

Rules Bulletin**Request for Comments**

UMIR

*Rule**Connection:*

UMIR Rules 1.1, 5.3, 6.2, 6.3, 6.6 and 8.1

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Proposed Amendments Respecting Contingent Derivative Orders**Executive Summary**

The Canadian Investment Regulatory Organization (**CIRO**) is proposing to amend the Universal Market Integrity Rules (**UMIR**) to:

- facilitate the execution of an order for a listed security or quoted security that is contingent on the execution of one or more trades in a listed derivative that is also a related derivative (**Proposed Amendments**).

The Proposed Amendments would:

- add a definition of a “Contingent Derivative Order” in UMIR 1.1,
- add a designation for a “Contingent Derivative Order” in UMIR 6.2, and
- amend various definitions and provisions of UMIR to reflect the introduction of a “Contingent Derivative Order”.

How to Submit Comments

Comments on the Proposed Amendments should be in writing and delivered by May 28, 2025 (90 days from the publication date of this Bulletin) to:

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Comments should also be delivered to the Canadian Securities Administrators (CSA):

Trading & Markets Division Ontario Securities Commission 22 nd Floor 20 Queen Street West, Toronto, Ontario, M5H 3S8 e-mail: tradingandmarkets@osc.gov.on.ca	Capital Markets Regulation B.C. Securities Commission P.O. Box 10142, Pacific Centre 701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2 e-mail: CMRdistributionofSROdocuments@bcsc.bc.ca
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Commentors should be aware that a copy of their comment letter will be made publicly available on the CIRO website at www.ciro.ca.

Table of Contents

1.	Background	5
1.1	Amendments to Toronto Stock Exchange Rule Book for Contingent Option Trades	5
1.2	Exemption from UMIR for Contingent Option Trades	5
1.3	Related existing definitions in UMIR	6
2.	Proposed Amendments	6
2.1	New definition of “Contingent Derivative Order”	7
2.2	UMIR 6.2 – New “Contingent Derivative Order” designation.....	7
2.3	Other consequential UMIR amendments related to a Contingent Derivative Order	7
2.3.1	Exclusion from definition of “Best Ask Price” and “Best Bid Price”	8
2.3.2	Exclusion from definition of “Dark Order”	8
2.3.3	Exclusion from definition of “Disclosed Volume”	8
2.3.4	Exclusion from definition of “Last Sale Price”	8
2.3.5	Exclusion from definition of “Special Terms Order”	8
2.3.6	New exception to UMIR 5.3 – Client Priority	9
2.3.7	New exception to UMIR 6.3 – Exposure of Client Orders	9
2.3.8	New exception to UMIR 6.6 – Provision of Price Improvement by a Dark Order	9
2.3.9	New exception to UMIR 8.1 – Client-Principal Trading.....	9
3.	Analysis	10
3.1	Alternatives considered	10
4.	Impacts of the Proposed Amendments	10
4.1	Cost estimate	10
4.2	Conclusions.....	10
5.	Implementation	11
6.	Questions	11
7.	Policy development process	11
7.1	Regulatory purpose.....	11
7.2	Regulatory process	11
8.	Appendices	12

1. Background

1.1 Amendments to Toronto Stock Exchange Rule Book for Contingent Option Trades

On July 4, 2024, the Ontario Securities Commission approved amendments to the Rule Book of the Toronto Stock Exchange (TSX) to facilitate changes to Contingent Option Trades (the **TSX Amendments**).¹ The TSX Amendments became effective on September 3, 2024. The related [TSX Notice of Proposed Amendments and Request for Comments](#) defines a Contingent Option Trade as a trade of securities on the TSX that are underlying an option traded on the Montreal Exchange (MX) that are effected as part of a pre-existing MX trade.

A primary element of the TSX Amendments is that the trade in securities on the TSX is permitted to execute within the daily high and low price, which may be outside the context of the current market in that security. A trade in securities on the TSX that is part of a Contingent Option Trade may “trade-through”² better-priced protected orders on the basis that the Contingent Option Trade is considered to be a “calculated-price order”.³

1.2 Exemption from UMIR for Contingent Option Trades

UMIR does not currently define a specific order that is consistent with a Contingent Option Trade on the TSX. CIRO is of the view that the UMIR definition of “Special Terms Order” generally captures such transactions.

Special Terms Orders are excluded from several UMIR definitions and provisions but are not excluded from the application of UMIR 8.1 *Client-Principal Trading*. Where a Participant is executing a client order on the TSX that is part of a Contingent Option Trade, UMIR 8.1 requires the client order to receive a “better price” as defined in UMIR, unless the quantity of the client order is more than 50 standard trading units or has a value of more than \$100,000 (or another available exception is applicable under UMIR 8.1(2) or (3)). Given that the price of a Contingent Option Trade is determined by the related option transaction(s) on the MX, it may not be possible to execute the trade of securities on the TSX at a better price. As a result, UMIR 8.1 may limit the use of Contingent Option Trades to orders that meet or exceed the applicable order quantity or value threshold. However, this order quantity or value threshold is not a condition required by the relevant rules and policies of the TSX.

¹ [Notice of Approval – Contingent Option Trades – TSX Inc.](#)

² National Instrument 23-101 *Trading Rules* defines a “trade-through” to mean “the execution of an order at a price that is,

- a. in the case of a purchase, higher than any protected offer, or
- b. in the case of a sale, lower than any protected bid.”

³ Section 6.2 of National Instrument 23-101 *Trading Rules* sets out a list of permitted trade-throughs that includes a trade-through that results when executing a “calculated-price order”. A “calculated-price” order is defined to mean “an order for the purchase or sale of an exchange-traded security, other than an option, that is entered on a marketplace and for which the price of the security

- a. is not known at the time of order entry; and
- b. is not based, directly or indirectly, on the quoted price of an exchange-traded security at the time the commitment to execute the order was made.”

In order to facilitate Participants' use of Contingent Option Trades on the TSX, on July 4, 2024, CISO sought approval for, and the Canadian Securities Administrators (**CSA**) approved or did not object to the following exemption for a class of transactions from the application of UMIR (the **Exemption**):⁴

- An exemption from the requirements under UMIR Rule 8.1 *Client-Principal Trading* for certain orders entered on the TSX where the entry and execution price of such orders are contingent upon a related pre-existing trade(s) in an option on the MX, and where such orders are executed in accordance with the procedures of both the TSX and the MX.

The Exemption was granted pursuant to UMIR 11.1(2) which allows CISO, upon approval by the applicable securities regulatory authority, to exempt a class of transactions from the application of a provision of UMIR. UMIR 11.1(3) further requires that where an exemption is provided under 11.1(2), CISO will amend UMIR to reflect the exemption provided.

The Proposed Amendments reflect the background described above and are being published in accordance with the obligation associated with UMIR 11.1(3). The Proposed Amendments are being published for a 90-day public comment period.

1.3 Related existing definitions in UMIR

UMIR does not have an existing definition of an "option" but instead uses a broader definition of "derivative" that includes an option.⁵ The Proposed Amendments would leverage this definition and other related definitions in UMIR and would introduce a new type of order, the "Contingent Derivative Order".

The Proposed Amendments take the public interest into account by:

- fostering fair and efficient capital markets by amending UMIR to include a specific order type that facilitates the execution of an order that is contingent on the execution of a related derivative trade(s).

2. Proposed Amendments

CISO is proposing to amend UMIR to:

- facilitate the execution of an order for a listed security or quoted security that is contingent on the execution of one or more trades in a listed derivative that is also a related derivative.

The Proposed Amendments would:

- add a definition of a "Contingent Derivative Order" in UMIR 1.1,

⁴ The applicable Rules Bulletin related to the Exemption is available at: [Exemption Granted for Contingent Option Trades](#)

⁵ UMIR defines a "derivative" to mean "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."

- add a designation for a “Contingent Derivative Order” in UMIR 6.2, and
- amend various definitions and provisions of UMIR to reflect the introduction of a “Contingent Derivative Order”.

The text of the Proposed Amendments is set out in **Appendix 1** and a blackline of the changes is set out in **Appendix 2**.

2.1 New definition of “Contingent Derivative Order”

The Proposed Amendments would define a “Contingent Derivative Order” to mean an order that is entered on a marketplace and that is contingent on the execution of one or more trades in a listed derivative⁶ that is also a related derivative⁷.

The requirement that the derivative transaction be in a “related derivative” ensures that there is a relationship between the security and derivative components of the transaction such that the execution of one component is contingent on the other.

The entry of the order on a marketplace must be subsequent to the execution of the related derivative transaction. For additional clarity, the definition of “Contingent Derivative Order” would not capture transactions where the entry of the derivative trade is subsequent to a trade in the non-derivative product. Where the non-derivative leg is entered first, none of the proposed exceptions for a “Contingent Derivative Order” would be applicable.

2.2 UMIR 6.2 – New “Contingent Derivative Order” designation

The Proposed Amendments would add a new designation of a “Contingent Derivative Order” in UMIR 6.2(1)(b) that would be required when entering a Contingent Derivative Order on a marketplace. Pursuant to UMIR 6.2(7)(a), the Contingent Derivative Order designation would be a public marker.

2.3 Other consequential UMIR amendments related to a Contingent Derivative Order

Given that the price at which a security may be traded as part of a Contingent Derivative Order is linked to one or more trades in a related derivative and may be executed outside the current market for that security, it is appropriate to exclude a Contingent Derivative Order from certain UMIR definitions and exclude the execution of a Contingent Derivative Order from certain UMIR requirements.

⁶ A “listed derivative” is defined in UMIR to mean “...a derivative that is traded on a marketplace pursuant to standardized terms and conditions set out by that marketplace and whose trades are cleared and settled by a clearing agency.”

⁷ A “related derivative” is defined in UMIR to mean “...in respect of a particular security or derivative, a derivative that is related to the security or derivative because the derivative’s market price, value, delivery obligations, payment obligations or settlement obligations are, in a material way, derived from, referenced to or based on the market price, value, delivery obligations, payment obligations or settlement obligations of the security or derivative.”

2.3.1 Exclusion from definition of “Best Ask Price” and “Best Bid Price”

The definitions of “best ask price” and “best bid price” in UMIR 1.1 exclude the price of certain orders that may execute at a price outside the current market for a particular security. Given that a Contingent Derivative Order may similarly be permitted to execute above the “best ask price” or below the “best bid price” of the particular security, the Proposed Amendments would add a Contingent Derivative Order to the list of order types excluded from both the definitions.

2.3.2 Exclusion from definition of “Dark Order”

The definition of “Dark Order” in UMIR 1.1 excludes certain orders that may execute at a price outside the current market for a particular security, and correspondingly exempts these orders from other provisions related to the definition of a “Dark Order”, such as the price improvement requirements in UMIR 6.6. Given that a Contingent Derivative Order may similarly execute above the “best ask price” or below the “best bid price” of the particular security, the Proposed Amendments would add a Contingent Derivative Order to the list of order types excluded from the definition.

2.3.3 Exclusion from definition of “Disclosed Volume”

The definition of “disclosed volume” in UMIR 1.1 excludes the volume of certain orders that may execute at a price outside the current market for a particular security. Given that a Contingent Derivative Order may similarly execute above the “best ask price” or below the “best bid price” of the particular security, the Proposed Amendments would add a Contingent Derivative Order to the list of order types excluded from the definition.

2.3.4 Exclusion from definition of “Last Sale Price”

Given that a Contingent Derivative Order is executed at a price that is linked to one or more trades in a related derivative and may trade above the “best ask price” or below the “best bid price” of the particular security, it is appropriate that the execution of a Contingent Derivative Order does not establish the “last sale price” of a security. The Proposed Amendments would amend the definition to exclude a Contingent Derivative Order from the definition.

2.3.5 Exclusion from definition of “Special Terms Order”

UMIR defines several “specialty” orders such as a Basis Order, Call Market Order, Closing Price Order, Market-on-Close Order, Opening Order and Volume-Weighted Average Price Order. Each of these order types could be considered a “Special Terms Order”. However, as noted above in relation to the Exemption for Contingent Option Trades on the TSX, Special Terms Orders are not exempt from UMIR 8.1. As such, in order to clarify the application of various provisions of UMIR to each of these “specialty” orders, each is specifically excluded from the definition of “Special Terms Order”. A Contingent Derivative Order is an analogous order type and would similarly be excluded from the definition of “Special Terms Order”.

2.3.6 New exception to UMIR 5.3 – Client Priority

As previously described, a Contingent Derivative Order may trade at a specific price that is linked to a related derivative transaction and that price may be outside the context of the current market at the time the order is entered. Under these circumstances, a Participant that executes a Contingent Derivative Order would not be attempting to bypass client orders at the same or a “better price”. As such, if a Participant is executing a Contingent Derivative Order as a “principal order” or a “non-client order” it is appropriate that the Participant not be required to give priority to a client order as would otherwise be required under UMIR 5.3. The Proposed Amendments would amend UMIR 5.3 to provide an exception for a Contingent Derivative Order.

2.3.7 New exception to UMIR 6.3 – Exposure of Client Orders

The requirement that client orders for 50 standard trading units or less be entered for display on a marketplace that displays orders, ensures that a client receives a timely execution at the best available price. A Contingent Derivative Order involves a trade in a security that is contingent on and linked to a related derivative transaction. Given that the client must consent to an order being entered as a Contingent Derivative Order, it is not appropriate that their order be immediately exposed on a marketplace. The Proposed Amendments would exclude a Contingent Derivative Order from the application of UMIR 6.3.

2.3.8 New exception to UMIR 6.6 – Provision of Price Improvement by a Dark Order

UMIR 6.6 requires that any order that trades with a “Dark Order” receives price improvement, unless the order is for more than 50 standard trading units and has a value of more than \$30,000, or the order has a value of more than \$100,000. UMIR 6.6 also provides additional exceptions for certain orders that are permitted to trade outside the context of the current market for a particular security. Given that a Contingent Derivative Order may similarly execute above the “best ask price” or below the “best bid price” of a particular security it should not be required to receive price improvement. The Proposed Amendments would add an exception to UMIR 6.6 for a Contingent Derivative Order.

2.3.9 New exception to UMIR 8.1 – Client-Principal Trading

UMIR 8.1 requires that a client order for 50 standard trading units or less with a value of \$100,000 or less receive a “better price” when trading against a principal order or a non-client order, subject to exceptions for certain orders. Given that the price at which a security may be traded as part of a Contingent Derivative Order is linked to one or more trades in a related derivative and may be executed outside the current market for that security, where a principal or non-client account is trading a Contingent Derivative Order with a client order, it may not be possible for the execution price to be a “better price” at the time of order execution. Further, given that the client has directed or consented that the client order be a Contingent Derivative Order, it is appropriate that the Participant not be required to provide a “better price”. The Proposed Amendments would add an exception to UMIR 8.1 for a Contingent Derivative Order.

3. Analysis

3.1 Alternatives considered

Given the requirement in UMIR 11.1(3) in relation to the Exemption, we are required to amend UMIR in a manner that reflects the Exemption. As such, we did not consider any alternatives to the Proposed Amendments.

4. Impacts of the Proposed Amendments

In the impact assessment table in Appendix 3, we list:

- the major policy elements of the Proposed Amendments,
- a description of the intended policy benefits of each element, and
- an assessment of its impact on clients, issuers, marketplaces, Participants, Access Persons and CRO.

The Proposed Amendments are intended to:

- result in neutral to positive impacts for investors, investment dealers, and the industry at large as Contingent Option Trades are currently available on the TSX. The Proposed Amendments will allow market participants to continue to execute these types of orders in compliance with UMIR and in a manner that is consistent with various UMIR exceptions that are available for other analogous “calculated-price orders”. We believe the proposal will have no implementation impact for Participants, Access Persons and marketplaces, as Contingent Derivative (option) Orders are currently only offered on one Canadian marketplace, the functionality is already operational, and usage is optional.
- have a neutral to positive impact on marketplaces and issuers.

4.1 Cost estimate

Participants, Access Persons and marketplaces are not expected to incur implementation costs associated with the requirement to include a specific designation for the entry and execution of a Contingent Derivative Order as the order type is already facilitated on one Canadian marketplace. It is expected that the public designation of these trades that is used currently will continue in the same form and manner if the Proposed Amendments are finalized.

4.2 Conclusions

We believe that, if approved, the Proposed Amendments would result in:

- neutral to positive impacts on Participants, Access Persons and clients resulting from through the use of Contingent Derivative Orders.
- neutral to positive impact on marketplaces and issuers.

We have not identified any regional-specific effects or impacts that would be associated with the Proposed Amendments.

We have not identified any negative impacts associated with the Proposed Amendments.

5. Implementation

CIRO does not expect Participants, Access Persons and marketplaces to undertake substantial implementation efforts associated with the Proposed Amendments. Participants that opt to use the marketplace functionality may need to update applicable policies and procedures to include the use of a Contingent Derivative Order where appropriate, and to ensure appropriate trading supervision pursuant to UMIR 7.1.

We propose at least a 90-day implementation period after the publication of a bulletin of approval.

6. Questions

While comment is requested on all aspects of the Proposed Amendments, comment is also specifically requested on the following questions:

Question 1

The Proposed Amendments would add a new designation of a Contingent Derivative Order in UMIR 6.2(1)(b) that would be required to be applied with the entry of a Contingent Derivative Order on a marketplace, and which would be required to be disclosed for display by the marketplace on which the Contingent Derivative Order is entered. It is expected that the current manner and form by which the designation is applied on the TSX (in the context of Contingent Option Trades) will continue. If another Canadian marketplace seeks to offer Contingent Derivative Orders, an equivalent approach could be taken. We believe that this will minimize any implementation costs and efforts on industry. Have you identified any concerns with this approach?

7. Policy development process

7.1 Regulatory purpose

The Proposed Amendments would foster fair and efficient capital markets and foster public confidence in capital markets by aligning UMIR to be consistent with existing marketplace functionality and ensuring that UMIR is applied consistently between analogous order types.

The Proposed Amendments do not impose any requirements that CIRO, its Members or Approved Persons must comply with in order to become exempted from a requirement of securities legislation.

7.2 Regulatory process

The Board of Directors of CIRO (**Board**) has determined the Proposed Amendments to be in the public interest and on November 20, 2024, approved them for public comment.

We consulted with the following CIRO advisory committees on this matter:

- CCLS Institutional Subcommittee
- Market Rules Advisory Committee
- National Council

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the CSA, CIRO staff may recommend revisions to the Proposed Amendments. If the revisions and comments received are not material

in nature, the Board has authorized the President to approve the revisions on CRO's behalf and the revised Proposed Amendments will be subject to approval by the CSA. If the revisions or comments are material, CRO staff will submit the Proposed Amendments, including any revisions, to the Board for approval for republication or implementation, as applicable.

We note that the specific changes to UMIR associated with the Proposed Amendments are similar in many respects to other changes to UMIR that were published for comment on July 18, 2024, and which relate to Net Asset Value Orders.⁸ If the introduction of Net Asset Value Orders is approved prior to the finalization of the Proposed Amendments, certain non-material changes to the Proposed Amendments will be required to adjust the numbering scheme of various UMIR provisions.

8. Appendices

[Appendix 1](#) - Proposed Amendments to UMIR (clean)

[Appendix 2](#) - Proposed Amendments to UMIR (blacklined and clean)

[Appendix 3](#) - Impact Assessment

⁸ See [Proposed Amendments Respecting Net Asset Value Orders and Intentional Crosses](#).