

**Comments Received in Response to**

**IIROC Notice 20-0202 – Rules Notice - Request For Comments – UMIR and IIROC Rules**

***Proposed Amendments Respecting the Trading of Derivatives on a Marketplace***

On October 8, 2020, IIROC issued Notice [20-0202](#) requesting comments on Proposed Amendments Respecting the Trading of Derivatives on a Marketplace (**Proposed Amendments**). IIROC received comments on the Proposed Amendments from:

Cboe Global Markets (**Cboe**)

Investment Industry Association of Canada (**IIAC**)

Montreal Exchange (**MX**)

Nasdaq Canada (**Nasdaq**)

Scotiabank Global Banking and Markets (**Scotiabank**)

TD Bank Group (**TD**)

tFOSE Group Holdings Inc. (**tFOSE**)

Copies of these comments are publicly available on IIROC’s website ([www.iiroc.ca](http://www.iiroc.ca)). The following table summarizes these comments and our responses:

Proposed Amendments to UMIR (Revisions to Proposed Amendments Highlighted)	Summary of Comments	IIROC Response and Additional IIROC Commentary
<b>Generally supportive of the proposal</b>		
	Two commenters generally supported this proposal (Nasdaq, Cboe).	We acknowledge the comments.
<b>Two-Phased Approach</b>		
	Two commenters supported the two-phased approach to the Proposed Amendments (tFOSE, IIAC). IIAC commented	We acknowledge the comments.



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	that Phase 1 represents the most important portion of the possible changes as it relates to market integrity.	
<b>UMIR 1.1 Definitions</b>		
<p>...</p> <p><b>“derivative”</b> means <a href="#">as</a> an option, swap, futures contract, forward contract, contract for difference or any other financial or commodity contract or instrument whose market price, value, delivery obligations, payment obligations or settlement obligations are derived from, referenced to or based on an underlying interest, including a value, price, rate, variable, index, event, probability or thing.</p>	<p>tFOSE generally supported the proposed definitions, but questioned using the word “thing” when referring to an underlying interest in the definitions of “derivative” as it may raise unnecessary confusion. Suggested using the definition of “derivative” in the U.S. <i>Commodities Futures Act</i> to ensure consistency and avoid additional compliance costs for participants involved in cross-border activities.</p>	<p>The proposed definition is based on provincial securities legislation, which includes the term “thing” when referring to an underlying interest.<sup>1</sup> We believe consistency with Canadian securities legislation is more important than with U.S. requirements in this instance and therefore we have not made any material changes to the definition of “derivative”.</p> <p>We made editorial changes to the definition of “derivative” by removing a superfluous word as shown in the blackline.</p>
<p>...</p> <p><b>“identified order execution only client”</b> means a client using an order execution only service: (a) whose trading activity on marketplaces for which the Market Regulator is the regulation services provider exceeds a daily average of 500 orders per trading day in any calendar month,</p>		

<sup>1</sup> For example, the [Securities Act \(Ontario\)](#) defines a “derivative” to mean an option, swap, futures contract, forward contract or other financial or commodity contract or instrument whose market price, value, delivery obligations, payment obligations or settlement obligations are derived from, referenced to or based on an underlying interest (including a value, price, rate, variable, index, event, probability or thing), but does not include,

- (a) a commodity futures contract as defined in subsection 1 (1) of the *Commodity Futures Act*,
- (b) a commodity futures option as defined in subsection 1 (1) of the *Commodity Futures Act*,
- (c) a contract or instrument that, by reason of an order of the Commission under subsection (10), is not a derivative, or
- (d) a contract or instrument in a class of contracts or instruments prescribed by the regulations not to be derivatives; (“produit dérivé”)



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<p>(b) that is not an individual and is registered as a dealer or adviser in accordance with applicable securities legislation, or</p> <p>(c) that is not an individual and is in the business of trading securities <u>or derivatives</u> in a foreign jurisdiction in a manner analogous to a dealer or adviser.</p> <p>...</p>		<p>At this time, we will not be implementing the client identifiers requirements for listed derivatives as published in Notice <a href="#">20-0202</a> in order to harmonize the requirements where possible with the Montreal Exchange.</p>
<p>...</p> <p>“<b>multiple client order</b>” means an order that includes orders <u>in a listed security or a listed derivative</u> from more than one client, but does not include a principal order or a non-client order.</p> <p>...</p>		
<b>UMIR 2.2 and Policy 2.2 - Manipulative and Deceptive Activities</b>		
<p><b>UMIR 2.2 Manipulative and Deceptive Activities</b></p> <p>(1) A Participant or Access Person shall not, directly or indirectly, engage in or participate in the use of any manipulative or deceptive method, act or practice in connection with any order or trade on a marketplace if the Participant or Access Person knows or ought reasonably to know the nature of the method, act or practice.</p> <p>(2) A Participant or Access Person shall not, directly or indirectly, enter an order or execute a trade on a marketplace if the Participant or Access Person knows or ought reasonably to know that the entry</p>	<p>IIAC emphasized the need to identify and prevent potentially manipulative and deceptive activities to ensure market integrity and preserve investor and industry participant confidence in the markets.</p>	<p>We acknowledge the comment.</p>



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<p>of the order or the execution of the trade will create or could reasonably be expected to create:</p> <p>(a) a false or misleading appearance of trading activity in or interest in the purchase or sale of the security, the derivative, the related security or related derivative; or</p> <p>(b) an artificial ask price, bid price or sale price for the security, the derivative, a related security or a related derivative.</p> <p>[...]</p>		
<p><b>Policy 2.2 – Manipulative and Deceptive Activities</b>  <b>Part 1 – Manipulative or Deceptive Method, Act or Practice</b></p> <p>There are a number of activities which, by their very nature, will be considered to be a manipulative or deceptive method, act or practice. For the purpose of subsection (1) of Rule 2.2 and without limiting the generality of that subsection, the following activities when undertaken on a marketplace constitute a manipulative or deceptive method, act or practice:</p> <p>(a) making a fictitious trade;</p> <p>(b) effecting a trade in a security or a derivative which involves no change in the beneficial or economic ownership; and</p> <p>(c) effecting trades by a single interest or group with the intent of limiting the supply of a security</p>	<p>IIAC indicated that list of prohibited activities for derivatives should be consistent with other derivatives marketplaces. To prevent inefficiencies on Canadian marketplaces, rules on manipulative and deceptive activities should be harmonized with other domestic marketplaces.</p>	<p>We have benchmarked the proposed changes to UMIR 2.2 against anti-manipulation rules of other derivatives exchanges, including the MX.</p> <p>We expect to provide details on specific types of prohibited manipulative activity through guidance.</p>



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<p>or a derivative for settlement of trades made by other persons except at prices and on terms arbitrarily dictated by such interest or group.</p> <p>If persons know or ought reasonably to know that they are engaging or participating in these or similar types of activities those persons will be in breach of subsection (1) of Rule 2.2 irrespective of whether such method, act or practice results in a false or misleading appearance of trading activity or interest in the purchase or sale of a security or a derivative, or an artificial ask price, bid price or sale price for a security, a derivative or a related security or a related derivative.</p>		
<p><b>Part 2 – False or Misleading Appearance of Trading</b></p> <p><b>Activity or Artificial Price</b></p> <p>For the purposes of subsection (2) of Rule 2.2 and without limiting the generality of that subsection, if any of the following activities are undertaken on a marketplace and create or could reasonably be expected to create a false or misleading appearance of trading activity or interest in the purchase or sale of a security or a derivative or an artificial ask price, bid price or sale price, the entry of the order or the execution of the trade shall constitute a violation of subsection (2) of Rule 2.2:</p> <p>(a) entering an order or orders for the purchase of a security or a derivative with the knowledge that</p>		



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<p>an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the sale of that security or that derivative, has been or will be entered by or for the same or different persons;</p> <p>(b) entering an order or orders for the sale of a security or a derivative with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the purchase of that security or a derivative, has been or will be entered;</p> <p>(b.1) the prohibition in paragraphs (a) and (b) of Part 2 of Policy 2.2 does not apply to certain prearranged trades as determined by IIROC from time to time</p> <p>(c) making purchases of, or offers to purchase, a security or a derivative at successively higher prices or in a pattern generally of successively higher prices;</p> <p>(d) making sales of or offers to sell a security or a derivative at successively lower prices or in a pattern generally of successively lower prices;</p> <p>(e) entering an order or orders for the purchase or sale of a security or a derivative to:</p> <ul style="list-style-type: none"> <li>(i) establish a predetermined sale price, ask price or bid price,</li> <li>(ii) effect a high or low closing sale price, ask price or bid price, or</li> </ul>	<p>tFOSE agreed that while prearranged transactions would be inappropriate where the intention is price manipulation, they submitted that there are other circumstances, such as Block trades, Riskless basis cross trades, Exchange of Futures for risk, and Transfer of open positions where such transactions would be appropriate. tFOSE suggested that IIROC update UMIR to acknowledge instances where prearranged trades would be appropriate.</p>	<p>We included an exemption in the Proposed Amendments under paragraph (b.1) of Part 2 of Policy 2.2 to carve out certain prearranged trades from the general prohibition on prearranged trades. We expect to provide further details on specific types of trades that would not be viewed as contrary to the general prohibition on prearranged trades though guidance.</p>



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<p>(iii) maintain the sale price, ask price or bid price within a predetermined range;</p> <p>(f) entering an order or a series of orders for a security or a derivative that are not intended to be executed;</p> <p>(g) entering an order for the purchase of a security or a derivative without, at the time of entering the order, having the ability or the reasonable expectation to make the payment that would be required to settle any trade that would result from the execution of the order;</p> <p>(h) entering an order for the sale of a security or a derivative without, at the time of entering the order, having the reasonable expectation of settling any trade that would result from the execution of the order; and</p> <p>(i) effecting a trade in a security or a derivative, other than an internal cross in a listed security, between accounts under the direction or control of the same person.</p> <p>If persons know or ought reasonably to know that they are engaging or participating in these or similar types of activities those persons will be in breach of subsection (2) of Rule 2.2 irrespective of whether such activity results in a false or misleading appearance of trading activity or interest in the purchase or sale of a security or a derivative or an artificial ask price, bid price or sale</p>		



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price for a security or a derivative or a related security or a related derivative. ...		
<b>UMIR 4.1 and Policy 4.1 Frontrunning</b>		
<p><b>UMIR 4.1 Frontrunning</b></p> <p>(1) A Participant with knowledge of a client order that on entry could reasonably be expected to affect the market price of a security or derivative, shall not, prior to the entry of such client order,</p> <p>(a) enter a principal order or a non-client order on a marketplace, foreign organized regulated market or other market, including any over-the-counter market, for the purchase or sale of the security, derivative or any related security or related derivative;</p> <p>(b) solicit an order from any other person for the purchase or sale of the security, the derivative, or any related security or related derivative; or</p> <p>(c) inform any other person, other than in the necessary course of business, of the client order.</p> <p>[...]</p>	<p>tFOSE agreed that the prohibition on frontrunning and the pre-hedging exemption should be extended to the trading of derivatives.</p>	<p>We acknowledge the comment.</p>
<p><b>Policy 4.1 Frontrunning</b></p> <p><b>Part 1 – Examples of Frontrunning</b></p> <p>Rule 4.1 provides that no Participant shall trade in equities or derivatives to take advantage of information concerning a client order that has not</p>		



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<p>been entered on a marketplace that reasonably can be expected to change the prices of the equities or the related derivatives. Without limiting the generality of the Rule, the following are examples of transactions covered by the prohibition:</p> <p>(a) a transaction in an option, including an option where the underlying interest is an index, when the Participant has knowledge of the unentered client order for the underlying securities;</p> <p>(b) a transaction in a future where the underlying interest is an index when the Participant has knowledge of the unentered client order that is a program trade or index option transaction; and</p> <p>(c) a transaction in an index option when the Participant has knowledge of the unentered client order that is a program trade or an index futures transaction.</p> <p>Rule 10.4 extends the prohibition to cover orders entered by a related entity of the Participant or a director, officer, partner or employee of the Participant or a related entity of the Participant.</p>		
<p><b>Part 2 – Specific Knowledge Required</b></p> <p>In order to constitute frontrunning contrary to Rule 4.1, the person must have specific knowledge concerning the client order that, on entry, could reasonably be expected to affect the market price of a security or derivative. A person with</p>		



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<p>knowledge of such a client order must insure that the client order has been entered on a marketplace before that person can:</p> <ul style="list-style-type: none"> <li>• enter a principal order or non-client order for the security, derivative, any related security or any related derivative;</li> <li>• solicit an order for the security, derivative, any related security or any related derivative; or</li> <li>• inform any other person about the client order, other than in the necessary of course of business.</li> </ul> <p>Trading based on non-specific pieces of market information, including rumours, does not constitute frontrunning</p>		
<b>UMIR 6.2 Designations and Identifiers</b>		
<p>(1) Each order in a listed security entered on a marketplace shall contain:</p> <p>(a) the identifier of: [...]</p> <p>(2) Each order in a listed derivative entered on an Exchange shall contain:</p> <p>(a) the identifier of:</p> <p>(i) the Participant or Access Person entering the order as assigned to the Participant or Access Person in accordance with Rule 10.15,</p>	<p>IIAC appreciated that where possible, IIROC extended the requirements for markers on orders for listed securities to derivatives, which will assist industry members in their understanding and implementation of the new requirements.</p> <p>IIAC recommended IIROC undertake further consultation on the proposed changes to UMIR 6.2.</p>	<p>If deemed appropriate, we may consider changes to requirements for certain markers and/or identifiers with respect to a specific type of product or transaction offered by a particular derivatives exchange for which IIROC acts as the regulation services provider (<b>IIROC-regulated exchange</b>).</p>



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<p>(ii) the Exchange on which the order is entered as assigned to the Exchange in accordance with Rule 10.15,</p> <p>(iii) the Participant for or on behalf of whom the order is entered, if the order is a jitney order,</p> <p>(iv) the client for or on behalf of whom the order is entered under direct electronic access, and</p> <p>(v) the investment dealer or foreign dealer equivalent for or on behalf of whom the order is entered under a routing arrangement; and</p> <p>(b) a designation acceptable to the Market Regulator for the Exchange on which the order is entered, if the order is:</p> <p>(i) a non-client order,</p> <p>(ii) a principal order,</p> <p>(iii) for the account of a derivatives market maker,</p> <p>(iv) for the account of a person who is an insider of the issuer of the underlying security which is the subject of the order,</p> <p>(v) for the account of a person who is a significant shareholder of the issuer of the underlying security which is the subject of the order,</p>		



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<p>(vi) one that includes an opening or closing transaction indicator</p> <p>(vii) of a type for which the Market Regulator may from time to time require a specific or particular designation.</p> <p>...</p> <p>(3) If the order entered on a marketplace is a Special Terms Order, the order shall contain, in addition to all designations and identifiers required by subsection (1), information in such form as is acceptable to the Market Regulator of the marketplace on which the order is entered respecting:</p> <p style="padding-left: 20px;">(a) any condition on the execution of the order; and</p> <p style="padding-left: 20px;">(b) the settlement date.</p> <p>(4) If following the entry of an order on a marketplace for the sale of security that has not been designated as a short sale such order would become a short sale on execution, the order shall be modified to include the short sale designation required by subsection (1).</p> <p>(5) Each order entered on a marketplace including all designations and identifiers required by subsection (1) and (2) shall be disclosed to each Market Regulator.</p>		



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<p>(6) The marketplace on which the order is entered shall determine if the identifier of the Participant or the marketplace shall be displayed:</p> <p style="padding-left: 20px;">(a) in a consolidated market display for a security,</p> <p style="padding-left: 20px;">or</p> <p style="padding-left: 20px;">(b) in a marketplace for a derivative.</p> <p>(7) Unless otherwise permitted or directed by the Market Regulator, a marketplace shall:</p> <p style="padding-left: 20px;">(a) disclose for display in a consolidated market display any designation attached to an order that is required by sub-clause (i) to (vii.1) inclusive of clause (1)(b), but for a bypass order that is not part of a designated trade, and</p> <p style="padding-left: 20px;">(b) not disclose for display in a consolidated market display any designation attached to an order that is required by:</p> <p style="padding-left: 40px;">(i) sub-clause (viii) to (xvii) inclusive of clause (1)(b)</p> <p style="padding-left: 40px;">(ii) sub-clause (i) to (vii) inclusive of clause (2)(b).</p> <p>...</p>		
<b>UMIR 7.9 Trading in Listed or Quoted Securities or Derivatives by a Derivatives Market Maker</b>		
<p>A Participant who is a derivatives market maker shall comply when trading on any marketplace</p>	<p>Cboe emphasized the importance of market-maker liquidity provision for listed options markets, as most investor orders are executed against market-maker</p>	<p>We acknowledge the comment and believe it has greater applicability to the proposed changes in Phase 2 of our rule amendment project. We also note that the</p>



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<p>with such additional requirements as may be required by:</p> <p>(a) an Exchange when trading on that Exchange in listed securities or listed derivatives; and</p> <p>(b) a QTRS when trading on that QTRS in quoted securities.</p>	<p>quotations. Market-maker liquidity is critical to vibrant options markets and properly balancing unique benefits and obligations for this segment is vital.</p>	<p>determination of the appropriate balance of market maker benefits and obligations is typically a product of an exchange’s rules and subject to approval by the relevant CSA jurisdiction(s).</p>
<p><b>UMIR 7.14 Position limits for listed derivatives</b></p>		
<p>(1) No Participant, acting as principal or agent, shall enter an order to transact in a listed derivative if the Participant has reason to believe that as a result of the transaction the Participant or its client would, acting alone or in concert with others, directly or indirectly, hold or control a position in excess of the position limits established by an Exchange.</p> <p>(2) Notwithstanding subsection (1), the Market Regulator may modify the position limits established by an Exchange if it believes that it is necessary to maintain a fair and orderly market.</p>	<p>IIAC and tFOSE believed that exchanges should set position limits.</p> <p>tFOSE indicated that IIROC should monitor and only modify limits in unusual circumstances. tFOSE believed that both exchanges and IIROC should have the ability to require dealers to reduce or liquidate positions in excess of limits.</p>	<p>We agree that exchanges should primarily be responsible for setting position limits, and that IIROC’s role should be to: (a) monitor those limits under UMIR 7.14(1) and (b) modify them only if necessary under UMIR 7.14(2).</p>
<p><b>UMIR 10.9 Power of Market Integrity Officials</b></p>		
<p>(1) A Market Integrity Official may, in governing trading in securities or derivatives on the marketplace:</p> <p>(a) delay, halt or suspend trading in a security or a derivative at any time and for such period of time as such Market Integrity Official may</p>	<p>With respect to regulatory halts, tFOSE indicated:</p> <ul style="list-style-type: none"> <li>exchanges should monitor the underlying interest and halt the derivative instrument where the underlying interest has been halted for regulatory reasons.</li> </ul>	<p>The Proposed Amendments would allow IIROC to halt the trading of derivatives listed on an IIROC-regulated exchange for regulatory reasons under UMIR 10.9(1).</p> <p>Where IIROC oversees and halts the trading of the underlying interest for regulatory reasons, IIROC would also halt the trading of the related derivative on a</p>



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<p>consider appropriate in the interest of a fair and orderly market;</p> <p>(b) refuse to allow any bid price or ask price to be recorded at any time if, in the opinion of such Market Integrity Official, such quotation is unreasonable or not in compliance with UMIR or any Policy;</p> <p>(c) settle any dispute arising from trading in securities or derivatives on the marketplace where such authority is not otherwise provided for in any requirement governing trading on the marketplace;</p> <p>(d) vary or cancel any trade which, in the opinion of such Market Integrity Official, is unreasonable or not in compliance with UMIR or any Policy;</p> <p>(e) vary or cancel any trade upon application of the buyer and seller provided such application has been made by the end of trading on the day following the day on which the trade was made or such earlier time as may be established in any Marketplace Rule of the marketplace on which the trade was executed;</p> <p>[...]</p> <p>(h) provide to any person an interpretation of any provision of UMIR and any Policy in</p>	<ul style="list-style-type: none"> <li>• IIROC should monitor the trading of the derivative instrument and determine if a halt is necessary for regulatory reasons.</li> </ul> <p>With respect to business halts, tFOSE recommended that exchanges halt the trading of a derivative product for business reasons which include technical issues. The exchange would then inform IIROC of the decision and the underlying reasons.</p> <p>tFOSE believed that the following should be considered business halts:</p> <ul style="list-style-type: none"> <li>○ Technical issues experienced by a market maker that affects the trading of their securities of responsibility</li> </ul>	<p>marketplace for which IIROC is the regulation services provider (<b>RSP</b>).</p> <p>Where IIROC does not have oversight of the trading of the underlying interest but is the RSP of the exchange on which a related derivative trades, we would take the exchange’s opinion into account but make the final determination whether to invoke a regulatory halt in the related derivative on the IIROC-regulated exchange.</p> <p>Where a regulatory halt is in place for the related derivative, Participants would not be able to trade the listed derivative or its related listed security on a marketplace in Canada under UMIR 9.1.<sup>2</sup></p> <p>We agree that exchanges would be responsible for implementing non-regulatory halts for listed derivatives. We would expect that the considerations around when a business halt should be invoked would be set out in an exchange’s rules as approved by the relevant CSA jurisdiction(s).</p>

<sup>2</sup> Taking into account the MX’s comments that each derivatives exchange generally trades its own customized products, a regulatory halt in a listed derivative on an IIROC-regulated exchange would mean that trading in that listed derivative would not likely take place on another marketplace in Canada.



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<p>accordance with the purpose and intent of the provision and shall ensure that any such interpretation is observed by such person;</p> <p>(i) limit trading to liquidation of a position in a listed derivative only;</p> <p>(j) order liquidation of a position in a listed derivative in all or a portion of an account;</p> <p>(k) restrict trading in a listed derivative to a specific price range;</p> <p>(l) exercise such powers as are specifically granted to a Market Regulator or Market Integrity Official by UMIR and any Policy; and</p> <p>(m) exercise such powers as are specifically granted to the Market Regulator by the marketplace where the marketplace is entitled to grant such powers.</p> <p>(2) In determining whether any quotation or trade in a security is unreasonable, the Market Regulator shall consider:</p> <p>(a) prevailing market conditions;</p> <p>(b) the last sale price of:</p> <p>(i) the security as displayed in a consolidated market display, or</p> <p>(ii) the derivative as displayed on a marketplace;</p> <p>(c) patterns of trading in the security or derivative on the marketplace including volatility, volume and number of transactions;</p>	<ul style="list-style-type: none"> <li>○ Lack of connectivity to the trading engine or unacceptable delay in processing.</li> </ul> <p>tFOSE believed that both exchanges and IIROC should have the ability to require dealers to reduce or liquidate positions in excess of limits.</p> <p>tFOSE indicated that exchanges should set price fluctuation limits in consultation with IIROC.</p>	<p>We intend to work with IIROC-regulated exchanges towards enforcing position limits.</p> <p>We shall consider this comment when drafting Phase 2 of the rule amendment project, as the Proposed Amendments do not specify requirements on the setting of price bands.</p>



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<p>(d) whether material information concerning the security or underlying security of a derivative is in the process of being disseminated to the public; and</p> <p>(e) the extent of the interest of the person for whose account the order is entered in changing the price or quotation for the security or derivative.</p> <p>(3) In connection with the exercise of a power under this Rule, upon the verbal, written or electronic request of the Market Integrity Official, the Subject Person shall, within the time period specified by the Market Integrity Official:</p> <p>(a) provide any information, document or records in the possession or control of the person that the Market Regulator determines may be relevant to the exercise of a power by the Market Regulator and such information, document or records shall be provided in such manner and form, including electronically, as may be required by the Market Regulator; and</p> <p>(b) allow the inspection of, and permit copies to be taken of, any information, document or records in the possession or control of the person that the Market Regulator determines may be relevant to the exercise of a power by the Market Regulator.</p>		



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<p>(4) If a Market Integrity Official has provided notice to a Subject Person pursuant to subsection (3), the Subject Person shall, notwithstanding any policy or procedure of the Subject Person with respect to the retention of information, documents or records, retain any document or record in the possession or control of the Subject Person that is relevant to the exercise of the power by the Market Integrity Official for a period of 30 days from the date of the notice or such other period as may be specified by the Market Regulator.</p>		
<p>UMIR 10.19 Reporting limits for listed derivatives</p>		
<p>(1) Each Participant shall file with the Market Regulator a daily listed derivatives position report of all positions required to be reported as established by an Exchange.</p> <p>(2) Notwithstanding subsection (1), the Market Regulator may modify the reporting limits established by an Exchange and prescribe the information and form that is required to be reported if it believes that it is necessary to maintain fair and orderly market.</p>	<p>tFOSE and IIAC believed that exchanges should set reporting limits.</p> <p>tFOSE indicated that IIROC should monitor and modify limits where there are market integrity concerns. Both the exchange and IIROC can require dealers to reduce or liquidate positions in excess of limits.</p>	<p>Under UMIR 10.19(1) of the Proposed Amendments, an IIROC-regulated exchange would set the reporting limits for their own listed derivatives. IIROC would only modify such limits in cases where we identify market integrity concerns.</p> <p>UMIR 10.19(2) of the Amendments would require Participants to report positions on listed derivatives traded on an IIROC-regulated exchange. We may require Participants to reduce or liquidate positions in excess of the limits imposed by the IIROC-regulated exchange or the modified limits imposed by IIROC for market integrity concerns.</p>



Proposed Amendments to UMIR (Revisions to Proposed Amendments Highlighted)	Summary of Comments	IIROC Response and Additional IIROC Commentary
	tFOSE indicated that exchanges and IIROC should work together to minimize duplication in reporting.	We agree and intend to work together with IIROC-regulated exchanges to minimize duplication of reporting.
	<b>Enforcing UMIR</b> tFOSE indicated that IIROC would be responsible for monitoring and enforcing UMIR.	We acknowledge the comment and note that Participants trading on an IIROC-regulated exchange would also be subject to the <a href="#">IIROC Rules</a> .
<b>Other</b>		
<b>Harmonized rules for regulating derivatives in Canada</b>	IIAC recommended harmonizing the Proposed Amendments with MX requirements in order to achieve the stated objective <sup>3</sup> and prevent inefficiencies in the Canadian derivatives market.	We have tried, where appropriate, to ensure the Proposed Amendments are consistent with other derivatives regulations, including MX requirements.
<b>Coordinating monitoring and enforcement</b>	MX indicated that MX, IIROC and the new exchange will need to consider how to coordinate monitoring and enforcement under section 7.5 of Regulation 23-101 respecting Trading Rules.	We agree, and will work with other derivatives exchanges as necessary to comply with NI 23-101.
<b>One regulator to regulate trading of derivatives in Canada</b>	TD believed the ideal approach for derivatives market regulation is to have one independent Regulation Services Provider that oversees the trading of listed derivatives in Canada. TD manages a single set of policies, procedures and systems for the trading of listed derivatives in Canada, and is concerned that two regulatory bodies responsible for the same set of products will create complexity, duplication of effort and undue regulatory burden.	We acknowledge the comment. Where appropriate, we have benchmarked the changes in the Proposed Amendments against rules of other derivatives exchanges, including the MX.

<sup>3</sup> The objective of the Proposed Amendments is to “provide an appropriate framework for the regulation of listed derivatives trading on a marketplace that strengthens market integrity and investor protection”. (IIROC Notice [20-0202](#) at page 1)



Proposed Amendments to UMIR (Revisions to Proposed Amendments Highlighted)	Summary of Comments	IIROC Response and Additional IIROC Commentary
<b>Regulating derivatives within UMIR</b>	Four commenters favoured regulating listed derivatives under UMIR (Cboe, IIAC, Nasdaq, Scotiabank).	We acknowledge the comment.
<b>Regulating equities and derivatives markets</b>	Three commenters supported having a single regulator oversee the trading of both equities and derivatives (IIAC, tFOSE, Nasdaq).	We acknowledge the comment.
	<p>Opposite views on the harmonization of regulating the securities and derivatives markets were expressed.</p> <p>Scotiabank emphasized the importance of harmonizing the regulation of equities and related derivatives, as consistent regulatory principles for interconnected products foster confidence in the marketplace and promote industry growth.</p> <p>MX believed that the fundamental differences between derivatives and equities markets make the goal of harmonizing regulation between these markets unachievable.</p>	We believe that it is appropriate to achieve consistency where possible. However we believe that differences in regulatory approach may still be required in certain instances.
<b>IIROC's jurisdiction</b>	MX indicated RSPs should not take the initiative to draft rules when not retained by a marketplace, and the MX is not aware of any derivatives marketplace that has retained IIROC to act RSP. Raised concerns that the proposal was drafted in a vacuum with no grounding in the specific regulatory issues that arise in the context of a specific marketplace and its listed products.	As indicated in tFOSE's public comments <sup>4</sup> , the Proposed Amendments are intended to provide a framework for regulating the trading of derivatives on a new marketplace in Canada for which IIROC would act as the RSP.

<sup>4</sup> tFOSE Comment Letter dated November 17, 2020 provided that: "tFOSE Exchange has committed to enter into a Regulatory Services Agreement (RSA) with IIROC to outsource this market regulatory function to IIROC".



<b>Proposed Amendments to UMIR</b> <b>(Revisions to Proposed Amendments Highlighted)</b>	<b>Summary of Comments</b>	<b>IIROC Response and Additional IIROC Commentary</b>
<b>Supporting innovation</b>	Cboe recommended the following: <ul style="list-style-type: none"> <li>• providing exchanges with flexibility to customize trading functionality, execution mechanisms, listing rules etc. so that they can launch new products to serve different needs</li> <li>• properly balancing benefits and obligations for market makers</li> <li>• ensuring education and transparency to facilitate retail participation in options</li> <li>• incentivizing on-exchange trading of derivatives as true options price discover occurs on exchange markets (vs. OTC trading).</li> </ul>	We shall consider this recommendation when drafting Phase 2 of the rule amendment project, as it does not specifically apply to the requirements included in the Proposed Amendments.
<b>Regulatory Process</b>	tFOSE recommended that IIROC consult with a separate or sub-group of MRAC to ensure there is sufficient derivatives expertise.	In addition to MRAC, we also consulted with the following groups when preparing the Proposed Amendments: <ul style="list-style-type: none"> <li>• the IIAC Derivatives Committee</li> <li>• the Quebec District Council Derivatives</li> <li>• the Institutional Brokerage Subcommittee.</li> </ul> We intend to continue to leverage the derivatives expertise of these groups with respect to Phase 2 of the rule amendment project.
<b>Impact Analysis</b>	tFOSE agreed that the benefits of the Proposed Amendments are proportionate to its costs as creating one market regulator for the trading of all listed instruments is a good investment for Canadian capital market participants. This would streamline costs and facilitate market integrity, as well as establish IIROC and Canada as regulatory innovators.	We acknowledge the comment.



Proposed Amendments to UMIR (Revisions to Proposed Amendments Highlighted)	Summary of Comments	IIROC Response and Additional IIROC Commentary
	<p>MX indicated the abstract nature of the Proposed Amendments makes it unclear on what basis IIROC developed the impact assessment, as MX is currently Canada’s only derivatives marketplace and the Proposed Amendments would not apply to derivatives traded on the MX.</p>	<p>We developed the impact assessment by determining which entities would be affected by the proposal and what changes they would need to make in order to comply with the proposal.</p> <p>As indicated in tFOSE’s public comments<sup>5</sup>, the Proposed Amendments are intended to provide a framework for regulating the trading of derivatives on a new marketplace in Canada for which IIROC would act as the RSP.</p>
	<p>IIAC indicated the Impact Assessment contains a double negative, and asks whether IIROC’s intention is there is:</p> <ul style="list-style-type: none"> <li>• impact if a firm trades derivatives on a marketplace where IIROC is the RSP;</li> <li>• no impact if a firm trades derivatives on the MX;</li> <li>• no impact if a firm does not trade derivatives.</li> </ul>	<p>We confirm the Proposed Amendments would not impact firms that only trade derivatives on the MX or do not trade derivatives at all. Only firms that trade derivatives on an IIROC-regulated exchange would be impacted by the Proposed Amendments.</p>
<p><b>Implementation Date</b></p>	<p>IIAC indicated the Proposed Amendments would require significantly more than 90 days to implement. IIAC asked for assurance that industry members will have ample time to implement changes after July 26, 2021, as they are currently preoccupied with implementation for IIROC’s Client Identifiers Amendments<sup>6</sup>.</p>	<p>We shall take this comment into account when setting the implementation period. We note that compliance with the changes would only be necessary upon the launch of a new derivatives exchange for which IIROC is the RSP and then only for dealers that trade on an IIROC-regulated exchange.</p>

<sup>5</sup> Ibid.

<sup>6</sup> IIROC Notice [20-0251](#) – Rules Notice - Technical Notice – UMIR and DMR/IIROC Rules – *Upcoming Implementation of Client Identifier Amendments for Listed Securities* (November 25, 2020).