

# IIROC NOTICE

## **Rules Notice Guidance Note - UMIR**

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## **USER GUIDE FOR THE REGULATORY MARKER CORRECTION FORM**

### **Summary**

On July 15, 2008, the Investment Industry Regulatory Organization of Canada (“IIROC”) issued IIROC Notice 08-0033 – Rules Notice - Guidance Note – *New Procedures for Order Marker Corrections* (“New Marker Correction Procedures Notice”) which set out new procedures that are effective August 1, 2008 respecting the reporting of order marker corrections to IIROC for trades executed on a marketplace by a Participant or Access Person. The New Marker Correction Procedures Notice provided guidance regarding the procedures for submitting a Regulatory Marker Correction Report (“Correction Report”), including:

- clarification of the instances in which a Correction Report is required;
- clarification of the obligation to submit a Correction Report in the event of a cancelled or amended trade;
- details of the information that is to be included in a Correction Report;
- the order and account types to which the requirement to file a Correction Report apply; and
- when a Correction Report is due.



Attached to this Rules Notice is the User Guide for the Regulatory Marker Correction Report (“User Guide”) which provides detailed instructions on how to access and navigate the web-based Regulatory Marker Correction Report Form. This is the “Pre-launch” version of the User Guide. Updated versions of the User Guide may be issued after August 1, 2008 and will be available on the Regulatory Marker Correction System webpage which is accessible from the “Quick Links” section on the IIROC website at [www.iiroc.ca](http://www.iiroc.ca).

IIROC has identified two scenarios which, given current “systems” limitations, may impose an undue burden on Participants and Access Persons. In particular, IIROC understands that Participants and Access Persons are currently unable to submit, in an efficient and cost effective manner, a Correction Report on a trade-by-trade basis, for orders executed on a marketplace that involve:

- an order for a client account that is bundled with an order for a principal (inventory) account; and
- an order involving a “short exempt” sale that are bundled with a sale from a long position.

The New Marker Correction Procedures Notice set out general guidance on the procedures for submitting a Correction Report. The following provides specific guidance on how to use the Regulatory Marker Correction Report Form in certain circumstances in order to limit the administrative burden on Participants and Access Persons.

**Effective August 1, 2008**, all order marker corrections involving an “insider”, “significant shareholder” or a short sale (including “short exempt”) must be submitted to IIROC using the Regulatory Marker Correction System within the time frame indicated in the New Marker Correction Procedures Notice and in this Rules Notice. For order marker corrections involving a trade in which a client order is bundled with an order for a principal account, IIROC encourages a Participant or Access Person to submit a Correction Report as soon as practicable after the execution of the trade, however the filing of a Correction Report through the Regulatory Marker Correction System will not become mandatory until **November 3, 2008**.

### **Specific Guidance on the Reporting of Order Marker Corrections Involving Insiders and Significant Shareholders**

As set out in the New Marker Correction Procedures Notice, one of the implications of requiring that a bundled order be marked with the most restrictive applicable designations is



the “over-reporting” of trades by certain persons (insiders and significant shareholders). Given that marketplaces are to begin to release daily trading summaries involving insiders and significant shareholders, IIROC is of the view that the “over-reporting” of trades involving an insider or significant shareholder may incorrectly “signal” the market to buying or selling pressure on a security that may be unjustified. To this end, and as set out in the New Market Correction Procedures Notice, IIROC generally requires that each Participant or Access Person that bundles an order for an “insider” or “significant shareholder” with a non-“insider” or non-“significant shareholder”, submit a Correction Report on a trade-by-trade basis (i.e. each order or part of an order that executes on a marketplace) within the time frame indicated in the New Market Correction Procedures Notice (as soon as practicable after the execution of the trade and, in any case, by the later of 5:00 p.m. and 15 minutes following the close of trading on the marketplace on which the trade was executed). However, IIROC also recognizes that the submission of a Correction Report on a trade-by-trade basis for bundled orders that involve an insider or significant shareholder, specifically in the case of a bundled order involving an insider or significant shareholder that is executed in portions over the course of a trading day, imposes a significant administrative burden on a Participant or Access Person.

IIROC is of the view that, for trades that involve the bundling of an “insider” with a non-“insider” or significant shareholder with a non-“significant shareholder”, that is executed by several transactions over the course of the trading day, a Participant or Access Person may, for the purposes of the Correction Report, “accumulate” the total volume of “buys” and of “sells” attributed to an insider or significant shareholder on a daily basis and submit a single Correction Report for each of the cumulative total “buys” and cumulative total “sells” to IIROC for end-of-day. **Under no circumstances are the total volumes attributed to either an insider or significant shareholder to be “netted” in order to submit a single Correction Report.** For example, in the case of an insider or significant shareholder selling 500 shares and subsequently purchasing 500 shares of the same security as part of a bundled order, a Correction Report must be submitted to IIROC for the total “buy” of 500 shares and a separate Correction Report for the total “sell” of 500 shares - which represents the total “activity” in a security by an insider or significant shareholder.

For order marker corrections involving an insider or significant shareholder that have been “bundled”, a Correction Report for the total “activity” in a listed security by an insider or significant shareholder must be submitted to IIROC as soon as practicable after the execution of the trade, and in the case of an “accumulated” total, on a daily basis by no later than 5 p.m. or 15 minutes following the close of trading on the marketplace on which the trade was executed.



In the view of IIROC, the obligation of the Participant to “correct” trades involving an insider or significant shareholder applies regardless of the means by which the order is handled, including trades executed by means of an algorithmic trading system. A Participant should give due consideration to its “reporting” obligations in deciding whether to “bundle” an order for an insider or significant shareholder as well as the means by which the order is executed.

For trades involving an insider or significant shareholder that are cancelled or varied on a date other than the trade date, a Regulatory Marker Correction Report must be filed immediately upon the cancellation or variation of the trade. For “same day” trade cancellations or variations that have been reported to and accounted for by the marketplace, a Regulatory Marker Correction Report is not required to be submitted.

### **Specific Guidance on the Reporting of Order Marker Corrections Involving a Bundled Client-Principal Order**

As set out in the New Marker Correction Procedures Notice, the requirement to file a Correction Report applies in **all** instances in which an order entered on a marketplace fails to include the appropriate order designation as required by Rule 6.2 and the order has executed at least in part. The general requirement, as set out in the New Marker Correction Procedures Notice, is that a Correction Report involving a trade entered as a “bundled order” is due by the later of 5 p.m. and 15 minutes following the close of trading on the marketplace on which the trade was executed. However, in the case of a client order that is bundled together with a principal order that is executed by means of several transactions over-the-day, IIROC recognizes that the allocation of the client portion of the of the fill(s) is typically not allocated until “end-of-day”, or in some cases on T+1. IIROC understands that this “end-of-day” determination of allocations to “clients”, while in some cases a result of internal “systems” issues, is more commonly the result of trading practices at a Participant whereby a client/principal bundled order is “worked” over the course of a trading day (or more than one trading day), and in many cases up to the close of trading on a marketplace.

IIROC expects that a Participant or Access Person will submit a Correction Report by no later than 5 p.m. on the trading day following the day the aggregate allocation to the client portion of the order is known. In other words, a Participant handling a client/principal bundled order is not required to submit a Correction Report for each portion of the original order that is executed throughout the day on a marketplace, but rather only the aggregate total allocated between “client” and “principal” once that allocation amount is known. In the



case of a client/principal bundled order that executes over the course of more than one day, a Correction Report must be submitted to IIROC no later than 5 p.m. on the trading day following the day the aggregate allocation to the client portion of the order is known. However, if the client portion of a client/principal bundled order is an insider or significant shareholder, a Correction Report must be filed with IIROC as soon as practicable after the trade, and in any case, by no later than 5 p.m. or 15 minutes following the close of trading on the marketplace on which the trade was executed.

### **Specific Guidance on the Reporting of Order Marker Corrections Involving a Short Sale Bundled Together with a Sale from a Long Position**

For trades executed on a marketplace that have been marked as “short” but contains orders that have been bundled from a long and short position, IIROC expects the Participant or Access Person to submit a Correction Report as soon as practicable after the execution of the trade and, in any case, by the later of 5 p.m. and 15 minutes following the close of trading on the marketplace on which the trade was executed. If the bundled order has been marked “short exempt”, IIROC expects the Participant or Access Person to submit a Correction Report as soon as practicable after the execution of the trade and, in any case, no later than 5 p.m. on the trading day following the day the execution of the trade.

### **Questions and Answers**

The following is a list of the most frequently asked questions received by IIROC following the publication of the New Marker Correction Procedures Notice regarding the procedures for submitting a Correction Report to IIROC and IIROC’s response to each:

#### **1. For a bundled order not involving an insider or significant shareholder or a short sale that is executed by means of several transactions over-the-day (or more than one day), when is a Regulatory Marker Correction Report due?**

Generally, for order marker corrections involving a trade entered as a “bundled order”, IIROC expects that a Correction Report will be submitted as soon as practicable after the execution of the trade. In the case of a bundled order not involving an insider or significant shareholder or a short sale, a Correction Report must be filed with IIROC as soon as practicable after the execution of the trade and, in any case, no later than 5



p.m. on the trading day following the day the aggregate allocation of the bundled order is known. For order marker corrections involving a trade in which a client order is bundled with an order for a principal account, the filing of a Correction Report through the Regulatory Marker Correction System will not become mandatory until **November 3, 2008**.

**2. Is a Participant in an “introducer/carrier” arrangement allowed to delegate the responsibility for the submission of a Correction Report to its “carrier”?**

As set out in the New Marker Correction Procedures Notice, the obligation to notify IIROC of a regulatory order marker correction is not a new requirement. To the extent that a Participant has an “introducing/carrying” arrangement in place whereby the “introducing” Participant will enter orders on a marketplace, but will rely on its “carrying” Participant to report order marker corrections to IIROC on its behalf, the “introducing Participant may do so, subject to the requirement that the “introducing” Participant have adequate policies and procedures in place to ensure that all necessary information related to order maker corrections is transmitted to the “carrying” Participant, including monitoring to ensure that all marker corrections are being “reported”.

**3. Is a market maker required to file a Correction Report for a trade executed on a marketplace?**

No. If a market maker is entering orders for securities for which they have Market Maker Obligations directly on a marketplace, IIROC expects the market maker to mark the order in accordance with the then current position of the market maker in the security. For orders that are “automatically” generated by the trading system of the marketplace (i.e. orders not handled by the market maker) the market maker is not required to “mark” the order or otherwise submit a Correction Report to IIROC.

[User Guide for the Regulatory Marker Correction Report](#)