



# Trader Exam Syllabus

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# Trader Exam Overview

## Exam parameters

<b>Exams</b>	1 paper
<b>Exam format</b>	Proctored (remote or in person)
<b>Exam duration</b>	2 hours
<b>Question format</b>	Multiple choice
<b>Questions per exam</b>	100
<b>Attempts allowed per exam</b>	3

## Question weighting

<b>Element</b>	<b>Indicative Qs</b>
<b>1</b> The regulatory environment	4
<b>2</b> Capital formation	4
<b>3</b> Role of Traders and trade execution	10
<b>4</b> Marketplaces	14
<b>5</b> Methods of trading	16
<b>6</b> Trading rules	20
<b>7</b> Trade desk function, supervision and compliance	9
<b>8</b> Specific requirements for derivatives	9
<b>9</b> Clearing and settlement	6
<b>10</b> Ethics, conflicts of interest and confidentiality	8





# Syllabus key

The syllabus is divided into a series of learning outcomes. Each learning outcome expects the candidate to remember, understand, apply or analyze information. These expectations are set out below.



**Remember** requires the candidate to recall information such as facts, rules and principles. Associated terms include define, list, repeat and state.

For example:

- Which of the following is an enforcement power of the Canadian Securities Administrators?
- Which of the following best fits the definition of a Participating Organization?
- Who is considered to be the Regulation Services Provider in Canada?



**Understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle. Associated terms include describe, explain, identify, recognize and select.

For example:

- Which of the following best describes the role of the back office at an Investment Dealer?
- How is agency trading best described?
- Market participants may be subject to suspension or termination of their access to services offered by a marketplace. Identify which of the following might trigger this.



**Apply** requires the candidate to use information in new situations. Associated terms include calculate, demonstrate, implement, interpret and use.

For example:

- A Trader suspects that the trades they are being asked to execute are improper. What should they do?
- Review the information on the electronic order book below. How would a limit order to sell 5,000 at 234 impact the existing orders?

Buy		Sell	
Volume	Bid	Ask	Volume
4,000	235	236	5,000
5,000	234	237	8,000
3,000	233	238	7,000

- How might a Trader demonstrate behaviour that would contravene the CIRO standards of conduct?



**Analyze** requires the candidate to review information and draw conclusions or make connections. Associated terms include compare, contrast, differentiate and examine.

For example:

- Which of the following market situations is most likely to trigger a single-stock circuit breaker?
- In which of the following situations might a Trader be prevented from cancelling or amending an order that they have placed on the order book?
- A market participant acting as principal has entered a short sale order on a marketplace. The participant has previously executed a sale in the security that became a failed trade. What conditions must exist for the short sale to be permitted under the rules?



## Element 1: The regulatory environment

**Summary:** In Element 1, the candidate is expected to show an understanding of the regulatory framework for the Canadian investment industry, including applicable knowledge of the Canadian Securities Administrators (CSA) and the Canadian Investment Regulatory Organization (CIRO). Candidates will also be required to show an understanding of the scope and purpose of a range of provincial/territorial regulatory requirements.

**1.1** Understand the role and authority of the CSA, and the provincial/territorial securities and derivatives regulators. Consider the:

- Jurisdiction of the CSA
- Mandate and objectives of the CSA
- Purpose and implication of securities legislation:
  - National Instruments (NI)
  - Multilateral Instruments (MI)
  - National policies
  - Staff Notices
  - Companion Policies (CP)
- Enforcement powers

**1.2** Understand the role and authority of CIRO. Consider the:

- Jurisdiction of CIRO
- Mandate and objectives of CIRO
- Role of CIRO as Regulation Services Provider, including agreements with marketplaces
- CIRO rules, including:
  - Investment Dealer and Partially Consolidated (IDPC) Rules
  - Universal Market Integrity Rules (UMIR)
- Purpose and implications of rules, guidance notes, forms and supporting schedules
- Enforcement powers

**1.3** Understand the requirements for Investment Dealer registration and individual approvals, and the roles of the CSA and CIRO in this process.

**1.4** Understand the scope and purpose of provincial/territorial securities and derivatives laws and regulatory requirements, including:

- Primary and secondary distribution of securities
- Secondary market liability
- Raising capital
- Issuer disclosure
- Proxy solicitation
- Takeover bids
- Improper conduct (e.g. trading with non-public information)





## Element 2: Capital formation

**Summary:** Candidates are expected to show an understanding of the capital markets and the process of capital formation. This element will also test candidates' understanding of the types of financial instruments that can be traded, as well as the rights and obligations that come with being a shareholder.

### 2.1 Understand the functions of capital markets, including:

- Means for determining the price or required return for any financial asset (security)
- Mechanism for the buying and selling of securities
- Reducing the cost of trading analysis

### 2.2 Understand the process of capital formation, including:

- Supply and use of capital in a market system
- Types of intermediaries
- Role of underwriters
- Initial Public Offering (IPO) process
- Creation and redemption of exchange-traded funds (ETFs)
- Private placement and prospectus offerings
- Trading of private securities
- Follow-on/secondary offerings: marketed deals vs bought deals
- Creation of crypto assets
- Primary and secondary markets including exchanges, quotation and trade reporting system (QTRS), alternative trading systems (ATS) and over-the-counter (OTC)

### 2.3 Understand the types of financial instruments, including:

- Equities
- Fixed income products, including convertibles, corporate bonds, foreign debt instruments, foreign issuer bonds, foreign currency denominated bond and zero-coupon bonds
- Derivatives
- ETFs
- Managed products
- Structured products
- Foreign Exchange (FX) products
- Commodities and related instruments
- Crypto assets
- Other investment products

### 2.4 Understand the requirements for securities ownership. Consider:

- Shareholder rights, remedies and obligations





## Element 3: Role of Traders and trade execution

**Summary:** In this element, candidates are tested on the role of the Trader in capital markets and are expected to apply trade execution requirements to specific scenarios.

**3.1** Understand the CIRO definition of Trader:

- An individual, approved by CIRO as a Trader, whose activity is restricted to trading through a Marketplace Member's trading system, and who may not advise the public

**3.2** Understand the role of the Trader as it relates to other CIRO Approved Persons involved in a marketplace trade.

**3.3** Understand the types of traders, including:

- Agency traders
- Liability traders (proprietary traders and inventory traders)
- Market makers
- Specialized asset traders
- Program traders
- Buy-side vs sell-side traders
- Retail vs institutional

**3.4** Understand the different account types, including:

- Client (CL)
- Inventory (IN)
- Non-client (NC) ("Pro")
- Options market maker (OT)
- Options firm account (OF)
- Equities specialist (ST)

**3.5** Apply the trade execution requirements to specific situations, including:

- Processes for placing orders
- Processes for handling order errors and changes
- Purpose and application of the cash account rule
- Restriction process on overdue cash accounts
- Requirements to confirm orders with clients, including fees and commissions
- Types of buy, sell and short-sell orders

**3.6** Apply to specific situations the relevant requirements for handling trades for various types of accounts, including:

- Employee stock purchase plans
- Insider and control sales
- Normal course issuer bid (NCIB)
- At the market (ATM)
- Syndicate market stabilization trades

**3.7** Apply to specific situations the relevant requirements for market makers, including:

- Ensure a two-sided market within a specified range exists at all times
- Contribute to market liquidity and depth
- Maintain activity in the market
- Maintain a gatekeeping responsibility

**3.8** Apply to specific situations fair and equitable execution practices specific to electronic trading. Consider:

- The impact of high-frequency trading with algorithms on the marketplace
- Smart order routers
- Different types of requirements applicable to Order Management Systems (OMS), including quality assurance and user acceptance testing
- Characteristics of trading algorithms and strategies used to achieve execution objectives

**3.9** Analyze the risks raised by failure to obtain adequate instructions on all elements of a trade, including:

- Dealer or Trader being held responsible for the loss resulting from the cancellation of the order
- Internal discipline
- Regulatory sanctions
- Having to compensate clients for any losses that may subsequently result from the trade

**3.10** Apply to specific situations methods of self-trade prevention, including:

- Cancel newest
- Cancel oldest
- Decrement and cancel
- Trade and suppress



## Element 4: Marketplaces

**Summary:** Element 4 requires a candidate to show a detailed understanding of the marketplaces on which financial instruments can be traded. The element begins by providing key definitions relating to marketplaces in general. It then requires a more detailed look at specific types of marketplaces and the relevant requirements and provisions. The specific types of marketplaces include, exchanges, alternative trading systems (ATS), over-the-counter (OTC) markets and crypto asset markets.

- 4.1** Remember the requirement to become a member or subscriber of a marketplace before trades can be placed.
- 4.2** Understand the application of NI 21-101 Marketplace Operation. Consider:
  - Exchanges
  - Alternative trading systems (ATS)
  - Quotation and trade reporting systems (QTRS)
  - Any other person or company that facilitates the non-discretionary trading of securities
  - A dealer that executes a trade of an exchange-traded security outside of a marketplace, but not an inter-dealer bond broker
  - Applicable CISO rules and definitions, which include:
    - Recognized exchange or a commodity futures exchange registered in a jurisdiction of Canada
    - Recognized QTRS
    - Person or company that facilitates the trading of securities or derivatives in a jurisdiction of Canada
- 4.3** Understand other relevant National Instruments for marketplaces and participants, including:
  - NI 23-101 Trading Rules
  - NI 24-101 Institutional Trade Matching and Settlement
  - NI 45-106 Prospectus Exemptions
  - NI 62-103 Respecting the Early Warning System and Related Take-Over Bid and Insider Reporting Issues
- 4.4** Understand the key elements of a marketplace, including:
  - Liquidity
  - Priority
  - Transparency
  - Price discovery
  - Fairness
- Market integrity
- Transaction costs and rebates
- Protected and unprotected
- Market share
- 4.5** Understand the different characteristics of marketplaces, including:
  - Call market, auction market, dealer market
  - Inter-listed securities
  - Means of access, including co-locations
  - Over-the-counter (OTC)
  - Hours of operation
  - Pre-market trading and after-hours trading
  - Services offered, including:
    - Order entry
    - Trading
    - Execution
    - Routing
    - Data
- 4.6** Understand regulatory exemptions from the requirement for trades to be on a marketplace (e.g. off-marketplace), including:
  - Unlisted or non-quoted security
  - Regulatory exemption
  - Error adjustment
  - On a Foreign Organized Regulated Market
  - Outside of Canada
  - Term of securities
  - Options
  - Prospectus and exempt distributions
- Non-regulatory halt, delay or suspension
- Acceptable trade reporting facility
- Resale restriction
- 4.7** Understand the requirement for recognition as an exchange and:
  - The general criteria for recognition, including:
    - Corporate governance structure
    - Rules, policies and other similar instruments
    - Systems and operations
    - Access requirements
    - Listings standards
    - Fees for the exchange's products and services
    - Financial viability
    - Regulation
  - Ongoing requirements, including:
    - Setting, monitoring and enforcing rules for members and issuers
    - Conducting an annual, independent systems review
    - Direct or indirect guarantee of a two-sided market for a security on a continuous or reasonably continuous basis
    - Filing any changes to the exchange's systems or practices with the designated Regulation Services Provider
- 4.8** Understand the processes relating to order and trade reporting, including:
  - Daily trading blotters
  - Order acknowledgement, trade execution reports and drop copy reports provided through the exchange's order entry interface
  - Orders and trades reported to the CISO in real-time in accordance with its responsibilities as the designated Regulation Services Provider
  - Obligations for debt reporting – Market Trade Reporting System (MTRS)



- Trades reported to Clearing and Depository Services (CDS) at the end of the trading day
  - Orders and trades reported to respective Information Processor in accordance with the requirements stated in NI 21-101 Marketplace Operation
  - Short position reporting
  - Treatment of inter-listed securities
- 4.9** Understand the types of products listed and services offered by exchanges and the applicable Regulation Services Provider requirements. Consider:
- Toronto Stock Exchange (TSX)
  - Montréal Exchange (MX)/Bourse de Montréal
  - TSX Venture Exchange (TSXV)
  - Canadian Securities Exchange (CSE)
  - Cboe Canada
  - TSX Alpha Exchange
  - Nasdaq Canada
- 4.10** Understand which CISO Marketplace Members can be required to register as ATS operators, including:
- Auction markets
  - Call markets
  - Crossing systems or networks
  - Dark pools
  - Market-making systems
- 4.11** Understand the rules that apply to ATS, including:
- Registration and CISO membership
  - Compliance with the applicable provisions in NI 21-101 Marketplace Operation, NI 23-101 Trading Rules and NI 24-101 Institutional Trade Matching and Settlement
    - Order and trade reporting requirements
    - Information consolidation requirements
    - Market integration requirements
    - Transparency requirements
    - Technology and record-keeping requirements
    - Market regulation obligations
- 4.12** Understand the securities that are permitted securities on ATS:
- Exchange-traded securities
  - Corporate debt securities
  - Government debt securities
  - Foreign exchange-traded securities
  - Over-the-counter equity securities (CSA approval required)
  - Crypto assets
- 4.13** Understand the activities generally prohibited for ATS, including:
- Requiring listing agreements
  - Two-sided market guarantees for a security or derivative on a continuous or reasonably continuous basis
  - Intentionally locking or crossing markets
- 4.14** Understand how a quotation and trade reporting system (QTRS) differs from an ATS
- Dissemination of price quotations
  - Reports completed transactions
  - Requirement for recognition
- 4.15** Understand regulatory guidance on crypto asset trading platforms. Consider:
- Dealer Platform vs Marketplace Platform
  - Need for registration
- 4.16** Understand that marketplaces have policies and procedures to address:
- Confidentiality
  - Investigations
  - Conflicts of interest arising from operations or services
- 4.17** Understand the marketplace procedures regarding the entry, display and execution of orders, including:
- Marketplace thresholds
  - How orders interact, including the priority of execution
    - Auctions
    - Continuous trading
  - Order routing procedures
  - Order and trade reporting procedures
- 4.18** Understand the regulatory controls in place for marketplaces, including:
- Safeguards and procedures to protect trading information of marketplace participants, including client identifiers
  - Steps taken to ensure that marketplace participants have knowledge of and comply with the requirements of the marketplace
  - Ownership disclosure
  - Relevant outsourcing arrangements with arms-length third parties, including any function associated with routing, trading, execution and data
- 4.19** Understand the requirement for a marketplace to conduct trade surveillance.
- 4.20** Understand the fee model, including fees relating to:
- Connecting to the market or facility
  - Access
  - Data
  - Regulation
  - Trading
  - Routing
  - Co-location
  - Rebates and discounts
- 4.21** Understand the methodologies and benchmarks used for calculating explicit and implicit trading costs.



## Element 5: Methods of trading

**Summary:** In Element 5, candidates are tested on their understanding of order book trading and the different stages of the trading day. They are required to understand the features of order types and apply this knowledge to specific situations. Other methods of trading, such as block trades, market maker program and odd lots trading system, are also tested.

**5.1** Understand the function of electronic order books, including:

- Central limit order book
- Committed orders to buy or sell
- Cancellations and modifications
- Standard trading units (board lots)
- Odd lots
- Special terms

**5.2** Understand the different trading stages and actions that can occur at those stages. Consider:

- Pre-open
- Market on open (MOO) auction vs non-auction
- Market session (continuous trading)
- Market on close (MOC) auction vs non-auction
- Extended trading session

**5.3** Understand the relevance of order durations, including:

- Day orders
- Good 'til cancelled
- Good 'til date
- Immediate or cancel
- Fill or kill

**5.4** Understand the relevance of price types, including:

- Market
- Limit

**5.5** Apply to specific situations different order types, including:

- Buy
- Sell
- Sell short
- Limit orders

- Limit on open
- On-stop/stop/stop loss
- Iceberg
- Post only
- Anonymous
- Dark
- Bypass
- Long life

**5.6** Apply to specific situations different cross types, including:

- Basis
- Volume-weighted average price (VWAP)
- Contingent
- Internal
- Bypass
- Derivative
- Client principal cross, including guaranteed pricing
- Wash trade
- Intentional cross vs unintentional cross
- Special trading session

**5.7** Apply to specific situations the minimum ticks rule:

- Selling under \$0.50 = \$0.005
- Selling at \$0.50 and over = \$0.010
- Board lot size

**5.8** Apply the requirement for order designations and identifiers and the implications of the designation. Consider:

- Identifiers, including:
  - Order for an insider (IA) or significant shareholder (SS)
  - Client identifier/Legal entity identifier (LEI)

- Non-client order for the account of a responsible designated trader at a market maker dealer (ST)
- Bundle marker (BU)
- Multiple clients marker (MC)
- Designation, including:
  - Principal orders
    - Non-client (NC)
    - Inventory (IN)
  - Jitney order (JT)
  - Short order (SH)
  - Short marking exempt order (SME)
  - Normal course issuer bid (NCIB)

**5.9** Understand the features of a block trade, including the impact on the order book.

**5.10** Understand market maker program and odd lot dealer system, including:

- Odd lots
- Minimum guaranteed fill size
- Registered Trader (ST) participation



## Element 6: Trading rules

**Summary:** Element 6 tests the trading rules under the Universal Market Integrity Rules (UMIR), and other applicable rules, including the Investment Dealer and Partially Consolidated (IDPC) Rules and relevant Canadian Securities Administrators (CSA) regulatory instruments. Candidates are expected to be able to apply the applicable rules and requirements to a range of situations, including short selling, order entry, trading halts and prohibited practices. Candidates will also be tested on the compliance expectations of an Investment Dealer in relation to the trading function. Gatekeeping is an essential function of Investment Dealers and those who act for them; candidates will be expected to apply the gatekeeper requirements to a range of situations. This element ends by requiring the candidate to understand the applicable CIRO rules and CSA regulatory requirements for best execution.

- 6.1** Apply to specific situations the requirements relating to short selling and settlement obligations.
- 6.2** Apply to specific situations the requirements relating to order entry and exposure. Consider:
  - Designation and identifiers
  - Trades to be on a marketplace
  - Minimum size requirements of certain orders entered on a marketplace
  - Provision of price improvement by a dark order
- 6.3** Apply to specific situations the requirements relating to trading in a marketplace, including:
  - Trading supervision obligations, including specific provisions applicable to Normal Course Issuer Bids (NCIB)
  - Proficiency obligations
  - Liability for bids, offers and trades
  - Contract record and official transaction record
  - Recorded prices
  - Cancelled trades
  - Trading in listed or quoted securities by a derivatives market maker
  - Variation and cancellation and correction of trades
  - Inability to rely on marketplace functionality
  - Direct electronic access and routing arrangements
- 6.4** Apply to specific situations the requirements relating to trading halts, delays and suspensions.
- 6.5** Apply to specific situations the requirements relating to compliance, including:
  - Compliance requirement
  - Extension of restrictions
  - Suspension or restriction of access
  - Extended failed trades
  - Power of market integrity officials
  - Report of short positions
  - Audit trail requirements
  - Retention of records and instructions, including whether solicited or unsolicited
  - Exchange and provision of information by market regulators
  - Synchronization of clocks
  - Assignment of identifiers and symbols
  - Administration of UMIR, including general exemptive relief
- 6.6** Understand the requirements relating to Direct Electronic Access (DEA). Consider:
  - UMIR on DEA and routing arrangements
  - NI 23-103 Electronic Trading and Direct Electronic Access to Marketplaces





**6.7** Understand the requirement for participants to have a system of internal controls relating to trade execution, including:

- Pre-trade, including order entry:
  - Fat finger
  - Credit limit controls
  - Capital limit controls
  - Restricted securities
  - Price movement limits
  - “Kill switch” for automated order systems
- Post-trade, including:
  - Trade reporting
  - Market surveillance

**6.8** Apply to specific situations marketplace trading controls, including:

- Halts
- Maximum price variation threshold
- Bid/ask limits
- Market-wide circuit breakers
- Single stock circuit breakers

**6.9** Understand the relevance and application of self-trade prevention tools, including:

- Cancel newest
- Cancel oldest
- Decrement and cancel
- Trade and suppress

**6.10** Understand the role and/or application of:

- A Market Integrity Official
- A designated Information Processor

**6.11** Apply to specific situations the requirements relating to prohibited trading practices, including:

- Abusive trading
  - Specific unacceptable activities
  - Manipulative and deceptive activities, including artificial pricing/ artificial volumes
  - Improper orders and trades, including insider trading

- Front running/client priority – client consent
- Failure to achieve best execution, including client order exposure
- Client-principal trades, including “best available price” obligation
- Off-marketplace trading, including conditions and exemptions
- Trading during certain securities transactions

**6.12** Understand the gatekeeper obligations and responsibilities of Directors, officers, and employees of marketplace participants and access persons, including:

- Gatekeeper obligations with respect to:
  - Electronic access
  - Access to marketplaces
- Client’s typical financial activity and patterns in order to identify suspicious transactions
- Applicable regulatory frameworks on whistleblowers
- Applicable reporting obligations to Investment Dealers and regulators

**6.13.** Apply to specific situations the gatekeeper reporting requirements, including:

- Identification of the provisions of UMIR which may have been violated
- Specific dates on which the activity took place (or may have taken place)
- Identification of the security or securities involved
- Identification of specific orders or trades including time, marketplace, volume and price, employees involved and client
- How and when the behaviour was detected
- All investigative and other actions taken in response to the initial detection
- All actions taken or proposed to be taken in response to the findings of the investigation
- Name, title and contact information of the person filing the report

**6.14** Understand the role of other CIRO Approved Persons and staff concerning market integrity and gatekeeping with respect to trades.

**6.15** Understand the requirements relating to policies and procedures for best execution. Consider:

- Best execution factors
  - Listed securities and derivatives

- Over-the-counter (OTC) securities and derivatives

- Best execution process
- Relevant training
- Disclosure to clients
- Client priority

**6.16** Apply to specific situations the rules and guidance on best execution.

**6.17** Understand the regulatory requirements for best execution, including:

- Process designed to achieve best execution
- Process for review of compliance with the best execution obligation

**6.18** Apply to specific situations the requirements relating to the Order Protection Rule, including:

- Differences between protected and unprotected marketplaces
- Prevention of trade-throughs
- Directed action orders
- Order protection by re-price
- Order protection by cancel



## Element 7: Trade desk function, supervision and compliance

**Summary:** Following on from the trading rules, Element 7 tests the role of the trading desk at an Investment Dealer. Candidates are required to understand key definitions and the range of policies and procedures in place for the trading desk. Element 7 ends by testing an understanding of the Investment Dealer's complaints procedures and the processes around internal investigations.

### 7.1 Understand the application of the following within the context of trading:

- Participating Organization (PO), including:
  - Member in good standing of a recognized self-regulatory organization
  - Any person granted access to the trading system by the exchange provided such access has not been terminated or suspended
  - Member of the exchange
- An Approved Person (AP) within the meaning of the rules for exchanges, including:
  - A related company
  - An employee of the PO or related company to that extent that such employee has exchange approval or the approval of a recognized self-regulatory organization
  - Directors, Executives, Ultimate Designated Person (UDP) and other officers of the PO or related company
  - A person holding a significant equity interest in the PO or related company
  - Other persons as may be designated from time to time by the exchange
- Approved Traders with exchange approval to enter orders into the trading system
- Third-party electronic access to marketplaces through a sponsoring PO that provides:
  - Direct electronic access (DEA)
  - Routing arrangement (RA)
  - Order execution only (OEO)

### 7.2 Understand the different types of marketplace participants, including:

- Type of trading activities, including:
  - Agency trading
  - Proprietary trading
  - Registered trading/market making

### 7.3 Understand that participants that offer direct electronic access must conditionally subject their clients to:

- Arrangements for permitting clients of marketplace participants to have access to the marketplace
- Conditions under which marketplace participants may be subject to suspension or termination to access services offered
- Procedures that will be involved in the suspension or termination of a marketplace participant

### 7.4 Understand the policies, procedures and other documentation for a trading supervisory system, including:

- Identification of relevant requirements
- Documentation of supervision systems, including:
  - Responsibilities of the head of trading and each person who has authority, supervision, or responsibility over the trading activities of the participant
  - Outline of the principal elements of the testing methodology, including frequency, sample size and sources of information to be used
  - Any exception reports, trading data and other documents to be reviewed as well as any systems that are used





- Training and proficiency, including:
  - Applicable requirements
  - Continuing Education (CE)
  - Adopted procedures
  - Electronic systems used
  - Changes in requirements
- Proper delegation of supervisory and compliance personnel, including:
  - Proficiency of delegate
  - Prohibition on delegation
  - No conflicts of interest
  - Retention of responsibility
- Procedures for detecting and dealing with violations
- Supervision systems, including:
  - Internal trade surveillance
  - Escalations
  - Enforcement action
  - Annual review of system
- Results of compliance reviews, including:
  - Compliance problems
  - Trend analysis
  - Adequately addressed issues
- Reports to Board of Directors

**7.5** Understand surveillance and reporting requirements for trading, including:

- Transaction reporting
- Conduct in debt securities markets
- Consolidated Short Position Reporting (CSPR)
- Market Trade Reporting System (MTRS)
- Extended Failed Trades (EFTR)
- Trade Variations or Cancellations Reporting (TVCR)
- Regulatory Marker Correction System (RMCS)
- Gatekeeper reporting

**7.6** Understand specific considerations for debt markets. Consider:

- Operating systems and resources for debt market and other fixed-income trading activities, where applicable
- Policies and procedures relating to debt and other fixed-income securities, where applicable
- Manipulative, deceptive and unfair advantage practices in the debt securities markets and derivatives of debt securities markets (prohibited practices)

**7.7** Apply the regulatory requirements governing client complaints handling to specific scenarios relevant to related trading services. Consider:

- Recognition
- Process
- Resolution
- Reporting
- Prohibited practices

**7.8** Understand the policies and procedures relating to complaints, including:

- Recognizing complaints:
  - Regulatory complaints, e.g. misrepresentation
  - Non-regulatory complaints, e.g. service complaints
- Reporting complaints
- Record-keeping requirements

**7.9** Understand the marketplace rules on investigations, discipline and appeals.





## Element 8: Specific requirements for derivatives

**Summary:** Derivatives are complex instruments, and additional requirements are in place to ensure that this is understood and that the associated risks are clear. In this section, candidates will be tested on their understanding of the additional requirements relating to derivatives trading.

- 8.1** Understand the difference between listed derivative markets and over-the-counter (OTC) markets.
- 8.2** Understand the rules and requirements for listed derivatives trading, including:
  - Criteria and requirements of an approved participant
  - Eligibility criteria for Approved Persons (AP) and Foreign Approved Persons (FAP) to execute trades on behalf of an approved participant
  - Product specifications for:
    - Equity index options
    - Equity options
    - ETF options
    - Currency options
    - Futures and options on futures
- 8.3** Understand the risks and obligations resulting from derivatives trades, including:
  - Long futures vs short futures
  - Long calls vs short calls
  - Long puts vs short puts
- 8.4** Understand the Investment Dealer's duty to report derivatives data, including:
  - Creation data
  - Life-cycle event data
  - Valuation data
  - Errors and omissions
  - Price and reporting limits
- 8.5** Understand the relevant factors in conducting fair pricing when acting as principal in over-the-counter derivative trades, including:
  - Fair market value or settlement price of the related benchmark
  - Fair market value of the derivatives underlier and of any related derivatives involved in the same trading strategy
  - Expense involved in effecting the transaction
  - Dealer's entitlement to a profit
  - Total dollar amount or dollar amount at risk
- 8.6** Understand the need for trading agreements for derivatives transactions, positions and accounts.
- 8.7** Understand the requirements for Investment Dealers writing listed derivatives on behalf of a client, including:
  - Trade execution through a margin account
  - The treatment of long and short positions for derivatives
  - Written margin account agreements
  - Written account agreements defining the rights and obligations relating to transacting in listed options for registered accounts
- 8.8** Understand the requirements for Investment Dealers writing, issuing or guaranteeing over-the-counter derivatives on behalf of a client, including:
  - Written margin agreements defining the rights and obligations relating to transacting in over-the-counter derivatives
  - Supplementary over-the-counter derivatives agreements defining the rights and obligations relating to transacting in over-the-counter derivatives
- 8.9** Understand the requirements for the prime brokerage unit of the Investment Dealer to calculate and obtain minimum client margin from clients with derivative positions according to the following:
  - All open written transactions and resulting short positions carried in a margin account
  - Each derivative margined separately on any difference between the derivative price and the market value of the asset/index
  - The exercise price of the option has value only in providing for the amount of margin required on that particular option



## Element 9: Clearing and settlement

**Summary:** Once the trade is complete, clearing, settlement and the safe custody of assets is required. This element tests candidates understanding of these post-trade processes.

**9.1** Understand the roles of Clearing and Depository Services (CDS) and the Canadian Derivatives Clearing Corporation (CDCC), including:

- Settlement time frames
- Reporting requirements
- Trade processing
- Positions
- Exercises, tenders, assignments and deliveries
- Settlement procedures, including:
  - Delivery versus Payment (DvP)
  - Continuous net settlement
  - Trade-For-Trade (TFT) settlement
  - Buy-ins
- Margin processing
- Clearing fees
- Escalation procedure
- Overnight clearing

**9.2** Understand marketplace rules and guidelines for trading and post-trade settlement, including:

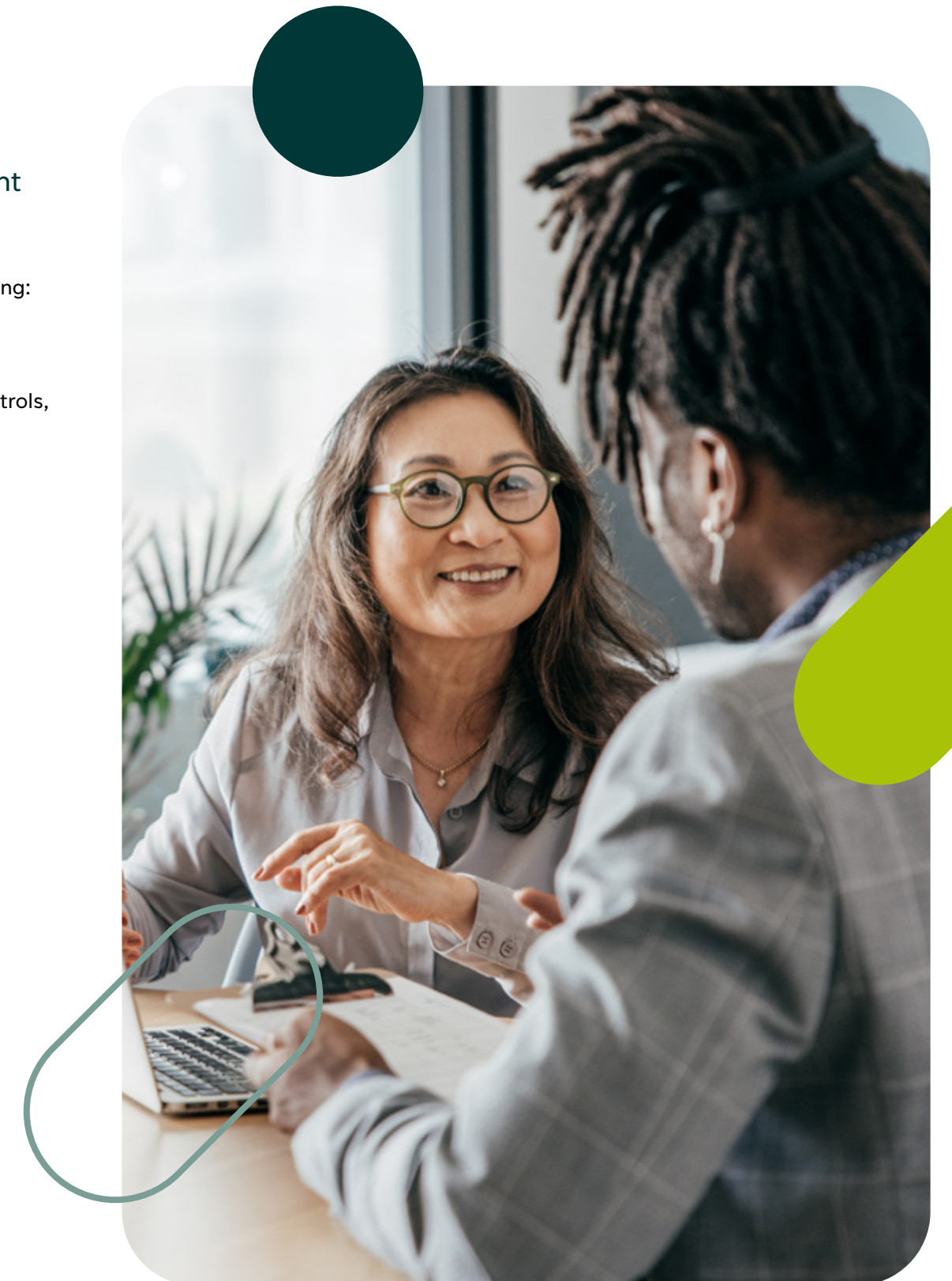
- Processes for settlement and delivery
- Dealer requirements, guidelines and best practices for trade confirmations sent to clients, including:
  - Client contract
  - Trade reconciliation
  - Cancel-and-correct procedures
  - Resolving client disagreements not addressed by cancel-and-correct

**9.3** Understand the process involved in clearing arrangements, including:

- Clearing give-up
- Special settlement terms

**9.4** Understand the definition of custody of assets and applicable controls, including:

- Safety of funds or securities
- Short sales and failed trades
- Extended Failed Trade Reporting (EFTR)





## Element 10: Ethics, conflicts of interest and confidentiality

**Summary:** The ability to act ethically and professionally in activities in the investment industry is fundamental to any candidate's role. This element requires candidates to understand the content and application of the CISO standards of conduct, applying these in the context of managing conflicts of interest, outside activities and personal investment dealings with clients.

- 10.1** Apply to specific situations the role of ethics and integrity in the investment industry. Consider:
- How ethical behaviour relates to compliance with rules
    - Proper care
    - Independent professional judgment
    - Trustworthiness and integrity
    - Honesty and fairness
    - Professionalism
  - CISO standards of conduct
    - High standards of ethics and conduct
    - Acting openly and fairly
    - Acting in a way that would be considered unbecoming or detrimental to public interest
    - Acting in accordance with just and equitable principles of trade
    - Avoiding conduct that may contravene standards of conduct
- 10.2** Apply to specific situations the consequences and risks of unethical behaviour. Consider:
- Legal consequences
  - Reputational damage
  - Regulatory consequences
  - Financial consequences
  - Employee morale and turnover
  - Client confidence and turnover

- 10.3** Understand the application of the Investment Dealer's policies and procedures relating to the management of conflicts of interest. Consider:
- Effective controls and qualified supervision
  - Applicable due diligence process for approvals
  - Research report disclosure requirements
  - Principal and non-client orders
  - Appropriate record-keeping
- 10.4** Apply to specific situations the regulatory requirements governing the management of conflicts of interest in the best interests of the client. Consider:
- Identifying
  - Avoiding
  - Addressing
  - Disclosing
- 10.5** Apply to specific situations the requirements relating to outside activities. Consider:
- Definition
  - Pre-approval
  - Disclosure
- 10.6** Apply to specific situations the requirements relating to personal financial dealings with clients. Consider:
- Prohibition and action relating to:
    - Accepting any consideration

- Settlement agreements
- Borrowing from clients
- Lending to clients
- Control or authority
  - Business partnerships
  - Investment clubs

- 10.7** Apply to specific situations that may identify potential and existing conflicts, including:
- Compensatory
  - Managerial
  - Ownership
  - Improper use of position
  - Unfair dealing
- 10.8** Apply to specific situations the requirements for containment of confidential information, including:
- Information barriers and firewalls
  - Wall crossing
  - Grey and watch lists
  - Cybersecurity

