

## Rules Bulletin

### Request for Comments

DC Rules

24-0007

January 11, 2024

Comments Due By: March 11, 2024

Contact:

Member Regulation Policy

Email: [memberpolicymailbox@ciro.ca](mailto:memberpolicymailbox@ciro.ca)

Please distribute internally to:

Corporate Finance

Credit

Institutional

Internal Audit

Legal and Compliance

Operations

Registration

Regulatory Accounting

Research

Retail

Senior Management

Trading Desk

Training

---

## Rule Consolidation Project – Phase 2

### Executive Summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing for comment Phase 2 of its Rule Consolidation Project rule proposals.<sup>1</sup> The Rule Consolidation Project will bring together the two member regulation rule sets currently applicable to investment dealers<sup>2</sup> and to mutual fund dealers<sup>3</sup> into one set of member regulation rules applicable to both categories of CIRO Dealer Members.<sup>4</sup>

The objective of Phase 2 of the Rule Consolidation Project (**Phase 2 Proposed DC Rules**) is to adopt rules to be retained that are unique to the IDPC or MFD Rules and have been assessed as not having a material impact on stakeholders.<sup>5</sup>

---

<sup>1</sup> [Rules Bulletin 23-0089](#) published on June 30, 2023 announced the Rule Consolidation Project objectives, principles and roadmap. Phase 1 was published on October 20, 2023 in [Rules Bulletin 23-0147](#).

<sup>2</sup> CIRO Dealer Members that are registered as an investment dealer or are registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Investment Dealer and Partially Consolidated (**IDPC**) Rules.

<sup>3</sup> CIRO Dealer Members that are registered as a mutual fund dealer and not registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Mutual Fund Dealer (**MFD**) Rules.

<sup>4</sup> Where a CIRO Dealer Member is a participant in one or more of the markets overseen by CIRO they also must comply with the CIRO Universal Market Integrity Rules (UMIR). UMIR will not be consolidated with other CIRO Rules as part of this project and will continue as a separate CIRO Rule set.

<sup>5</sup> Important stakeholders that were considered include investors, the public, investment dealers and their Approved Persons and employees, mutual fund dealers and their Approved Persons and employees and CIRO itself.

The Phase 2 Proposed DC Rules involve the adoption of rules relating to:

- margin,
- debt markets and Inter-Dealer Bond Brokers (**IDBBs**), and
- trading.

### **How to Submit Comments**

Comments on the Phase 2 Proposed DC Rules should be in writing and delivered by March 11, 2024 to:

Member Regulation Policy  
Canadian Investment Regulatory Organization  
(as of Monday February 12, 2024)  
40 Temperance St,  
Toronto, Ontario M5H 0B4  
e-mail: [memberpolicymailbox@ciro.ca](mailto:memberpolicymailbox@ciro.ca)

A copy should also be delivered to the Canadian Securities Administrators (**CSA**):

Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

and

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](mailto:CMRdistributionofSROdocuments@bcsc.bc.ca)

**Commentators should be aware that a copy of their comment letter will be made publicly available on the CIRO website at [www.ciro.ca](http://www.ciro.ca)**

## Table of Contents

<b>1. Background</b>	<b>5</b>
<b>2. Phase 2 Proposed DC Rules</b>	<b>6</b>
2.1 Margin Requirements	7
2.1.1 Margin requirements – application and definitions (DC Rule 5100)	7
2.1.2 Margin requirements for debt securities and mortgages (DC Rule 5200)	8
2.1.3 Margin requirements for equity securities and index products (DC Rule 5300)	8
2.1.4 Margin requirements for other investment products (DC Rule 5400)	8
2.1.5 Margin requirements for underwriting commitments and when issued trading (DC Rule 5500)	9
2.1.6 Margin requirements for offset strategies involving debt and equity securities and related instruments (DC Rule 5600)	9
2.1.7 Margin requirements for offset strategies involving derivative products (DC Rule 5700)	9
2.1.8 Account related agreements (DC Rule 5800)	9
2.1.9 Agreement related margin requirements (DC Rule 5900)	10
2.2 Debt Markets and IDBBs	10
2.2.1 Debt markets (DC Rule 7100)	11
2.2.2 Transaction reporting for debt securities and IDBBs (DC Rules 7200 and 7300)	11
2.3 Trading	11
2.4 Adoption of rules pending implementation	12
<b>3. Impacts of the Proposed DC Rules</b>	<b>12</b>
3.1 Impact assessment approach	12
3.2 Specific impacts of Phase 2 Proposed DC Rules	13
3.3 Regional impacts	13
<b>4. Alternatives to rule consolidation considered</b>	<b>13</b>
<b>5. Questions</b>	<b>14</b>
<b>6. Policy Development Process</b>	<b>14</b>
6.1 Regulatory Purpose	14

6.2 Regulatory Process ..... 15

**7. Appendices ..... 15**

## 1. Background

One of the initial CIRO priorities is to consolidate the IDPC Rules and MFD Rules into one set of rules, the CIRO Dealer and Consolidated (**DC**) Rules, applicable to both investment dealers and mutual fund dealers.

The primary objectives of the consolidation work are:

- to achieve greater rule harmonization to:
  - ensure like dealer activities will be regulated in a like manner,
  - minimize regulatory arbitrage between investment dealers and mutual fund dealers,
- where practical and appropriate, adopt less prescriptive, more principles-based rule requirements to facilitate rules that are scalable and proportionate to the different types and sizes of dealer and their respective business models, and
- improve access to and clarity of the rules applicable to all CIRO Dealer Members.

Taking these objectives into consideration, the following decisions have been made relating to the structure and content of the DC Rules:

Matter	Decision
Rule organization structure and numbering approach	Use the IDPC Rule organization structure
Rule drafting convention	Standard rule with, where applicable, alternative compliance approaches to accommodate business model differences
Rule drafting style	Plain language
Rule development and implementation approach	Rules will be developed and implemented in five phases

The second phase of the rule consolidation project focuses on DC Rule Series 5000 and 7000 and select sections within Series 3000:

Rule Series	Title and Description
1000	<b>Interpretation and Principles Rules</b>
2000	<b>Dealer Member Organization and Registration Rules</b> – rules concerning Dealer Member ownership and structure, and approval and proficiency of individuals acting on behalf of the Dealer Member
3000	<i>Business Conduct and Client Accounts Rules – provisions relating to:</i> <ul style="list-style-type: none"> <li>• <i>best execution – DC Rule 3100 – Part C</i></li> <li>• <i>client identifiers – DC Rule 3100 – Part D</i></li> <li>• <i>client priority – DC Rule section 3503</i></li> </ul>

4000	<b>Dealer Member Financial and Operational Rules</b> – rules concerning Dealer Member financial and operational matters
5000	<b>Dealer Member Margin Rules</b> – provisions relating to: <ul style="list-style-type: none"> <li>• Margin requirements – application and definitions – DC Rule 5100</li> <li>• Margin requirements for debt securities and mortgages – DC Rule 5200</li> <li>• Margin requirements for equity securities and index products – DC Rule 5300</li> <li>• Margin requirements for other investment products – DC Rule 5400</li> <li>• Margin requirements for underwriting commitments and when issued trading – DC Rule 5500</li> <li>• Margin requirements for offset strategies involving debt and equity securities and related instruments – DC Rule 5600</li> <li>• Margin requirements for offset strategies involving derivative products – DC Rule 5700</li> <li>• Account related agreements – DC Rule 5800</li> <li>• Agreement related margin requirements – DC Rule 5900</li> </ul>
6000	<b>Reserved</b> for future use
7000	<b>Debt Markets and Inter-Dealer Bond Brokers Rules</b> – provisions relating to: <ul style="list-style-type: none"> <li>• debt markets – DC Rule 7100</li> <li>• transaction reporting for debt securities – DC Rule 7200</li> <li>• inter-dealer bond brokers – DC Rule 7300</li> </ul>
8000	<b>Procedural Rules - Enforcement</b> – rules concerning investigations, enforcement proceedings, disciplinary proceedings, hearing committees, and rules of practice and procedure
9000	<b>Procedural Rules - Other</b> – rules concerning compliance examinations, approvals and regulatory supervision, regulatory review procedures, opportunities to be heard, alternative dispute resolution, and CIPF requirements

## 2. Phase 2 Proposed DC Rules

To provide details of the Phase 2 Proposed DC Rules, the following documents have been included as appendices to this Bulletin:

- a clean copy of the Phase 2 Proposed DC Rules is included as [Appendix 1](#)
- a blackline comparison of the Phase 2 Proposed DC Rules to the equivalent IDPC Rules is included as [Appendix 2](#)
- a table of concordance comparing the Phase 2 Proposed DC Rules to any existing equivalent requirements in the IDPC Rules, MFD rules and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* is included as [Appendix 3](#).

In the next section of this Bulletin, we summarize the key elements of the Phase 2 Proposed DC Rules, which in most cases are the adoption of existing rule provisions from the existing IDPC Rules.

The Phase 2 Proposed DC Rules require specific requirements depending on the type of activities conducted by Dealer Members. Mutual fund dealers are only permitted to carry out activities as prescribed under securities legislation.

## **2.1 Margin Requirements**

The following provisions have been adopted/introduced within Phase 2 Proposed DC Rules related to margin requirements:

- adopt the margin requirements in IDPC Series 5000 with non-material modifications which harmonize the margin rates between investment dealers and mutual fund dealers for all investment products,
- adopt MFD Rule 3.2.1 that prohibits mutual fund dealers from allowing clients to purchase securities on margin, but allows the advancement of redemption funds to clients under certain conditions,
- clarify that the margin requirements apply to:
  - proprietary inventory and client positions/accounts at investment dealers, and
  - proprietary inventory positions/accounts at mutual fund dealers,
- introduce a foreign exchange concentration margin charge for mutual fund dealers,
- apply defined terms introduced in Phase 1, where applicable, and
- introduce the corresponding French language defined term to each English language defined term (and vice versa) to make it easier to access the corresponding term in the other language.

Client account margin requirements have been restricted to investment dealers by adopting modified client account margin and loan value definitions and adopting provisions prohibiting mutual fund dealers from extending margin to clients. The details of the adopted rules and any modifications are described below.

### **2.1.1 Margin requirements – application and definitions (DC Rule 5100)**

We adopted the existing IDPC Rule provisions relating to the application and definitions of margin requirements with the following modifications:

- added “investing” to Dealer Member activities that have market and credit risk requirements to clarify the margin requirements apply to inventory positions arising from Dealer Members investing their excess capital (*DC Rule clause 5110(1)(ii)*),
- adopted and modified MFD Rule 3.2.1 that does not allow clients of mutual fund dealers to purchase securities on margin but allows mutual

fund dealers to advance funds to clients in connection with redemption proceeds under certain conditions. The condition that a mutual fund dealer must be a Level 2, 3 or 4 was modified to require the mutual fund dealer to have a minimum capital of \$50,000 based on the minimum requirements for a Level 2 in MFD Rule 3.1.1. This may require further modification in future phases when rules related to minimum capital and Level categories are reviewed (*DC Rule subsection 5111(5)*),

- for a provision that only applies to investment dealers, replaced “Form 1” with the term “Investment Dealer Form 1” to align with the definition introduced in Phase 1 (*DC Rule subsection 5114(2)*),
- included reference to both *Investment Dealer Form 1* and *Mutual Fund Dealer Form 1* where a term is not defined in the rules but defined in one of the Forms (*DC Rule subsection 5130(1)*),
- introduce the corresponding French language defined term to each English language defined term (and vice versa) to make it easier to access the corresponding term in the other language (*DC Rule subsection 5130(2)*),
- modified the definition of “client account margin” and “loan value” to refer only to Investment Dealer Members (*DC Rule subsection 5130(2)*), and
- replaced reference to Form 1, Schedule 11 in the definition of “*net long(short) foreign exchange position*” with the calculation formula (*DC Rule subsection 5130(9)*).

#### **2.1.2 Margin requirements for debt securities and mortgages (DC Rule 5200)**

We adopted the existing IDPC Rule provisions relating to margin requirements for debt securities and mortgages with no changes.

#### **2.1.3 Margin requirements for equity securities and index products (DC Rule 5300)**

We adopted the existing IDPC Rule provisions relating to margin requirements for equity securities and index products with the following non-material modifications:

- removal of unnecessary capitalization (*DC Rule subsection 5310(1)*), and
- inclusion of the phrase “listed on an acceptable exchange” for listed rights and warrants for consistency with the DC Rule subsection 5130(4) definition of “Canada and United States listed equity securities eligible for margin” (*DC Rule subsection 5350(1)*).

#### **2.1.4 Margin requirements for other investment products (DC Rule 5400)**

We adopted existing IDPC Rule provisions relating to margin requirements for other investment products with the following modifications:

- revisions to terminology relating to swap counterparty margin requirements for other counterparties (*DC Rule clause 5442(1)(iii)*)



- revisions to terminology relating to foreign exchange exposures to other counterparties (*DC Rule clause 5468(1)(ii)*)
- inclusion of a foreign exchange concentration charge calculation for mutual fund dealers based on adjusted allowable working capital in *Mutual Fund Dealer Form 1 (DC Rule subsection 5469(2))*.

**2.1.5 Margin requirements for underwriting commitments and when issued trading (DC Rule 5500)**

We adopted the existing IDPC Rule provisions relating to margin requirements for underwriting commitments and when issued trading with no modifications.

**2.1.6 Margin requirements for offset strategies involving debt and equity securities and related instruments (DC Rule 5600)**

We adopted the existing IDPC Rule provisions relating to margin requirements for offset strategies involving debt and equity securities and related instruments with non-material modifications to formatting and numbering.

**2.1.7 Margin requirements for offset strategies involving derivative products (DC Rule 5700)**

We adopted existing IDPC Rule provisions relating to margin requirements for offset strategies involving derivatives with the following modifications:

- removed the “exchange-traded option” header from sections related to “basket, participation unit and futures combinations” and “cross index offsets and the optional use of the Standard Portfolio Analysis methodology” as these offsets do not include exchange traded options (*DC Rule subsection 5701(2)*)
- added ability for Dealer Members to apply the short iron condor spread offset to inventory accounts, for consistency with other option offset rules (*DC Rule subsection 5740(1)*)
- corrected language for margin requirements on long and short trip combinations to replace “index basket” with the defined term, “qualifying basket of index securities” (*DC Rule subclauses 5754(2)(i)(c) and 5755(2)(i)(c)*)

**2.1.8 Account related agreements (DC Rule 5800)**

We adopted existing IDPC Rule provisions relating to account related agreements with the following modifications:

- clarified that the guaranteed client’s account statements should be provided at least quarterly (*DC Rule clauses 5820(1)(iv) and (v)*)
- replaced “Form 1” where applicable with the term “*Investment Dealer Form 1*” to align with the definition introduced in Phase 1 (*DC Rule subclause 5821(1)(i)(d), subsections 5840(2) and 5850(1)*)

The defined terms *Executives* and *Directors* are specific to *Investment Dealer Members*. These terms are used in section 5821 related to restrictions on shareholder account guarantees and section 5822 related to restrictions on clients providing account guarantees. We did not make any modifications to include partners, directors and officers of mutual fund dealers in the restrictions for account guarantees. Since mutual fund dealers are restricted from offering margin to clients, the account guarantees would not be applicable. The restrictions on guarantees and loans to clients by Approved Persons (as defined in proposed Phase 1) and restrictions on guarantees and loans by mutual fund dealers will be addressed in futures phases.

The requirements related to financing agreements, such as cash and securities loan agreements and repurchase and reverse repurchase agreements, apply to both investment dealers and mutual fund dealers. Although margin requirements for financing transactions are set out in the Investment Dealer Form 1, any mutual fund dealers engaging in such financing activities would be subject to these margin requirements until the Mutual Fund Dealer Form 1 and Investment Dealer Form 1 are harmonized in future phases.

For example, where a mutual fund dealer engages in financing activities and is not party to a written agreement that contains the minimum terms set out in 5840(3) or 5850(2), the margin penalties in Investment Dealer Form 1 apply.

#### **2.1.9 Agreement related margin requirements (DC Rule 5900)**

We adopted existing IDPC Rule provisions relating to agreement related margin requirements with the following modifications:

- replaced “Form 1” with the term “*Investment Dealer Form 1*” to align with the definition introduced in Phase 1 (*DC Rule subsections 5901(1), 5903(1) and 5903(2)*)
- introduced the corresponding French language defined term of “fixed rate” (and vice versa) to make it easier to access the corresponding term in the other language (*DC Rule subsection 5902(1)*).

The term risk margin requirements in DC Rule 5900 apply to both investment dealers and mutual fund dealers engaging in financing activities that would be subject to term risk. Both investment dealers and mutual fund dealers that engage in financing activities are also subject to the general margin requirements in Investment Dealer Form 1.

## **2.2 Debt Markets and IDBBs**

The IDPC Rules contain regulatory requirements relating to debt markets, debt market transaction reporting and IDBBs in Series 7000. There are no equivalent regulatory requirements set out within the MFD Rules. Accordingly, we have adopted these rule provisions and included them as DC Rule Series 7000. These requirements have no application in the case of the activities of mutual fund dealers dealing in

mutual funds but will impact mutual fund dealers dealing in debt securities as described below.

### **2.2.1 Debt markets (DC Rule 7100)**

We propose to extend the debt securities trading and settlement practice obligations to mutual fund dealers dealing in debt securities to ensure like activities will be regulated in a like manner and minimize regulatory arbitrage between investment dealers and mutual fund dealers. *(DC Rule 7100)*

Most importantly, mutual fund dealers dealing in debt securities would have to establish, maintain and apply specific policies and procedures.

### **2.2.2 Transaction reporting for debt securities and IDBBs (DC Rules 7200 and 7300)**

We are not proposing to extend transaction reporting for debt securities and IDBBs requirements to mutual fund dealers at this time. We have included a question later in this Bulletin asking for your views on whether transaction reporting for debt securities should be extended to mutual fund dealers.

We are proposing clarifying changes to the debt reporting requirements to reflect the current practice of reporting entities dealing in debt securities. *(DC Rule subsection 7203(6))*

These changes reflect current practice and are not intended to result in any material changes in the application of requirements to investment dealers dealing in debt securities or reporting entities subject to the reporting requirements in Rule 7200.

We have also introduced the corresponding French language defined term to each English language defined term (and vice versa) in Rules 7200 and 7300 to make it easier to access the corresponding term in the other language. *(DC Rule subsections 7202(1) and 7302(1))*

## **2.3 Trading**

The IDPC Rules contain trading requirements relating to best execution (Part C of Rule 3100), client identifiers (Part D of Rule 3100) and client priority (section 3503). There are no equivalent regulatory requirements set out within the MFD Rules. Accordingly, we have adopted the rule provisions relating to best execution, client identifiers and client priority from the existing IDPC Rules. These requirements have no application in the case of the activities of mutual fund dealers dealing in mutual funds.

However, we propose to extend the best execution, client identifiers, and client priority requirements to mutual fund dealers dealing in exchange traded funds (**ETFs**) to ensure like activities will be regulated in a like manner and minimize regulatory

arbitrage between investment dealers and mutual fund dealers. (DC Rule sections 3119 through 3129, 3140, and 3503)

Most importantly, mutual fund dealers dealing in ETFs would have to establish, maintain, and apply policies and procedures that specifically address achieving best execution for client orders and transactions. Mutual fund dealers would also need to ensure compliance with client order identification requirements and give priority to client orders or transactions over all other orders.

We have also introduced the corresponding French language defined term to each English language defined term (and vice versa) relating to best execution to make it easier to access the corresponding term in the other language. (DC Rule subsection 3119(1))

## **2.4 Adoption of rules pending implementation**

In order to ensure that the proposed consolidated rules remain consistent over time with the existing and proposed IDPC Rules and MFD Rules, we have incorporated the following “business as usual” rule amendment proposals within the Phase 2 Proposed DC Rules:

- [Amendments to facilitate the industry’s move to T+1 settlement](#) – These amendments will be effective May 27, 2024. From these amendments we have adopted modifications to IDPC Rule sections 5560, 5561 and 5562 to shorten the timeline for the posting of client account margin to the first settlement day after the trade date.
- [Proposed amendments to introduce margin requirements for structured products](#) – From this proposal we have incorporated the proposed definitions in section 5130 and the proposed margin requirements in sections 5455 and 5456.
- [Proposed amendments to CIRO’s derivatives-related requirements](#) – From this proposal we have incorporated the proposed revised and updated version of the best execution requirements set out in Part C of Rule 3100.

## **3. Impacts of the Proposed DC Rules**

### **3.1 Impact assessment approach**

As the Rule Consolidation Project is being pursued in five phases, and the combined impact of the project can only be assessed once development of all five phases have been completed, it would be misleading for us to assess the impact of each phase in isolation from the other phases or to make an assessment of the combined impact of all five project phases until all phases have been developed.

To provide you with some impact information in the interim, we will identify the impacts specific to each project phase, as each project phase is published for public

comment and provide an overall Rule Consolidation Project impact assessment once all five phases have been developed.

### **3.2 Specific impacts of Phase 2 Proposed DC Rules**

There is minimum impact to investment dealers as the existing requirements will be adopted into the DC Rules with minimal modifications. Mutual fund dealers will be impacted as follows:

- changes to margin rates for certain inventory positions which generally result in lower margin requirements,
- potential additional margin due to foreign exchange margin requirements on foreign currency exposures,
- application of requirements for financing agreements and margin to mutual fund dealer activity in cash and securities loans, repurchase and reverse repurchase agreements,
- application of the best execution obligation to mutual fund dealer activity in ETFs, which may oblige mutual fund dealers to update their client disclosure, compliance systems, and policies and procedures, and
- application of trading and settlement practice obligations to mutual fund dealer activity in debt securities, which may oblige mutual fund dealers to update their client disclosure, compliance systems, and policies and procedures.

We have assessed the impact of the changes being introduced as part of the Phase 2 Proposed DC Rules as having an overall positive impact on investors, Dealer Members and CIRO staff. While there could be some negative impacts to mutual fund dealers, we concluded these impacts were outweighed by the positive impacts the Phase 2 Proposed DC Rules would have. A complete impact analysis of the Phase 2 Proposed DC Rules is attached as [Appendix 4](#).

### **3.3 Regional impacts**

We have identified no regional impacts associated with the Phase 2 Proposed DC Rules.

## **4. Alternatives to rule consolidation considered**

We didn't consider any alternatives to rule consolidation, such as maintaining separate rules for investment dealer members and mutual fund dealer members as, based on the feedback provided in response to CSA Position Paper 25-404, *New Self Regulatory Organization Framework*, we determined that there is general cross-stakeholder support for rule consolidation.

## 5. Questions

While comment is requested on all aspects of the Phase 2 Proposed DC Rules, comment is specifically requested on the following questions:

### Question #1 - Best execution obligation

As part of the Phase 2 Proposed DC Rules, we have adopted existing IDPC Rule requirements relating to best execution/client identifier/client priority and propose extending the same requirements to the mutual fund dealers dealing in the investment products they are entitled to transact in (such as ETFs and certain debt securities):

- Are there specific components of sections 3119 to 3129, section 3140 or section 3503 that need to be adjusted or clarified to account for the activities of mutual fund dealers dealing in ETFs or debt securities?
- What is the expected operational impact on mutual fund dealers who will need to adhere to the best execution, client identifier, and client priority requirements?
- What type of implementation support (e.g. training) can CIRO provide to mutual fund dealers dealing in ETFs or debt securities?

### Question #2 - Debt market trading and settlement practice obligations

We have extended the debt securities trading and settlement practice obligations to mutual fund dealers. Are there specific components of Rule 7100 that need to be adjusted or clarified to account for any uniqueness in mutual fund dealer debt market activities?

### Question #3 - Transaction reporting for debt securities

We have not extended the transaction reporting for debt securities obligation to mutual fund dealers at this stage. Should we extend this obligation to mutual fund dealers? If yes, are there specific components of Rule 7200 that need to be adjusted or clarified to account for any uniqueness in mutual fund dealer debt transactions?

## 6. Policy Development Process

### 6.1 Regulatory Purpose

We took the public interest into consideration when developing the Proposed DC Rules and we believe the proposals achieve their intended objectives to ensure like

dealer activities will be regulated in a like manner while minimizing regulatory arbitrage between investment dealers and mutual fund dealers.

We also believe the Proposed DC Rules will foster public confidence in capital markets by ensuring all CIRO Dealer Members will be held to standards of conduct that foster fair, equitable and ethical business standards and practices.

## **6.2 Regulatory Process**

The Board of Directors of CIRO (**Board**) has determined the Phase 2 Proposed DC Rules to be in the public interest and on November 15, 2023 approved them for public comment.

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

- Conduct, Compliance and Legal Advisory Section (CCLS)
- Fixed Income Advisory Committee (FIAC)
- Market Regulation Advisory Committee (MRAC)
- Financial and Operations Advisory Section (FOAS) Capital Formula Subcommittee
- Ad-hoc Mutual Fund Dealer Member Financial Advisory Working Group

After considering the comments received in response to this Request for Comments together with any comments of the CSA, CIRO staff may recommend revisions to the Phase 2 Proposed DC Rules. If the revisions and comments received are not material in nature, the Board has authorized the President to approve the revisions on CIRO's behalf and the revised Proposed DC Rules will be subject to approval by the CSA. If the revisions or comments are material, CIRO staff will submit the Proposed DC Rules, including any revisions, to the Board for approval for republication or implementation, as applicable.

## **7. Appendices**

[Appendix 1](#) – Proposed DC Rules – Phase 2 (clean)

[Appendix 2](#) – Proposed DC Rules – Phase 2 (blackline)

[Appendix 3](#) – Table of concordance

[Appendix 4](#) – Impact Analysis of the Phase 2 Proposed DC Rules

## Appendix 4 – Impact Analysis of the Phase 2 Proposed DC Rules

### Impact Assessment Table

In the impact assessment table below, we list:

- the major policy elements of the Phase 2 Proposed DC Rules,
- a description of the intended policy benefits of each element, and
- an assessment of its impact on clients, investment dealer members (Investment Dealers), mutual fund dealer members (Mutual Fund Dealers), and CIRO itself.

### Conclusions

We concluded that, if approved, the Phase 2 Proposed DC Rules would result in reduced potential for regulatory arbitrage by harmonizing:

- inventory margin rates for Mutual Fund Dealers and Investment Dealers,
- application of foreign exchange margin requirements to any Dealer Member with foreign exchange exposure,
- application of best execution obligation for any Dealer Member dealing in exchange traded funds (**ETFs**), including Mutual Fund Dealers, and
- application of best execution and trading and settlement practice obligations for any Dealer Member dealing in debt securities, including Mutual Fund Dealers.

We have assessed the impact of the changes being introduced as part of the Phase 2 Proposed DC Rules as having an overall positive impact on clients, Dealer Members and CIRO staff. While there could be some negative impacts to Mutual Fund Dealers, we concluded these impacts were outweighed by the overall positive impacts the Phase 2 Proposed DC Rules would have.

### Cost Estimate

We do not know the dollar magnitude of the collective impacts of the Phase 2 Proposed DC Rules, and we cannot determine it without detailed stakeholder feedback. For example, the harmonization of margin rates for Investment Dealers and Mutual Fund Dealers may require Mutual Fund Dealers to revise their margining process and systems to support the Phase 2 Proposed DC Rules. However, it is expected that most Mutual Fund Dealers will not be impacted as they do not invest in the same breadth of instruments as Investment Dealers. The Phase 2 Proposed DC Rules are not expected to have any significant incremental costs to Dealer Members and clients.



Description of proposed requirement	Related intended benefits	Impact on clients	Impact on Investment Dealers	Impact on Mutual Fund Dealers	Impact on CIRO
<p><b>Rule 3100 (Part C) – Best Execution</b></p> <p>Extended application of best execution obligation to Mutual Fund Dealers dealing in bonds and ETFs</p>	Ensure a level playing field for Investment Dealers and Mutual Fund Dealers by ensuring that the same rules apply for similar activities	<i>Positive</i> ; clients of Mutual Fund Dealers dealing in bonds and ETFs will now benefit from codified best execution obligations	<i>Neutral</i> ; Investment Dealers are not expected to be impacted	<i>Minor negative</i> ; Additional regulatory burden for the subset of Mutual Fund Dealers dealing in debt securities and ETFs, but the requirements are not onerous to comply with.	<i>Neutral</i> ; extension of these requirements to Mutual Fund Dealers is not expected to have a notable impact on CIRO’s practices given harmonization of requirements applicable to any Dealer Member dealing in debt securities and ETFs
<p><b>Rule 3100 (Part D) – Client Identifiers</b></p> <p>Extended application to Mutual Fund Dealers dealing in ETFs</p>	Ensure a level playing field for Investment Dealers and Mutual Fund Dealers by ensuring that the same rules apply for similar activities	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted	<i>Minor negative</i> ; Additional regulatory burden for the subset of Mutual Fund Dealers dealing in ETFs, but the requirements are not onerous to comply with.	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO’s practices
<p><b>Rule 3503 – Client Priority</b></p> <p>Extended application to Mutual Fund Dealers</p>	Ensure a level playing field for Investment Dealers and Mutual Fund Dealers by ensuring that the same rules apply for similar activities	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted	<i>Negative</i> ; <i>Additional regulatory burden for Mutual Fund Dealers</i> . This requirement may require enhanced compliance systems and resources for Mutual Fund Dealers dealing in ETFs.	<i>Neutral</i> ; <i>extension of these requirements to Mutual Fund Dealers is not expected to have a notable impact on CIRO’s practices given harmonization of requirements applicable to all Dealer Members</i>
<p><b>Rule 5100 – Margin Requirements – Application and Definitions:</b></p> <p>Adopted IDPC Rule requirements with modifications to restrict use of margin for Mutual Fund Dealer clients and other clarifying amendments</p>	Maintenance of current requirements for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted	<i>Neutral</i> ; Mutual Fund Dealer Members are not expected to be impacted by maintenance of these requirements	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have any notable impact on CIRO’s practices

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on Investment Dealers	Impact on Mutual Fund Dealers	Impact on CIRO
<p><b>Rule 5200 - Margin requirements for debt securities and mortgages:</b></p> <p>No change from existing requirements in IDPC Rules</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Net positive</i> ; Mutual Fund Dealers are expected to benefit from lower inventory margin rates for certain fixed income products	<i>Neutral</i> ; maintenance of these requirements is not expected to have a notable impact on CIRO's practices
<p><b>Rule 5300 - Margin requirements for equity securities and index products:</b></p> <p>No change from existing requirements in IDPC Rules other than clarifying amendments</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Net positive</i> ; Mutual Fund Dealers are expected to benefit from lower inventory margin rates for certain equity securities	<i>Neutral</i> ; maintenance of these requirements is not expected to have a notable impact on CIRO's practices
<p><b>Rule 5400 - Margin requirements for other investment products:</b></p> <p>Adopt existing IDPC Rules with modification to introduce a foreign exchange concentration charge calculation for Mutual Fund Dealers</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Minor negative</i> ; Mutual Fund Dealers with foreign exchange exposure may have additional margin requirements	<i>Neutral</i> ; extension of these requirements to Mutual Fund Dealers is not expected to have a notable impact on CIRO's practices
<p><b>Rule 5400 - Margin requirements for other investment products:</b></p> <p>No change from existing requirements in IDPC Rules other than clarifying amendments</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Minor negative</i> ; Mutual Fund Dealers with mutual fund inventory positions may have higher margin requirements for low-priced mutual funds	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO's practices
<p><b>Rule 5500 - Margin requirements for</b></p>	Maintenance of current requirements for Investment Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are	<i>Neutral</i> ; Investment Dealers are not expected to be	<i>Neutral</i> ; Mutual Fund Dealer Members are not expected to be impacted	<i>Neutral</i> ; maintenance of these existing requirements

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on Investment Dealers	Impact on Mutual Fund Dealers	Impact on CIRO
<p><b>underwriting commitments and when issued trading:</b></p> <p>No change from existing requirements in IDPC Rules</p>		not expected to be impacted	impacted as there is no change to rates	as they do not engage in this line of business	is not expected to have an impact on CIRO's practices
<p><b>Rule 5600 - Margin requirements for offset strategies involving debt and equity securities and related instruments:</b></p> <p>No change from existing requirements in IDPC Rules other than clarifying amendments</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Neutral</i> ; Mutual Fund Dealers are not expected to be impacted as they do not typically use offset strategies	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO's practices
<p><b>Rule 5700 - Margin requirements for offset strategies involving derivative products:</b></p> <p>No change from existing requirements in IDPC Rules other than clarifying amendments</p>	Ensures consistency of margin rules for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Neutral</i> ; Mutual Fund Dealers are not expected to be impacted as they do not typically use offset strategies	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO's practices
<p><b>Rule 5800 - Account related agreements:</b></p> <p>No change from existing requirements in IDPC Rules other than clarifying amendments</p>	Maintenance of current requirements for Investment Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Neutral</i> ; Mutual Fund Dealers are only expected to be impacted to the extent they engage in financing transactions.	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO's practices
<p><b>Rule 5900 - Agreement related margin requirements:</b></p> <p>No change from existing requirements in IDPC Rules</p>	Maintenance of current requirements for Investment Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted as there is no change to requirements	<i>Neutral</i> ; Mutual Fund Dealers are only expected to be impacted to the extent they engage in financing transactions	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO's practices

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on Investment Dealers	Impact on Mutual Fund Dealers	Impact on CIRO
other than clarifying amendments					
<p><b>Rule 7100 – Debt Markets</b></p> <p>No change from existing obligation in IDPC Rules other than clarifying amendments</p>	Ensures consistency of debt trading and settlement practice obligations for Investment Dealers and Mutual Fund Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted; clarifying amendments align requirements with current practice	<i>Minor negative</i> ; Mutual Fund Dealers transacting in debt securities will have more trading and settlement practice obligations to meet, but these obligations are not onerous to comply with	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO’s practices
<p><b>Rule 7200 – Transaction Reporting for Debt Securities</b></p> <p>No change from existing obligation in IDPC Rules other than clarifying amendments</p>	Maintenance of current Investment Dealer debt trade reporting obligations align requirements with current practice	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted; clarifying amendments align requirements with current practice	<i>Neutral</i> ; Mutual Fund Dealers will not be impacted as obligations are limited in application to Investment Dealers	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO’s practices
<p><b>Rule 7300 – Inter-Dealer Bond Brokers</b></p> <p>No change from existing obligation in IDPC Rules other than clarifying amendments</p>	Maintenance of current obligations on Investment Dealers	<i>Neutral</i> ; clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> ; Investment Dealers are not expected to be impacted	<i>Neutral</i> ; Mutual Fund Dealers are not expected to be impacted as obligations are limited in application to Investment Dealers	<i>Neutral</i> ; maintenance of these existing requirements is not expected to have an impact on CIRO’s practices