on which the order is entered; and
- (c) immediately following the variation or correction of an order, add to the record any information required by clause (a) which has been changed.

## **National Instrument 23-101 – Trading Rules**

### **11.2 Audit Trail Requirements for Dealers and Inter-Dealer Bond Brokers**

- (1) **Recording Requirements for Receipt or Origination of an Order** - Immediately following the receipt or origination of an order for equity, fixed income and other securities identified by a regulation services provider, a dealer and inter-dealer bond broker shall record in electronic form specific information relating to that order including,
  - (a) the order identifier;
  - (b) the dealer or inter-dealer bond broker identifier;
  - (c) the type, issuer, class, series and symbol of the security;
  - (d) the face amount or unit price of the order, if applicable;
  - (e) the number of securities to which the order applies;
  - (f) the strike date and strike price, if applicable;
  - (g) whether the order is a buy or sell order;
  - (h) whether the order is a short sale order, if applicable;
  - (i) whether the order is a market order, limit order or other type of order, and if the order is not a market order, the price at which the order is to trade;
  - (j) the date and time the order is first originated or received by the dealer or inter-dealer bond broker;
  - (k) whether the account is a retail, wholesale, employee, proprietary or any other type of account;
  - (l) the client account number or client identifier;
  - (m) the date and time that the order expires;
  - (n) whether the order is an intentional cross;
  - (o) whether the order is a jitney and if so, the underlying broker identifier;
  - (p) any client instructions or consents respecting the handling or trading of the order, if applicable;
  - (q) the currency of the order;
  - (r) an insider marker;
  - (s) any other markers required by a regulation services provider;
  - (t) each unique client identifier assigned to a client accessing the marketplace using direct electronic access; and
  - (u) whether the order is a directed-action order.

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