

# IIROC NOTICE

**Rules Notice**  
**Request for Comments**  
IIROC Rules

**Notice 22-0055**  
**April 14, 2022**

**Comments Due By: June 13, 2022**

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## Re-publication of Proposed Derivatives Rule Modernization, Stage 1

### Executive Summary

IIROC is republishing for comment previously published proposed amendments to the IIROC Rules to modernize and simplify our derivatives-related requirements (the **Initial publication**).<sup>1</sup>

We have made revisions to the proposed amendments set out in the Initial publication (the **Revised Proposed Amendments**) which are designed to:

- reproduce most of the proposed amendments using the updated version of the IIROC Rules which was implemented on December 31, 2021,<sup>2</sup> and

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<sup>1</sup> See IIROC [Rules Notice 19-0200](#), published on November 21, 2019.

<sup>2</sup> See IIROC [Rules Notice 21-0190](#), published on October 14, 2021.



- propose changes to some of the proposed amendments to address issues raised and suggestions made in the comment letters we received on the Initial publication, as well as comments from the Canadian Securities Administrators (CSA).

The objectives and considerations of these proposed amendments are outlined in the Initial publication. We have aligned the proposals in the Revised Proposed Amendments with these objectives and considerations.

### **How to Submit Comments**

Comments on the proposed amendments should be in writing and delivered by June 13, 2022 (60 days from the publication date of this notice) to:

Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
Suite 2000, 121 King Street West  
Toronto, ON M5H 3T9  
Email: [memberpolicymailbox@iiroc.ca](mailto:memberpolicymailbox@iiroc.ca)

Comments should also be delivered to:

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

***Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at [www.iiroc.ca](http://www.iiroc.ca). A summary of the comments contained in each submission will also be included in a future IIROC Notice.***



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## 1. Background

### 1.1 Initial proposed amendments

We published the Initial publication for comment on November 21, 2019 by way of [Rules Notice 19-0200](#). The Initial publication sets out IIROC’s objectives arising from the Derivatives Rule Modernization project, which primarily aims to establish a harmonized framework for securities and derivatives, whether listed or traded over-the-counter (OTC). Given the extent and the nature of the amendments under this project, the approach adopted was to publish proposed amendments for public comment in two separate stages as follows:

- **Stage 1**, includes all amendments we propose to make other than those relating to margin requirements, and
- **Stage 2** will include the amendments we propose to make to the margin requirements.

The proposed amendments set out under the Initial publication focused on Stage 1 of the project.

### 1.2 Comments received

We received six comment letters following the Initial publication. A summary of the comments received and our response to these comments is included as Attachment D.

### 1.3 The IIROC Rules implementation

When we published the Initial publication, the proposed amendments were set out using the version of the IIROC Rules which was published in August 2019. Several rule amendment projects have since been approved and implemented, such as amendments relating to transaction reporting, cybersecurity incident reporting, continuing education, client-focused reforms and bulk account movement exemptions. In October 2021, an updated plain language version of the IIROC Rules incorporating all these amendments was published and implemented on December 31, 2021.

### 1.4 Republication

In light of the updates to the IIROC Rules since the Initial publication and having considered the comments received, we are republishing for comment the Derivatives Rule Modernization, Stage 1 proposed amendments<sup>3</sup> together with the revisions set out in the present Notice.

## 2. Summary of Revised Proposed Amendments

### 2.1 Definitions

#### 2.1.1 Definition of “security”

Currently the term “security” is not defined in the IIROC Rules. Any term not defined in the IIROC Rules or other IIROC requirements, will have the same meaning as provided for under securities laws where defined.<sup>4</sup>

One of the primary objectives of IIROC’s Derivatives Rule Modernization project is to more clearly specify which of the core regulatory obligations apply to securities, listed derivatives and

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<sup>3</sup> See IIROC [Rules Notice 19-0200](#), published on November 21, 2019.

<sup>4</sup> IIROC Rule subsection 1201(1).



OTC derivatives. Since certain requirements, current and proposed, are different for securities and derivatives, we believe the main definition section of the IIROC Rules<sup>5</sup> should distinguish at the outset securities from derivatives.

To achieve this result, we are proposing that IIROC introduce the following definition of “*security*” in IIROC Rule subsection 1201(2):

Proposed term	Proposed definition
<b>security</b>	A security as defined within the relevant <i>securities law</i> other than a <i>derivative</i> .

As a result of this revision, the definitions of the term “*security*” which we proposed to introduce in specific IIROC Rules in the Initial publication have been removed.<sup>6</sup>

We believe this approach will provide added clarity to the application of the IIROC Rules as it clearly excludes a derivative from the definition of security and it is also consistent with the proposed amendments IIROC published in October 2020, with respect to the establishment of an appropriate framework for the regulation of listed derivatives trading on a marketplace.<sup>7</sup>

### 2.1.2 Types of derivatives

In the Initial publication, we proposed to adopt a broader-scope general definition approach for IIROC’s derivatives-related definitions, namely “*derivative*”, “*listed derivative*” and “*over-the-counter derivative*”. We believe these definitions as proposed are harmonized with the definitions set out in provincial securities, derivatives and commodity futures legislation.

We have not made further changes to these definitions proposed under IIROC Rule subsection 1201(2), except for a minor modification to the definition of the term “*derivative*” as follows:

Proposed term	Proposed definition
<b>derivative</b>	An option, swap, futures contract, forward contract, <a href="#">futures contract option</a> , 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.

Given a futures contract option shares features of a futures contract and that of an option and that as a result, the IIROC Rules make distinct references to futures contract options, we are proposing to add the term “*futures contract option*” in the definition of “*derivative*”. This

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<sup>5</sup> IIROC Rule subsection 1201(2).

<sup>6</sup> See previously proposed amendments to IIROC Rule 3800; Part D of IIROC Rule 4100; Part C of IIROC Rule 4200; IIROC Rule 4300; IIROC Rule 4400; IIROC Rule 4700; IIROC Rule 4800.

<sup>7</sup> See IIROC [Rules Notice 20-0202](#), published on October 8, 2020.



change is intended to align the definition of derivative with the treatment given to futures contract options throughout the IIROC Rules. For example, when a requirement set out in the IIROC Rules differentiates between a futures contract and an option, depending on the feature being addressed, the rules make a distinct reference to a futures contract option.<sup>8</sup>

### 2.1.3 Inclusion of derivatives within the “securities related business” definition

In light of the objective to clearly specify requirements that apply to securities and derivatives respectively and having distinct references to these asset classes, in the Initial publication we had proposed changes to the definition of the term “*securities related business*” and renamed it to “*agent related activities*”.

We have considered the comments received on the potential confusion this change could cause, and as a result we are proposing to revise the proposed amendment to the defined term by renaming it to “*securities and derivatives related business*”.

### 2.1.4 Revision to “institutional client” definition

To reduce the gap between the definitions used to identify sophisticated clients and to conform as much as possible the definitions used to assess client sophistication for all securities and derivatives business lines, we proposed in the Initial publication changes to the “*institutional client*” definition. These changes proposed that IIROC:

- retain the approach of using a minimum threshold amount of assets under administration as a proxy for client sophistication,
- extend this “*assets under administration*” approach to individual clients, subject to certain conditions,
- introduce a hedger concept whereby non-individuals engaging in qualifying hedging activities can be classified as an institutional client for those accounts with qualifying hedging activities and hedge positions.

Other than the minor rule changes outlined in the following table, we are proposing to maintain this approach:

Proposed term	Initial publication definition	Revision to proposed definition
<b>institutional client</b>	(i) an <i>acceptable counterparty</i> , (ii) an <i>acceptable institution</i> , (iii) a <i>regulated entity</i> , (iv) a registrant under <i>securities law</i> , other than an <i>individual</i> registrant, <del>or</del> (v) a non- <i>individual</i> with total securities <u>and precious</u>	<u>A person who is:</u> (i) an <i>acceptable counterparty</i> , (ii) an <i>acceptable institution</i> , (iii) a <i>regulated entity</i> , (iv) a registrant under <i>securities law</i> , other than an <i>individual</i> registrant,

<sup>8</sup> For example, as part of the proficiency requirements, a futures contract option is classified together with a futures contract as opposed to an option.



	<p><u>metals bullion</u> under administration or management <del>of more than</del> <u>exceeding \$10 million.</u></p> <p>(vi) <u>an individual with total securities and precious metals bullion under administration or management exceeding \$10 million who requests and consents to being classified as an institutional client, or</u></p> <p>(vii) <u>a hedger who requests and consents to being classified as an institutional client for accounts with qualifying hedging activities and hedge positions.</u></p>	<p>(v) a non-<i>individual</i> with total <i>securities</i> and precious metals bullion under administration or management exceeding \$10 million,</p> <p>(vi) an <i>individual</i> with total <i>securities</i> and precious metals bullion under administration or management exceeding \$10 million who requests and consents to being classified as an institutional client, or</p> <p>(vii) a <i>hedger</i> who requests and consents to being classified as an institutional client for accounts with qualifying hedging activities and hedge positions.</p>
<p><b>hedger</b></p>	<p><u>A non-<i>individual</i> that:</u></p> <p><u>(i) is exposed to one or more risks as a necessary part of its activities,</u></p> <p><u>(ii) seeks to hedge each risk by engaging in a securities or derivatives transactions where:</u></p> <p><u>(a) the underlying interest for the transactions is the same as or materially related to the underlying interest for the risk,</u></p> <p><u>(b) the intended effect of the transactions is to:</u></p> <p><u>(I) eliminate or reduce the risk related to fluctuations in the market value of the underlying interest or position being hedged, or</u></p>	<p>A non-<i>individual</i> that :</p> <p>(i) is exposed to one or more risks as a necessary part of its activities,</p> <p>(ii) seeks to hedge each risk by engaging in <del>a securities or derivatives</del> transactions where:</p> <p>(a) the underlying interest for the transactions is the same as or materially related to the underlying interest for the risk,</p> <p>(b) the intended effect of the transactions is to:</p> <p>(I) eliminate or reduce the risk related to fluctuations in the <i>market value</i> of the underlying interest or position being hedged, or</p> <p>(II) substitute the risk associated with one</p>



	<p><u>(II) substitute the risk associated with one currency for the risk associated with another currency, provided the aggregate amount of currency risk to which the hedger is exposed is not increased by the substitution,</u></p> <p><u>(c) the positions resulting from the transactions have a high degree of negative correlation with the underlying interest or position being hedged, and</u></p> <p><u>(d) there are reasonable grounds to believe that the market value changes in the positions resulting from the transactions will completely or materially offset market value changes in the underlying interest or position being hedged.</u></p>	<p>currency for the risk associated with another currency, provided the aggregate amount of currency risk to which the hedger is exposed is not increased by the substitution, <u>and</u></p> <p><del>(c) the positions resulting from the transactions have a high degree of negative correlation with the underlying interest or position being hedged, and</del></p> <p><del>(d)</del> there are reasonable grounds to believe that the <i>market value</i> changes in the positions resulting from the transactions will completely or materially offset <i>market value</i> changes in the underlying interest or position being hedged.</p>
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We are proposing changes to the defined term “*hedger*”:

- by removing reference to “*securities*” to clarify that the hedging of risk relates to derivatives transactions, and
- by removing the notion of ‘negative correlation’ to address comments we received that this notion had no added value in the definition and to harmonize with the definition proposed by the CSA.<sup>9</sup>

The proposed guidance note found in Appendix 1 presents our views on how the “*hedger*” definition should be applied and interpreted and further outlines our expectations and the requirements applicable to all Dealer Members when classifying a hedger as an “*institutional client*”.

Accordingly, we are proposing a new amendment to IIROC Rule section 3804(2), on the general requirements to maintain records, by adding a “*record*” type relating to the assessment of a

<sup>9</sup> See [Proposed National Instrument 93-101 respecting Derivatives: Business Conduct](#) (published on January 20, 2022).





Dealer Member into the qualification of a client as a “hedger” and as an “institutional client”. This proposed amendment aims to clarify the expectation that a Dealer Member must take adequate steps to ensure a client qualifies as a “hedger” and as an “institutional client”, and maintain appropriate records.

## **2.2 Business Conduct**

### **2.2.1 Business continuity plan**

The IIROC Rules require that Dealer Members establish and maintain a business continuity plan that identifies the procedures Dealer Members will take to deal with a significant business disruption.<sup>10</sup>

In the Initial publication, we proposed new IIROC Rule sections 4710 and 4716 in order to:

- clarify that where there is impairment in client access to their derivatives or securities positions/accounts or to the client’s ability to liquidate or close-out their account positions, this would be considered to be a significant business disruption, and
- specify that the Dealer Member’s business continuity plan must be invoked and IIROC must be notified when any significant business disruption occurs.

After considering the comments received for these proposed amendments and to reinforce on the principal-based approach of the IIROC Rules, we are proposing to remove the proposed requirement mandating a Dealer Member to invoke its business continuity plan when a significant business disruption occurs.

Instead, the revised proposed amendment only requires that a Dealer Member notifies IIROC when it encounters a significant business disruption situation and when it invokes its business continuity plan, regardless of the nature of the triggering event.

### **2.2.2 Derivatives-specific business conduct – risk limit**

As part of the Initial publication, we proposed to extend the current IIROC Rules derivatives-specific business conduct requirements to apply to all derivatives transactions, positions and accounts. To achieve this result, we proposed amendments to the following parts of the IIROC Rules:

- IIROC Rule 3200 – Client Accounts – Part F – *Additional Account Opening Requirements for Options, Futures Contract and Futures Contract Options Trading*
- IIROC Rule 3900 – Supervision – Part F – *Supervision of options, futures contracts and futures contract option trading account*

Among the requirements included under these parts, we proposed to extend the requirement to establish a risk limit (i.e. cumulative loss limit) to all types of derivatives account offering other than a hedging account.

After considering the comments received for this proposed amendments, we are proposing changes to :

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<sup>10</sup> IIROC Rule 4700, Part A.



- clarify that the risk limit is an integral part of the account opening requirement for derivatives account and is distinct from the suitability determination requirements,
- clarify that the risk limit requirement applies to all account types<sup>11</sup> opened to trade derivatives and highly-leveraged securities or derivatives, except if it is a hedging account,
- specify that the risk limit requirement will apply to all derivatives and highly-leveraged securities or derivatives, except for options or similar derivative contracts.

## 2.3 Client disclosure and periodic client reporting

### 2.3.1 Risk disclosure statement

The amendments we proposed in the Initial publication to revamp the consolidated derivatives risk disclosure statement<sup>12</sup> are twofold:

- replace the current risk disclosure statement with the one set out in Attachment B<sup>13</sup> of the Initial publication,
- enact a requirement to disclose the percentage of accounts that were profitable for clients for each of the four most recent quarters for a Dealer Member offering OTC derivatives to retail clients.<sup>14</sup>

After considering the comments received, we are proposing changes to the risk disclosure statement by adding disclosures on common risks relating to derivatives and specific to trading OTC derivatives. We believe these additional disclosures will complement IIROC's consolidated derivatives risk disclosure statement by addressing the most common risks related to trading for all types of derivatives. The revised content of the Derivatives risk disclosure statement is set out under Appendix 2.

Regarding the requirement on the percentage of accounts that were profitable for clients, we are proposing changes to clarify that the disclosure must be provided to a retail client together with the risk disclosure statement when opening an order execution only account to trade OTC derivatives. We believe this disclosure will help persons:

- who are not eligible to qualify as institutional clients, and
- who trade in a suitability exempt account,

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<sup>11</sup> Namely an advisory account, order execution only account, discretionary account or managed account.

<sup>12</sup> See section 1.3.1 of [Rules Notice 19-0200](#).

<sup>13</sup> This change would also require rule amendments by most CSA jurisdictions given that the current risk disclosure text is also prescribed through rules and regulations in those provinces.

<sup>14</sup> The addition of this requirement would be in line with requirements applicable under the Québec Derivatives Act; see s. 11.36 of the Québec Derivatives Regulation; Retail foreign exchange dealers, futures commission merchants and introducing brokers offering Forex to retail clients are also subject to this requirement under U.S. Commodity Futures Trading Commission regulations; see 17 CFR 1 § 5.5(e). This disclosure requirement is also part of the measures set by other jurisdictions / bodies; see OICV-IOSCO, FR17/2018: Report on Retail OTC Leveraged Products, September 2018; ESMA 35-43-1000 *Additional Information on the Agreed Product Intervention Measures relating to Contracts for Differences and Binary Options*, March 27, 2018 (expired in July 2019, as members have implemented measures at least as stringent, ex. FCA UK); Financial Conduct Authority, PS 19/38: *Restricting contract for difference products sold to retail clients*, July 2019.



to have a better awareness of the risk involved when trading OTC derivatives in an order execution only account.

### **2.3.2 Trade confirmations and Monthly account statements - Give-up agreements**

The IIROC Rules require Dealer Members to issue trade confirmations and month-end statements to clients.<sup>15</sup> For institutional clients trading under a give-up agreement, these services are generally provided by the Dealer Member acting as a clearing broker under the arrangement. Dealer Members acting as executing brokers under such arrangements, have therefore applied to IIROC in the past to be exempted from the requirement to issue trade confirmations and month-end statement.

Given the comments received and the fact that these arrangements are common with derivatives trading, we are proposing to codify this exemption in the IIROC Rules. To achieve this result, we are proposing to introduce a new subsection under IIROC Rule section 3808 and IIROC Rule section 3816 exempting an executing Dealer Member from the requirement to issue trade confirmations and month-end statements to institutional clients trading under a give-up agreement. These exemptions will be subject to the same conditions under which the reliefs were previously granted and will be embedded in the IIROC Rules as well.

### **2.3.3 Annual performance and fee/charge reports – Enhanced account statement**

IIROC expects that all account positions<sup>16</sup> (not just security positions) must be considered when calculating and disclosing annual account compensation and performance information.<sup>17</sup> Given the short-term trading focus of some derivatives and that monthly/quarterly information on the performance of positions is more relevant to retail clients, certain Dealer Members offering contracts for difference, foreign exchange contracts and futures contracts to retail clients have applied to IIROC in the past to be exempted from the requirement to issue the annual performance and fee/charge reports.<sup>18</sup> The IIROC Board granted the exemptions provided Dealer Members sent client more meaningful information as part of the monthly or quarterly account statement, described as the “enhanced account statement disclosures” in the Initial publication.

We are proposing to codify this exemption in the IIROC Rules for all retail client accounts offering futures contracts, forward contracts, contracts for difference, foreign exchange contracts or similar derivatives contracts with short-term trading focus. We are also proposing to set out “enhanced account statement disclosures” which the Dealer Member must send to those clients on a monthly or quarterly basis as an alternative.

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<sup>15</sup> IIROC Rule sections 3816 and 3808 respectively.

<sup>16</sup> The one exception would be account positions in insurance products (such as segregated funds) which are not to be sold to clients through an investment dealer but may be held in custody by the investment dealer for the client. These positions should be excluded from all client reporting other than account statement reporting, as the investment dealer is not responsible for the suitability of these account positions.

<sup>17</sup> IIROC [Guidance Note GN-3800-21-10](#).

<sup>18</sup> See IIROC [Rules Notice 17-0006](#).



To achieve this result, we are proposing to introduce IIROC Rule subsection 3810(9) in relation to the annual performance report, and subsections 3811(7) and 3811(8) in relation to the fee/charge report.

## 2.4 Other minor amendments

We have proposed several minor rule changes in the Revised Proposed Amendment. Most of these changes aim to reproduce the proposed amendments set out in the Initial publication using the updated version of IIROC Rules which was implemented on December 31, 2021. They consist of the following:

- renumbering sections of the IIROC Rules,<sup>19</sup>
- rewording of texts, without any substantial change to the content of the respective section,<sup>20</sup>
- removing proposed amendments that have already been incorporated in the updated version of the IIROC Rules,<sup>21</sup>
- adapting the proposed amendments from the Initial publication to reflect the implementation of subsequent rules amendment projects, for example amendments made under the client-focused reforms.<sup>22</sup>

In a few instances, we have proposed new minor amendments as follows:

- adding reference to “*derivatives*” under IIROC Rule section 2215,
- changes to IIROC Rule sections 2302 to 2304 to reflect the proposal to use the defined term “*securities and derivatives related business*”.

## 3. Impacts of the Proposed Amendments

As indicated, the Revised Proposed Amendments remain consistent with the objectives and considerations described in the Initial publication. The revisions proposed will have the same effects as described in the Initial publication.<sup>23</sup> The revisions proposed do not change the detailed assessment of impact prepared for the Derivatives Rule Modernization, Stage 1 amendments and included in the Initial publication.<sup>24</sup>

In developing the Revised Proposed Amendments, we have considered the comments we received on the Initial publication. We believe the changes address a number of the suggestions received and alleviate some of the potential negative impacts by:

- adding clarity to some of the proposed requirements and defined terms, and adding details to make the scope within which some requirements will apply clearer,

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<sup>19</sup> IIROC Rule sections 2253, 2602, 3121, 3122 and 3805; IIROC Rule clause 3962(1)(iii).

<sup>20</sup> IIROC Rule clause 3962(5)(iv); We have also proposed some minor changes, editorial in nature, in the French version of the IIROC Rules to align the texts with the English version.

<sup>21</sup> IIROC Rule sections 1105, 2207, 2248, 2701, 3206, 3211, 3220 and 3240.

<sup>22</sup> See IIROC [Rules Notice 21-0148](#) (amendments to IIROC Rule sections 3402 to 3404).

<sup>23</sup> See section 3.4 of IIROC [Rules Notice 19-0200](#).

<sup>24</sup> See Attachment C of IIROC [Rules Notice 19-0200](#).



- modifying some of the proposed amendments to reduce potential confusion related to terminologies used and reinforce on the principle-based approach of the IIROC Rules,
- adding more information to assist Dealer Members to implement effectively some of the obligations arising under the proposed amendments,
- proposing new amendments to address concerns which are currently being considered under the IIROC exemption process, and
- ensuring consistency with the Canadian Securities Administrators' proposed National Instruments 93-101 and 93-102.

While some of the proposed amendments will introduce incremental costs of compliance to Dealer Members, the proposed amendments will establish relatively consistent regulatory requirements across all of the securities and derivatives related business lines, which would avoid significant cost of compliance increases that would otherwise occur if requirements are materially different.

Overall we continue to believe that the proposed Derivatives Rule Modernization, Stage 1 amendments impose costs and restrictions on the activities of market participants that are proportionate to the goals of the regulatory objectives sought to be realized.

#### **4. Implementation**

Subject to the process described in the next section, we intend to implement the Revised Proposed Amendments upon approval by the Canadian Securities Administrators within a one year period.

At such time, we will identify proposed amendments which may become effective at a later date, where we determine Dealer Members will need more time to implement the changes.

#### **5. Policy development process**

The Board determined the proposed amendments are not contrary to the public interest and on September 25, 2019 approved them for publication for public comment and approved this republication on March 23, 2022.

Following comments received on the Initial publication we have proposed some changes and updated the proposed amendments to account for changes implemented in the IIROC Rules since the Initial publication.

We classified the revisions to the proposed amendments as a public comment rule proposal due to the substantive nature of the project and some of the revisions proposed, and their importance in achieving the goal of ensuring consistent and materially harmonized regulatory standards across each of the securities and derivatives related business lines.

After considering:

- the comments in response to this Notice, together with any comments of the Canadian Securities Administrators, and
- any changes that are made to proposed NI 93-101 and NI 93-102,

we may recommend further changes to the proposed amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the proposed amendments as revised will be subject to approval by the Canadian Securities Administrators. If the revisions or comments are material, we will submit the proposed



amendments including any revisions to the Board for approval for republication or implementation as applicable.

**6. Appendices**

[Appendix 1](#) - Applying and interpreting the definitions of “hedger” and “institutional client”

[Appendix 2](#) - Derivatives Risk Disclosure Statement

**7. Attachments**

[Attachment A](#) - Revised Proposed Amendments to the IIROC Rules (Clean)

[Attachment B](#) - Revised Proposed Amendments to the IIROC Rules (Blackline) - comparison of the Revised Proposed Amendments to the current version of the IIROC Rules

[Attachment C](#) - Revised Proposed Amendments to the IIROC Rules (Blackline) - comparison of the Revised Proposed Amendments to the Initial publication for comment (Notice 19-0200)

[Attachment D](#) - Summary of public comments received on the Initial publication and IIROC staff responses

RULE 1200 | DEFINITIONS

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1201. Definitions

(2) The following terms have the meanings set out when used in the *IIROC requirements*:

“acceptable institution”	The same meaning as set out in Form 1, General Notes and Definitions.
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“acceptable securities location”	The same meaning as set out in Form 1, General Notes and Definitions.
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“carrying broker”	A <i>Dealer Member</i> that carries client accounts for another <i>Dealer Member</i> , which includes the clearing and settlement of trades, the maintenance of <i>records</i> of client transactions and accounts, and the custody of client cash, <i>securities</i> and precious metals bullion, in accordance with the requirements set out in Rule 2400.
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“derivative”	An option, swap, futures contract, forward contract, futures contract option, 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.
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“designated Supervisor”	<p>A <i>Supervisor</i> that the <i>Dealer Member</i> makes responsible for a supervisory role defined in the <i>IROC requirements</i>, including a <i>Supervisor</i> responsible for:</p> <ul style="list-style-type: none"> <li>(i) the supervision of futures contracts and futures contract options trading accounts under Part F of Rule 3200,</li> <li>(ii) the supervision of options trading accounts under Part F of Rule 3200,</li> <li>(iii) the supervision of <i>discretionary accounts</i> under Part G of Rule 3200,</li> <li>(iv) the opening of new accounts and the supervision of account activity under Part B of Rule 3900,</li> <li>(v) the supervision of <i>managed accounts</i> under Part G of Rule 3900,</li> <li>(vi) the pre-approval of <i>advertising, sales literature</i> and <i>correspondence</i> under Part A of Rule 3600, and</li> <li>(vii) the supervision of <i>research reports</i> under Part B of Rule 3600.</li> </ul>
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“direct electronic access account”	<p>An account which is not subject to suitability determination (other than as required by clauses 3402(3)(i) and 3403(4)(i)) where:</p> <ul style="list-style-type: none"> <li>(i) the client has been provided with direct electronic access within the meaning of National Instrument 23-103,</li> <li>(ii) the <i>Dealer Member</i> provides no recommendations to purchase, sell, hold or exchange any <i>security</i>, including any class of security or security of a class of issuer, or transact in any <i>derivative</i> and</li> <li>(iii) the <i>Dealer Member</i> complies with the Universal Market Integrity Rule requirements applicable to the direct electronic access service offering and the requirements of NI 23-103.</li> </ul>
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<p>“hedger”</p>	<p>A non-<i>individual</i> that:</p> <ul style="list-style-type: none"> <li>(i) is exposed to one or more risks as a necessary part of its business activities,</li> <li>(ii) seeks to hedge each risk by engaging in <i>derivatives</i> transactions where: <ul style="list-style-type: none"> <li>(a) the underlying interest for the transactions is the same as or materially related to the underlying interest for the risk,</li> <li>(b) the intended effect of the transactions is to: <ul style="list-style-type: none"> <li>(I) eliminate or reduce the risk related to fluctuations in the <i>market value</i> of the underlying interest or position being hedged, or</li> <li>(II) substitute the risk associated with one currency for the risk associated with another currency, provided the aggregate amount of currency risk to which the hedger is exposed is not increased by the substitution, and</li> </ul> </li> <li>(c) there are reasonable grounds to believe that the <i>market value</i> changes in the positions resulting from the transactions will completely or materially offset <i>market value</i> changes in the underlying interest or position being hedged.</li> </ul> </li> </ul>
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<p>“institutional client”</p>	<p>A <i>person</i> who is:</p> <ul style="list-style-type: none"> <li>(i) an <i>acceptable counterparty</i>,</li> <li>(ii) an <i>acceptable institution</i>,</li> <li>(iii) a <i>regulated entity</i>,</li> <li>(iv) a registrant under <i>securities law</i>, other than an <i>individual</i> registrant,</li> <li>(v) a non-<i>individual</i> with total <i>securities</i> and precious metals bullion under administration or management exceeding \$10 million,</li> <li>(vi) an <i>individual</i> with total <i>securities</i> and precious metals bullion under administration or management exceeding \$10 million who requests and consents to being classified as an institutional client, or</li> <li>(vii) a <i>hedger</i> who requests and consents to being classified as an institutional client for accounts with qualifying hedging activities and hedge positions.</li> </ul>
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<p>“Investment Representative”</p>	<p>An <i>individual</i>, approved by <i>IROC</i>, to trade in, but not advise on, <i>securities</i> or <i>derivatives</i>, on the <i>Dealer Member’s</i> behalf, including where that <i>individual</i> deals only in mutual funds.</p>
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<p>“listed derivative”</p>	<p>A <i>derivative</i> that is traded on a <i>marketplace</i> pursuant to standardized terms and conditions set out by that <i>marketplace</i> and whose trades are cleared and settled by a clearing agency.</p>
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<p>“manipulative and deceptive activities”</p>	<p>Any manipulative or deceptive methods, act or practice in connection with any order or trade on a <i>marketplace</i>, and includes the entry of an order or the execution of a trade that would create or could reasonably be expected to create:</p> <ul style="list-style-type: none"> <li>(i) a false or misleading appearance of trading activity in or interest in the purchase or sale of a <i>security</i>, or transaction in a <i>derivative</i>, or</li> <li>(ii) an artificial ask price, bid price or sale price for the <i>security</i>, or the transaction in a <i>derivative</i>, or a related <i>security</i>.</li> </ul>
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<p>“market value”</p>	<ul style="list-style-type: none"> <li>(i) For the purposes of the monthly, quarterly, and annual reporting for <i>securities</i>, <i>derivatives</i> and precious metals bullion: <ul style="list-style-type: none"> <li>(a) quoted on an active market, the published price quotation using: <ul style="list-style-type: none"> <li>(I) for listed <i>securities</i>, the last bid price of a long <i>security</i> and, correspondingly, the last ask price of a short <i>security</i>, as shown on a consolidated pricing list or <i>marketplace</i> quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,</li> <li>(II) for unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,</li> <li>(III) for all other unlisted <i>securities</i> (including unlisted <i>debt securities</i>) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of <i>debt securities</i>, based on a reasonable yield rate,</li> <li>(IV) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the <i>security</i> to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,</li> <li>(V) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in paragraph (i)(a)(IV) of this definition and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and</li> <li>(VI) for money market repurchases with borrower call features, the borrower call price,</li> <li>(VII) for <i>listed derivatives</i>, the market value or settlement price on the relevant date or last trading day prior to the relevant date,</li> <li>(VIII) for <i>over-the-counter derivatives</i>, a value determined as reasonable by considering:</li> </ul> </li> </ul> </li> </ul>
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	<p>(A) the market value or settlement price of the equivalent <i>listed derivative</i>, if available; and</p> <p>(B) values from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, and after making any adjustments considered by the <i>Dealer Member</i> to be necessary to accurately reflect the market value,</p> <p>(b) where a reliable price cannot be determined:</p> <p>(I) the value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the <i>security, derivative</i> or precious metals bullion, either directly or indirectly, or</p> <p>(II) where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions, or</p> <p>(III) where insufficient recent information is available or there is a wide range of possible values and <i>cost</i> (defined in subsection 3802(1)) represents the best value estimate within that range:</p> <p>(A) <i>cost</i>, and</p> <p>(B) where the market value information is being included in a client report or account statement, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar:</p> <p style="padding-left: 40px;">“There is no active market for this [security/derivative/ precious metals bullion] so we have estimated its market value.”</p> <p>(c) where a value cannot be reliably determined under subclauses (i)(a) and (i)(b) of this definition:</p> <p>(I) no value shall be reported, and</p> <p>(II) where the market value information is being included in a client report or account statement, the <i>Dealer Member</i> must include the following notification or a notification that is substantially similar:</p> <p style="padding-left: 40px;">“Market value not determinable.”</p> <p>(ii) For the purposes of the daily and intra-day reporting for <i>securities, derivatives</i> and precious metals bullion:</p>
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	<ul style="list-style-type: none"> <li>(a) that are quoted on an active market, the value determined according to subclause (i)(a) of this definition,</li> <li>(b) where a reliable price cannot be determined and: <ul style="list-style-type: none"> <li>(I) the position has been recently valued in accordance with the Dealer Member's valuation policies and procedures, the last value calculated for the position, or</li> <li>(II) the position has not been recently valued, the value and, if applicable, disclosure determined according to subclause (i)(b) of this definition,</li> </ul> </li> <li>(c) where a value cannot be reliably determined under subclauses (ii)(a) and (ii)(b) above, the value and, if applicable, disclosure determined according to subclause (i)(c) of this definition.</li> </ul>
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"order execution only account"	<p>An account which is not subject to a suitability determination (other than as required by clauses 3402(3)(i) and 3403(4)(i)) where:</p> <ul style="list-style-type: none"> <li>(i) the client is solely responsible for making all investment decisions, and</li> <li>(ii) the <i>Dealer Member</i> provides no recommendation to purchase, sell, hold or exchange any <i>security</i>, including any class of security or security of a class of issuer, or transact in any <i>derivative</i>.</li> </ul>
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"over-the-counter derivative"	Any <i>derivative</i> other than a <i>listed derivative</i> .
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"Registered Representative"	An <i>individual</i> , approved by <i>IIROC</i> , to trade, or advise on trades, in <i>securities</i> or <i>derivatives</i> with the public in Canada, on the <i>Dealer Member's</i> behalf, including where that <i>individual</i> deals only in mutual funds or only with <i>institutional clients</i> .
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“sales literature”	Any written or electronic communication for client use which contains a recommendation relating to a <i>security</i> or <i>derivative</i> , or <i>trading strategy</i> , but does not include: <ul style="list-style-type: none"> <li>(i) any communication that is an <i>advertisement</i> or <i>correspondence</i>, or</li> <li>(ii) preliminary prospectuses and prospectuses.</li> </ul>
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“securities laws”	Any laws about trading, distributing, advising or any other related activities in <i>securities</i> or <i>derivatives</i> in Canada enacted by the government of Canada or any province or territory in Canada and all regulations, rules, orders, judgments and other regulatory directions relating to such laws.
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"securities and derivatives related business"	Any business or activity (whether or not carried on for gain) engaged in, directly or indirectly, which constitutes trading or advising in <i>securities</i> or <i>derivatives</i> for the purposes of <i>securities laws</i> , including for greater certainty, offers and sales pursuant to exemptions under <i>securities laws</i> .
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“security”	A security as defined within the relevant <i>securities law</i> other than a <i>derivative</i> .
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“segregation”	A practice whereby a <i>Dealer Member</i> holds in trust client <i>securities</i> and precious metals bullion that are: <ul style="list-style-type: none"> <li>(i) held free and clear of any charge, lien, claim or encumbrance of any kind,</li> <li>(ii) ready for delivery to a client on demand, and</li> <li>(iii) held separate from the <i>Dealer Member’s</i> own <i>security</i> holdings.</li> </ul>
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## RULE 1400 | STANDARDS OF CONDUCT

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### 1402. Standards of conduct

- (2) Without limiting the generality of the foregoing, any business conduct that:
  - (i) is negligent,
  - (ii) fails to comply with a legal, regulatory, contractual or other obligation, including the rules, requirements, and policies of a *Regulated Person*,
  - (iii) displays an unreasonable departure from standards that are expected to be observed by a *Regulated Person*, or
  - (iv) is likely to diminish investor confidence in the integrity of *securities* or *derivatives* markets,may be conduct that contravenes one or more of the standards set forth in subsection 1402(1).

### 1403. Applicability

- (3) For purposes of section 1402, the obligation of *Regulated Persons* that are non-Dealer Member users or subscribers of a *Marketplace* for which *IIROC* is the regulation services provider is limited to the obligation to transact business openly and fairly when trading on a *Marketplace* or otherwise dealing in *securities* or *derivatives* that are eligible to be traded on a *Marketplace*.

## RULE 2200 | DEALER MEMBER ORGANIZATION

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**PART A.3 - NON-SECURITIES OR NON-DERIVATIVES BUSINESS AND SHARED PREMISES**

**2215. Business other than securities or derivatives**

- (1) A *Dealer Member* must obtain approval from the *applicable District Council* before carrying on any business other than *Dealer Member related activities*.
- (2) A *Dealer Member* or a *Dealer Member's holding company* may, without approval, own an interest in a corporation (other than the *Dealer Member*) that carries on *non-securities or non-derivatives* business if:
  - (i) the *Dealer Member* is not responsible for any of that corporation's liabilities, and
  - (ii) the *Dealer Member* and its *holding company* give *IIROC* notice before acquiring an interest in the *non-securities or non-derivatives* corporation.
- (3) A *District Council* may delegate its authority under this section to a subcommittee of the *District Council* or to *IIROC* staff.

**2216. Shared office premises**

- (15) Non-registered personnel employed by the *Dealer Member* or representatives of the *financial services entity* may not provide the following services on behalf of the *Dealer Member*:
  - (i) opening accounts,
  - (ii) distributing or receiving order forms for *securities or derivatives* transactions,
  - (iii) assisting clients to complete order forms for *securities or derivatives* transactions,
  - (iv) giving recommendations or any advice on any activity,
  - (v) completing know-your-client information on an account application, other than biographical information, and
  - (vi) soliciting *securities or derivatives* transactions.

**PART C - NOTIFICATION REQUIREMENTS**

**2245. Introduction**

- (1) *IIROC* may review proposed changes in a *Dealer Member's* business, listed in section 2246, to ensure:

- (i) the Dealer Member is adequately prepared to make the change without unduly impacting its clients,
- (ii) the change is carried in accordance with *IIROC's requirements*, and
- (iii) the change is in the public interest.

**2246. Dealer Member's notice of changes to IIROC**

- (2) A *Dealer Member* must notify *IIROC* in writing before making any material change to its business activities.
- (3) A *Dealer Member* must notify in writing and receive written approval from *IIROC* before:
  - (i) offering *retail clients* any highly-leveraged *securities* or *derivatives*, or
  - (ii) offering *retail clients* previously approved highly-leveraged *securities* or *derivatives* that are to be based on a new underlying interest.

**2247. IIROC informs Dealer Member about review when necessary**

- (1) A *Dealer Member* must not make any of the changes listed in subsection 2246(1) if, within the 20-day notice period, *IIROC* informs the *Dealer Member* that it will be submitting the proposed change to the *applicable District Council* for approval.

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**RULE 2300 | PRINCIPAL AND AGENT RELATIONSHIPS**

**2302. Principal and agent relationships**

- (1) An *individual* who conducts *securities and derivatives related business* on behalf of a *Dealer Member* must be an *employee* (which includes an *agent*) of the *Dealer Member*.
- (2) A *Dealer Member* must not allow a corporation or other non-*individual* entity to conduct *securities and derivatives related business* on its behalf.

**2303. Written agreement between the Dealer Member and IIROC**

- (1) Before engaging any *agents* to conduct *securities and derivatives related business*, a *Dealer Member* must enter into a written agreement with *IIROC*.

- (4) The written agreement must be in a form similar to the following:

**“Agreement between a Dealer Member and IIROC**

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**4. Written Disclosure of Respective Responsibilities to Clients**

The Dealer Member or the agent must disclose to clients at the time of opening an account:

- (i) the list of *securities and derivatives related business* conducted by the agent for which the Dealer Member is responsible, and
- (ii) that the Dealer Member is not responsible for any other business activity conducted by the agent.

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**2304. Written agreement between the Dealer Member and its agents**

- (1) The *Dealer Member* and the *agent* who conducts *securities and derivatives related business* must enter into a written agreement.

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- (7) The written agreement must contain the following minimum terms:

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(iv) Conduct of the *agent’s* business

- (a) The *agent* agrees to conduct all business in the *Dealer Member’s* name, subject to sections 2281 through 2283 relating to the use of trade names.
- (b) The *agent* agrees to conduct all *securities and derivatives related business* through the *Dealer Member*.

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(vi) Written disclosure to clients

If the *Dealer Member* and the *agent* have agreed that the *agent* will advise the clients directly:

- (a) the list of *securities and derivatives related business* conducted by the *agent* for which the *Dealer Member* is responsible, and
- (b) that the *Dealer Member* is not responsible for any other business activity conducted by the *agent*,

the *Dealer Member* agrees to be responsible for ensuring that the *agent* has done so.

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(ix) Access to premises

The *agent* agrees to give the *Dealer Member* unrestricted access to the premises where the *agent* conducts *securities and derivatives related business* on the *Dealer Member's* behalf.

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(xi) Insurance

The *Dealer Member* agrees to maintain financial institution bond and insurance policies that cover the *agent's* conduct relating to the *securities and derivatives related business* they conduct for the *Dealer Member*.

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**RULE 2500 | DEALER MEMBER DIRECTORS AND EXECUTIVES, AND APPROVAL OF INDIVIDUALS**

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**PART A - DEALER MEMBER DIRECTORS AND EXECUTIVES**

**2502. General requirements for Directors**

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- (2) At least 40% of the *Dealer Member's Directors* must:

- (i) either:
  - (a) be *actively engaged in the business of the Dealer Member* and spend the majority of their time in the *securities or derivatives* industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

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**2503. General requirements for Executives**

- (1) *A Dealer Member's Executives* must:
  - (i) be either:
    - (a) *actively engaged in the business of the Dealer Member* and spend the majority of their time in the *securities or derivatives* industry, except those on active government service, or who for health reasons are prevented from such active engagement, or

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**PART B - APPROVAL OF INDIVIDUALS**

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**2551. Individual approval**

- (1) *An individual* is not permitted to act as an *Approved Person* and a *Dealer Member* is not permitted to allow an *individual* to act as an *Approved Person* unless:

- (i) the *Dealer Member* is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *Dealer Member* reside or in which the *Dealer Member* carries on *securities and derivatives related business*,
- (ii) the *individual*, if required to do so under *securities laws*, is registered or licensed (or exempt from such registration or licensing) in the appropriate category under *securities laws* in each jurisdiction in which clients of the *individual* reside or in which the *individual* carries on *securities and derivatives related business*, and
- (iii) the *individual* is approved by IIROC in the appropriate *Approved Person* category, before the *individual* begins working in that role.

2553. **Approval of Registered Representatives, Investment Representatives, Portfolio Managers and Associate Portfolio Managers and their obligations**

- (2) A *Registered Representative, Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* may not conduct on behalf of a *Dealer Member*, and a *Dealer Member* may not permit the *Approved Person* to conduct on its behalf, the type of business as set out in clause 2553(2)(iv) and deal with a type of customer as set out in clauses 2553(2)(i) and (ii), unless the *Dealer Member* complies with the following:

- (iv) The *Dealer Member* must notify IIROC which of its *individuals* approved as a *Registered Representative, Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* will deal in or advise in:
  - (a) only mutual funds, government or government-guaranteed debt instruments, and deposit instruments issued by a federally regulated bank, trust company, credit union or *caisse populaire*, except those for which all or part of the interest or return is indexed to the performance of another financial instrument or index,
  - (b) options or similar *derivative* contracts,
  - (c) futures contracts, forward contracts, contracts for difference, futures contract options or similar *derivative* contracts, other than in any province where approval is required, and

- (d) general *securities* business; including equities, fixed income and other investment products not listed above.

- (7) An *Associate Portfolio Manager* must not advise on *securities* or *derivatives* unless, before giving the advice, the advice has been pre-approved by the *Portfolio Manager*.

**RULE 2600 | PROFICIENCY REQUIREMENTS AND EXEMPTIONS FROM PROFICIENCIES**

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**PART A - PROFICIENCY REQUIREMENTS**

**2602. Proficiency requirements for Approved Persons and approved investors**

- (1) An *Approved Person* must not perform an activity that requires approval unless the *Approved Person* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each *security, derivative* and precious metals bullion the *Approved Person* recommends.
- (2) The *Dealer Member* must ensure that an *individual* does not perform an activity that requires *IROC* approval unless the *individual* has the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each *security, derivative* and precious metals bullion the *individual* recommends.
- (3) Each applicant in an *Approved Person* category or *approved investor* category must meet the proficiency requirements set out below for that category unless an exemption has been granted from the applicable proficiency requirements before *IROC* will grant approval. Unless otherwise stated, the Canadian Securities Institute administers the courses and examinations noted below.

<b>Registered Representative and Investment Representative</b>
<ul style="list-style-type: none"><li>• <i>Registered Representative</i> dealing with <i>retail clients</i> (other than a <i>Registered Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)</li></ul>
<ul style="list-style-type: none"><li>• <i>Registered Representative</i> dealing with <i>institutional clients</i> (other than a <i>Registered Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)</li></ul>

<ul style="list-style-type: none"> <li>• <i>Registered Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>retail clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Registered Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>institutional clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Registered Representative</i> dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts with <i>retail</i> or <i>institutional clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Registered Representative</i> dealing only in mutual funds</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing with <i>retail clients</i> (other than an <i>Investment Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing with <i>institutional clients</i> (other than an <i>Investment Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>retail clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>institutional clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts with <i>retail</i> or <i>institutional clients</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Investment Representative</i> dealing only in mutual funds</li> </ul>
<b>Associate Portfolio Manager and Portfolio Manager</b>
<ul style="list-style-type: none"> <li>• <i>Associate Portfolio Manager</i> providing discretionary portfolio management for <i>managed accounts</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Portfolio Manager</i> providing discretionary portfolio management for <i>managed accounts</i></li> </ul>
<b>Trader</b>
<ul style="list-style-type: none"> <li>• <i>Trader</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Trader</i> on the Montréal Exchange</li> </ul>
<b>Supervisor – Retail or Institutional</b>
<ul style="list-style-type: none"> <li>• <i>Supervisor</i> of <i>Registered Representatives</i> or <i>Investment Representatives</i> (other than supervising <i>derivative</i> contracts)</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Supervisor</i> of <i>Registered Representatives</i> or <i>Investment Representatives</i> dealing with clients in options or similar <i>derivative</i> contracts</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Supervisor</i> of <i>Registered Representatives</i> or <i>Investment Representatives</i> dealing with clients in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts</li> </ul>
<b>Designated Supervisor</b>
<ul style="list-style-type: none"> <li>• <i>Supervisor</i> designated to be responsible for the opening of new accounts and supervision of account activity</li> </ul>



• <i>Supervisor</i> designated to be responsible for the supervision of <i>discretionary accounts</i>
• <i>Supervisor</i> designated to be responsible for the supervision of <i>managed accounts</i>
• <i>Supervisor</i> designated to be responsible for the supervision of option and similar <i>derivative</i> contract accounts
• <i>Supervisor</i> designated to be responsible for the supervision of futures contract, forward contract, contracts for difference, futures contract option and similar <i>derivative</i> contract accounts
• <i>Supervisor</i> designated to be responsible for the pre-approval of <i>advertising, sales literature</i> and <i>correspondence</i>
• <i>Supervisor</i> designated to be responsible for the supervision of <i>research reports</i>
<b>Executive and Director</b>
• <i>Executive</i> (including <i>Ultimate Designated Person</i> )
• <i>Director</i>
• <i>Chief Financial Officer</i>
• <i>Chief Compliance Officer</i>
<b>Approved investor</b>
• <i>Approved investor</i>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
<b>Registered Representative and Investment Representative</b>			
(i) <i>Registered Representative</i> dealing with retail clients (other than a <i>Registered Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)	<ul style="list-style-type: none"> <li>• Canadian Securities Course or, Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course</li> </ul> <p><b>and</b></p> <ul style="list-style-type: none"> <li>• 90-day training program after completion of the Canadian Securities Course or CFA Program Level I or any higher level. The <i>Dealer Member</i> must employ the applicant full time during this program.</li> </ul>	<ul style="list-style-type: none"> <li>• Wealth Management Essentials Course within 30 months after approval date as a <i>Registered Representative</i></li> </ul>	<ul style="list-style-type: none"> <li>• Six months of supervision and supervisory reporting from initial approval date as a <i>Registered Representative</i></li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	OR <ul style="list-style-type: none"> <li>• New Entrants Course, if previously registered with a <i>recognized foreign self-regulatory organization</i> in a similar capacity within three years before requesting approval</li> </ul>		
(ii) <i>Registered Representative</i> dealing with institutional clients (other than a <i>Registered Representative</i> dealing in <i>derivative</i> contracts or only in mutual funds)	<ul style="list-style-type: none"> <li>• Canadian Securities Course or, Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course</li> </ul> OR <ul style="list-style-type: none"> <li>• New Entrants Course, if previously registered with a <i>recognized foreign self-regulatory organization</i> in a similar capacity within three years before requesting approval</li> </ul>		
(iii) <i>Registered Representative</i> dealing in options or similar <i>derivative</i> contracts with retail clients	<ul style="list-style-type: none"> <li>• The proficiency requirements of a <i>Registered Representative</i> dealing with <i>retail clients</i> under clause 2602(3)(i),</li> </ul> AND <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p>		
<p>(iv) <i>Registered Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>institutional clients</i></p>	<ul style="list-style-type: none"> <li>• The proficiency requirements of a <i>Registered Representative</i> dealing with <i>institutional clients</i> under clause 2602(3)(ii),</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p>		
<p>(v) <i>Registered Representative</i> dealing in <i>futures contracts</i>, forward contracts, contracts for difference, <i>futures contract options</i> or similar <i>derivative</i> contracts with <i>retail clients</i> or <i>institutional clients</i></p>	<ul style="list-style-type: none"> <li>• Futures Licensing Course, and Conduct and Practices Handbook Course</li> <li>AND</li> <li>• Derivatives Fundamentals Course</li> <li><b>or</b></li> <li>Derivatives Fundamentals and Options Licensing Course</li> <li><b>or</b></li> <li>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with the National Futures Association in a similar capacity and dealing in</li> </ul>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts within three years before requesting approval</p>		
<p>(vi) <i>Registered Representative</i> dealing only in mutual funds</p>	<ul style="list-style-type: none"> <li>• Canadian Securities Course</li> <li><b>or</b></li> <li>Canadian Investment Funds Course administered by the Investment Funds Institute of Canada</li> <li><b>or</b></li> <li>Investment Funds in Canada Course</li> </ul>	<ul style="list-style-type: none"> <li>• Canadian Securities Course and Conduct and Practices Handbook Course within 270 days of initial approval, and</li> <li>• 90-day training program within 18 months of initial approval</li> </ul>	<ul style="list-style-type: none"> <li>• The <i>individual</i> must upgrade to <i>Registered Representative</i> within 18 months of initial approval</li> </ul>
<p>(vii) <i>Investment Representative</i> dealing with <i>retail clients</i> (other than an <i>Investment Representative</i> dealing in <i>derivative contracts</i> or only in mutual funds)</p>	<ul style="list-style-type: none"> <li>• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course</li> <li><b>and</b></li> <li>30-day training program after completing the Canadian Securities Course or Level I or any higher level of the CFA Program. The <i>Dealer Member</i> must employ the applicant full-time during this program</li> <li>OR</li> <li>• New Entrants Course, if previously registered with a <i>recognized foreign self-</i></li> </ul>		<ul style="list-style-type: none"> <li>• Six months of supervision and supervisory reporting from initial approval date as an <i>Investment Representative</i></li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p><i>regulatory organization</i> in a similar capacity within three years before requesting approval</p>		
<p>(viii) <i>Investment Representative</i> dealing with <i>institutional clients</i> (other than an <i>Investment Representative</i> dealing derivative contracts or only in mutual funds)</p>	<ul style="list-style-type: none"> <li>• Canadian Securities Course, or Level I or any higher level of the CFA Program administered by the CFA Institute, and Conduct and Practices Handbook Course</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• New Entrants Course, if previously registered with a <i>recognized foreign self-regulatory organization</i> in a similar capacity within three years before requesting approval</li> </ul>		
<p>(ix) <i>Investment Representative</i> dealing in options or similar derivative contracts with retail clients</p>	<ul style="list-style-type: none"> <li>• The proficiency requirements of an <i>Investment Representative</i> dealing with <i>retail clients</i> under clause 2602(3)(vii),</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course <i>and</i> the Options Licensing Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course,</p> <p><b>or</b></p> <p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a</p>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>similar capacity and dealing in options or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p>		
<p>(x) <i>Investment Representative</i> dealing in options or similar <i>derivative</i> contracts with <i>institutional clients</i></p>	<ul style="list-style-type: none"> <li>• The proficiency requirements for an <i>Investment Representative</i> dealing with <i>institutional clients</i> under clause 2602(3)(viii),</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and</p>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	Series 7 Examination administered by the Financial Industry Regulatory Authority		
(xi) <i>Investment Representative</i> dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts with <i>retail clients</i> or <i>institutional clients</i>	<ul style="list-style-type: none"> <li>• Futures Licensing Course, <b>and</b></li> <li>• Conduct and Practices Handbook Course</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Derivatives Fundamentals Course</li> </ul> <p><b>or</b></p> <ul style="list-style-type: none"> <li>Derivatives Fundamentals and Options Licensing Course</li> </ul> <p><b>or</b></p> <p>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with the National Futures Association in a similar capacity and dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts within three years before requesting approval</p>		
(xii) <i>Investment Representative</i> dealing only in mutual funds	<ul style="list-style-type: none"> <li>• Canadian Securities Course</li> </ul> <p><b>or</b></p>	<ul style="list-style-type: none"> <li>• Canadian Securities Course and Conduct and Practices Handbook Course</li> </ul>	<ul style="list-style-type: none"> <li>• The <i>individual</i> must upgrade to <i>Investment Representative</i></li> </ul>



Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	Canadian Investment Funds Course administered by the Investment Funds Institute of Canada <b>or</b> Investment Funds in Canada Course	within 270 days of initial approval, <b>and</b> <ul style="list-style-type: none"> <li>• 30-day training program within 18 months of initial approval</li> </ul>	within 18 months of initial approval
<b>Associate Portfolio Manager and Portfolio Manager</b>			
(xiii) <i>Associate Portfolio Manager</i> providing discretionary portfolio management for <i>managed accounts</i>	<ul style="list-style-type: none"> <li>• Conduct and Practices Handbook Course,</li> </ul> AND Canadian Investment Manager Designation <b>or</b> Chartered Investment Manager Designation <b>or</b> CFA Level I or any higher level of the CFA Program administered by the CFA Institute AND If managing options or similar <i>derivative</i> contract accounts: <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul> <b>or</b> Derivatives Fundamentals and Options Licensing Course <b>or</b>		<ul style="list-style-type: none"> <li>• Two years of relevant investment management experience acceptable to <i>IIROC</i> within three years before requesting approval</li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in <i>options</i> or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p> <p>AND</p> <p>If managing futures contract, forward contract, contracts-for difference, futures contract option or similar <i>derivative</i> contract accounts:</p> <ul style="list-style-type: none"> <li>• Futures Licensing Course,</li> </ul> <p>AND</p> <p>Derivatives Fundamentals Course</p> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National</p>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>Futures Association), if previously registered with the National Futures Association in a similar capacity and dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts within three years before requesting approval</p>		
<p>(xiv) <i>Portfolio Manager providing discretionary portfolio management for managed accounts</i></p>	<ul style="list-style-type: none"> <li>• Conduct and Practices Handbook Course,</li> <li>AND</li> <li>Canadian Investment Manager Designation</li> <li><b>or</b></li> <li>Chartered Investment Manager Designation</li> <li><b>or</b></li> <li>CFA Charter administered by the CFA Institute</li> <li>AND</li> <li>If managing options or similar <i>derivative</i> contract accounts:</li> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> <li><b>or</b></li> <li>Derivatives Fundamentals and Options Licensing Course</li> <li><b>or</b></li> </ul>		<p>If Canadian Investment Manager Designation or Chartered Investment Manager Designation is completed:</p> <ul style="list-style-type: none"> <li>• at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval acceptable to <i>I/ROC</i></li> <li><b>or</b></li> <li>If CFA Charter is completed, at least one year of relevant investment management experience within the three years before requesting</li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority in a similar capacity and dealing in options within three years before requesting approval,</p> <p><b>and</b></p> <p>Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p> <p>AND</p> <p>If managing futures contract, forward contract, contracts for difference, futures contract option or similar <i>derivative</i> contract accounts:</p> <ul style="list-style-type: none"> <li>• Futures Licensing Course</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Derivatives Fundamentals Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association) if</p>		<p>approval acceptable to <i>IIROC</i></p>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	previously registered with National Futures Association in a similar capacity and dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts within three years before requesting approval		
<b>Trader</b>			
(xv) <i>Trader</i>	<ul style="list-style-type: none"> <li>• Trader Training Course, unless otherwise determined by the <i>marketplace</i> on which the <i>Trader</i> will be trading</li> </ul>		
(xvi) <i>Trader on the Montréal Exchange</i>	<ul style="list-style-type: none"> <li>• Proficiency requirements determined to be acceptable by the Montréal Exchange</li> </ul>		
<b>Supervisor – Retail or Institutional</b>			
(xvii) <i>Supervisor of Registered Representatives or Investment Representatives (other than supervising derivative contracts)</i>	<ul style="list-style-type: none"> <li>• Investment Dealer Supervisors Course</li> </ul> <p style="text-align: center;">AND</p> <ul style="list-style-type: none"> <li>• Canadian Securities Course</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• CFA Level I or any higher level of the CFA Program administered by the CFA Institute</li> </ul> <p style="text-align: center;"><b>and</b></p> <ul style="list-style-type: none"> <li>• Conduct and Practices Handbook Course</li> </ul> <p style="text-align: center;"><b>or</b></p>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> </ul> <p style="text-align: center;"><b>or</b></p> <ul style="list-style-type: none"> <li>• Two years of relevant experience working for a Mutual Fund Dealer, portfolio manager or entity governed by a <i>recognized foreign self-regulatory organization</i></li> </ul> <p style="text-align: center;"><b>or</b></p>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>New Entrants Course, if previously registered with a <i>recognized foreign self-regulatory organization</i> or an investment dealer within three years before requesting approval</p>		<p>Such other equivalent experience acceptable to the <i>applicable District Council</i></p>
<p>(xviii) <i>Supervisor of Registered Representatives or Investment Representatives</i> dealing with clients in options or similar <i>derivative</i> contracts</p>	<ul style="list-style-type: none"> <li>• Options Supervisors Course, and Conduct and Practices Handbook Course</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course,</p> <p><b>or</b></p> <p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in <i>options</i> or similar <i>derivative</i> contracts within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> </ul> <p><b>or</b></p> <p>Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i></p> <p><b>or</b></p> <p>Such other equivalent experience acceptable to the <i>applicable District Council</i></p>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
(xix) <i>Supervisor of Registered Representatives or Investment Representatives dealing with clients in futures contracts, forward contracts, contracts for difference, futures contract options or similar derivative contracts</i>	<ul style="list-style-type: none"> <li>• Canadian Commodity Supervisors Exam</li> <li><b>and</b></li> <li>Futures Licensing Course</li> <li><b>and</b></li> <li>Conduct and Practices Handbook Course</li> <li>AND</li> <li>• Derivatives Fundamentals Course</li> <li><b>or</b></li> <li>Derivatives Fundamentals and Options Licensing Course</li> <li><b>or</b></li> <li>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National Futures Association), if previously registered with National Futures Association or an investment dealer and dealing in futures contracts, forward contracts, contracts for difference, futures contract options or similar <i>derivative</i> contracts within three years before requesting approval</li> </ul>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> <li><b>or</b></li> <li>Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i></li> <li><b>or</b></li> <li>Such other equivalent experience acceptable to the <i>applicable District Council</i></li> </ul>
<b>Designated Supervisor</b>			
(xx) <i>Supervisor designated to be responsible for</i>	<ul style="list-style-type: none"> <li>• Investment Dealer Supervisors Course</li> </ul>		<ul style="list-style-type: none"> <li>• Two years of relevant experience</li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
<p>the opening of new accounts and supervision of account activity</p>			<p>working for an investment dealer  <b>or</b>  Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i>  <b>or</b>  Such other equivalent experience acceptable to the <i>applicable District Council</i></p>
<p>(xxi) <i>Supervisor</i> designated to be responsible for the supervision of <i>discretionary accounts</i></p>	<ul style="list-style-type: none"> <li>Investment Dealer Supervisors Course</li> </ul>		<ul style="list-style-type: none"> <li>Two years of relevant experience working for an investment dealer  <b>or</b>  Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i>  <b>or</b>  Such other equivalent experience acceptable to the</li> </ul>



Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
			<i>applicable District Council</i>
(xxii) <i>Supervisor</i> designated to be responsible for the supervision of <i>managed accounts</i>	<ul style="list-style-type: none"> <li>• Canadian Investment Manager Designation</li> <li><b>or</b></li> <li>Chartered Investment Manager Designation</li> <li><b>or</b></li> <li>CFA Charter administered by the CFA Institute</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If supervising options and similar <i>derivative</i> contract accounts, the applicable proficiencies, as specified under clause 2602(3)(xviii)</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If supervising futures contract, forward contract, contracts for difference, futures contract option and similar <i>derivative</i> contract accounts, the applicable proficiencies, as specified under clause 2602(3)(xix)</li> </ul>		<ul style="list-style-type: none"> <li>• If completed Canadian Investment Manager Designation or Chartered Investment Manager Designation: at least four years of relevant investment management experience; one year of which was gained within the three years before requesting approval</li> <li><b>or</b></li> <li>If completed CFA Charter: at least one year of relevant investment management experience within the three years before requesting approval</li> </ul>
(xxiii) <i>Supervisor</i> designated to be responsible for the supervision of option and similar <i>derivative</i> contract accounts	<ul style="list-style-type: none"> <li>• Options Supervisors Course, and Both the Derivatives Fundamentals Course and the Options Licensing Course</li> </ul>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> <li><b>or</b></li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>New Entrants Course, if previously registered with the Financial Industry Regulatory Authority or an investment dealer and dealing in options within three years before requesting approval, and Securities Industry Essentials Examination and Series 7 Examination administered by the Financial Industry Regulatory Authority</p>		<p>Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i></p> <p><b>or</b></p> <p>Such other equivalent experience acceptable to the <i>applicable District Council</i></p>
<p>(xxiv) <i>Supervisor</i> designated to be responsible for the supervision of futures contract, forward contract, contracts for difference, futures contract option and similar <i>derivative</i> contract accounts</p>	<ul style="list-style-type: none"> <li>• Canadian Commodity Supervisors Exam</li> </ul> <p><b>and</b></p> <p>Futures Licensing Course,</p> <p>AND</p> <ul style="list-style-type: none"> <li>• Derivatives Fundamentals Course</li> </ul> <p><b>or</b></p> <p>Derivatives Fundamentals and Options Licensing Course</p> <p><b>or</b></p> <p>Series 3 Examination administered by the Financial Industry Regulatory Authority (on behalf of the National</p>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> </ul> <p><b>or</b></p> <p>Two years of relevant supervisory or compliance experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i></p> <p><b>or</b></p> <p>Such other equivalent</p>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	Futures Association) if previously registered with the National Futures Association or an investment dealer and dealing in futures within three years before requesting approval		experience acceptable to the <i>applicable District Council</i>
(xxv) <i>Supervisor</i> designated to be responsible for the pre-approval of <i>advertising, sales literature</i> and <i>correspondence</i>	<ul style="list-style-type: none"> <li>• Investment Dealer Supervisors Course</li> </ul>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> <li><b>or</b></li> <li>Two years of relevant experience working for an entity governed by a <i>recognized foreign self-regulatory organization</i></li> <li><b>or</b></li> <li>Such other equivalent experience acceptable to the <i>applicable District Council</i></li> </ul>
(xxvi) <i>Supervisor</i> designated to be responsible for the supervision of <i>research reports</i>	<ul style="list-style-type: none"> <li>• Three levels of the CFA</li> <li><b>or</b></li> <li>CFA Charter administered by the CFA Institute</li> <li><b>or</b></li> <li>Other appropriate qualifications acceptable</li> </ul>		<ul style="list-style-type: none"> <li>• Two years of relevant experience working for an investment dealer</li> <li><b>or</b></li> <li>Two years of relevant experience working for an entity governed by</li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	to the <i>applicable District Council</i>		<p>a <i>recognized foreign self-regulatory organization</i></p> <p><b>or</b></p> <p>Such other equivalent experience acceptable to the <i>applicable District Council</i></p>
<b>Executive and Director</b>			
(xxvii) <i>Executive</i> (including <i>Ultimate Designated Person</i> )	<ul style="list-style-type: none"> <li>• Partners, Directors and Senior Officers Course</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval in a trading or advising category, the applicable proficiency requirements in that category</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval as a <i>Supervisor</i>, the applicable proficiency requirements in that category</li> </ul>		
(xxviii) <i>Director</i>	<p>An industry <i>Director</i> must complete:</p> <ul style="list-style-type: none"> <li>• Partners, Directors and Senior Officers Course,</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval in a trading or advising category, the applicable proficiency requirements in that category,</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval as a <i>Supervisor</i>, the applicable</li> </ul>		

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	<p>proficiency requirements in that category</p> <p>A non-industry <i>Director</i> that owns or controls a voting interest of 10% or more, directly or indirectly, must complete:</p> <ul style="list-style-type: none"> <li>• The Partners, Directors and Senior Officers Course</li> </ul>		
(xxix) <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>• Partners, Directors and Senior Officers Course <b>and</b> Chief Financial Officers Qualifying Examination</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, </li></ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval as a <i>Supervisor</i>, the applicable proficiency requirements in that category</li> </ul>		<ul style="list-style-type: none"> <li>• A financial accounting designation, finance related university degree or diploma or equivalent work experience as may be acceptable to <i>IIROC</i></li> </ul>
(xxx) <i>Chief Compliance Officer</i>	<ul style="list-style-type: none"> <li>• Partners, Directors and Senior Officers Course, <b>and</b> Chief Compliance Officers Qualifying Examination</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>• If seeking approval in a trading or advising category, the applicable proficiency requirements in that category, </li></ul> <p>AND</p>		<ul style="list-style-type: none"> <li>• Five years working for an investment dealer or registered advisor, with at least three years in a compliance or supervisory capacity <b>or</b> Three years providing professional services in the</li> </ul>

Approved Person category	Courses completed before approval	Courses to be completed after approval	Experience and other requirements
	If seeking approval as a <i>Supervisor</i> , the applicable proficiency requirements in that category		securities industry, with at least 12 months experience working at an investment dealer or registered advisor in a compliance or supervisory capacity
<b>Approved investor</b>			
(xxxi) <i>Approved investor</i> (under subsections 2555(2) and 2555(3))	<ul style="list-style-type: none"> <li>Partners, Directors and Senior Officers Course</li> </ul>		

**PART B - EXEMPTIONS FROM PROFICIENCY REQUIREMENTS**

**2628. Course validity and exemptions from rewriting courses**

- (6) An *individual* is exempt from rewriting the courses as set out in the table below if the *individual* has met the current status criteria and exemption criteria.

Course	Individual's current status	Exemption criteria
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Derivatives Fundamentals Course	<ul style="list-style-type: none"> <li>an applicant for approval or <i>Approved Person</i> who will be dealing with clients in futures contracts, forward contracts,</li> </ul>	<ul style="list-style-type: none"> <li>applicant seeking approval or filing a notice within three years of passing the Futures Licensing Course or the</li> </ul>

Course	Individual's current status	Exemption criteria
	contracts for difference, futures contract options or similar <i>derivative</i> contracts or supervising <i>Approved Persons</i> who deal with such clients	Canadian Commodity Supervisors Exam
Derivatives Fundamentals Course	<ul style="list-style-type: none"> <li>an applicant for approval or an <i>Approved Person</i> dealing with clients, in <i>options</i> or similar <i>derivative</i> contracts, or supervising <i>Approved Persons</i> who deal with such clients</li> </ul>	<ul style="list-style-type: none"> <li>applicant seeking approval or filing a notice within three years of completing the Options Licensing Course or the Options Supervisors Course</li> </ul>
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**RULE 2700 | CONTINUING EDUCATION REQUIREMENTS FOR APPROVED PERSONS**

**PART A - THE CONTINUING EDUCATION PROGRAM AND CONTINUING EDUCATION REQUIREMENTS**

**2704. Continuing education requirements**

- (1) In each *continuing education program* cycle, a *continuing education participant* must meet the continuing education requirements for the applicable *Approved Person* category, regardless of product type, as set out in the following table.

Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
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Approved Person Category	Client Type	Compliance course requirement	Professional development requirement
<i>Supervisor</i> designated to be responsible for the supervision of option and similar <i>derivative</i> contract accounts	<i>retail client</i> or <i>institutional client</i>	Yes	No
<i>Supervisor</i> designated to be responsible for the supervision of futures contract, forward contract, contracts for difference, futures contract option and similar <i>derivative</i> contract accounts	<i>retail client</i> or <i>institutional client</i>	Yes	No
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**RULE 3100 | DEALING WITH CLIENTS**

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**PART B – CONFLICTS OF INTEREST**

**3118. Tied selling**

- (1) A *Dealer Member* must not require a client to purchase, use or invest in any product, service, *security* or *derivative* as a condition, or on terms that would appear to a reasonable person to be a condition, of supplying, continuing to supply or selling a product, service, *security* or *derivative*.



**PART C – BEST EXECUTION OF CLIENT ORDERS AND TRANSACTIONS**

**3119. Definitions**

(1) The following terms have the meaning set out below when used in sections 3119 through 3129:

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"over-the-counter security"	A <i>security</i> , other than: (i) a <i>listed security</i> , (ii) a <i>foreign exchange-traded security</i> , (iii) a <i>security</i> that is undergoing a primary market transaction (iv) a <i>derivative</i> .
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**3120. Best execution obligation**

(1) A *Dealer Member's* policies and procedures must specifically address achieving *best execution* for client orders and transactions.

**3121. Best execution factors for listed security and listed derivative orders**

(1) The policies and procedures for achieving *best execution* of client orders in *listed securities, foreign-exchange traded securities* and *listed derivatives* must address the following broad factors:

- (i) the price of the *security* or *derivative*,
- (ii) the speed of execution of the client order,
- (iii) the certainty of execution of the client order, and
- (iv) the overall cost of the transaction, when costs are passed on to clients.

(2) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for *best execution* of client orders for *listed securities* and *foreign-exchange traded securities* must address the following specific factors:

- (i) the considerations taken into account when determining appropriate routing strategies for client orders,
- (ii) the considerations for fair pricing of *Opening Orders* when determining where to enter an *Opening Order*,
- (iii) the considerations when not all *marketplaces* are open and available for trading,
- (iv) how order and trade information from all appropriate *marketplaces*, including unprotected *marketplaces* and *foreign organized regulated markets*, is taken into account,
- (v) the factors related to executing client orders on unprotected *marketplaces*, and

- (vi) the factors related to sending client orders to a foreign intermediary for execution.
- (3) The policies and procedures for *best execution* must address the factors used to achieve *best execution* when manually handling a client order for trades on a *marketplace*, including the following “prevailing market conditions”:
  - (i) the direction of the market for the *security* or *derivative*,
  - (ii) the depth of the posted market,
  - (iii) the *last sale price* and the prices and volumes of previous trades,
  - (iv) the size of the spread, and
  - (v) the liquidity of the *security* or *derivative*.
- (4) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for *best execution* of client orders for *listed derivatives* must consider whether the individual order is part of a multiple orders *trading strategy* and, if so, the broad factors in subsection 3121(1) must be addressed as they relate to execution of the overall strategy.

**3122. Best execution factors for over-the-counter security and over-the-counter derivative transactions**

- (1) The policies and procedures for achieving *best execution* of client transactions in *over-the-counter securities* and *over-the-counter derivatives* must be designed to ensure fair pricing.
- (2) Subject to subsection 3122(3), to ensure fair pricing when acting as principal, a *Dealer Member* must not:
  - (i) purchase *over-the-counter securities* for its own account from a client, or
  - (ii) sell *over-the-counter securities* from its own account to a client, or
  - (iii) transact in *over-the-counter derivatives* with a client.
- (3) Subsection 3122(2) does not apply when a transaction is executed at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:
  - (i) in the case of a transaction in *over-the-counter securities*, the fair *market value* of the *securities* and of any *securities* exchanged or traded in connection with the transaction at the time of the transaction,
  - (ii) in the case of transactions in *over-the-counter derivatives*:
    - (a) the fair *market value* or settlement price of the equivalent *listed derivative*, and
    - (b) the fair *market value* of the *derivatives* underlying interest and of any related *derivatives* involved in the same trading strategy, at the time of the transaction,
  - (iii) the expense involved in effecting the transaction or transactions,
  - (iv) the fact that the *Dealer Member* is entitled to a profit, and
  - (v) the total dollar amount or dollar amount at risk of the transaction or transactions.
- (4) To ensure fair pricing when acting as agent, a *Dealer Member* must not purchase *over-the-counter securities*, sell *over-the-counter securities*, or transact in *over-the-counter derivatives* on behalf of a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the following:
  - (i) the availability of the *securities* or *derivatives* involved in the transaction,
  - (ii) the expense involved in effecting the transaction or transactions,
  - (iii) the value of the services rendered by the *Dealer Member*, and
  - (iv) the amount of any other compensation received or to be received by the *Dealer Member* in connection with the transaction.

### 3123. Best execution process

- (1) The policies and procedures for *best execution* must specifically address the process for achieving *best execution* that includes the following:
  - (i) for the execution of all client orders and transactions:
    - (a) requiring the *Dealer Member* to consider the instructions of the client, subject to its obligations under *IROC requirements* and *securities laws*, and
    - (b) describing any material conflicts of interest that may arise when sending client orders for handling or execution or when arranging for a client transaction and how these conflicts are to be managed,
  - and,
  - (ii) for the execution of client orders for *listed securities* and *foreign exchange-traded securities* that trade on a *marketplace*:
    - (a) describing the *Dealer Member's* order handling and routing practices for achieving *best execution*,
    - (b) taking into account order and trade information from all appropriate *marketplaces*,
    - (c) the rationale for accessing or not accessing particular *marketplaces*, and
    - (d) the circumstances under which a *Dealer Member* will move an order entered on one *marketplace* to another *marketplace*.

### 3124. Non-executing Dealer Member best execution policies and procedures

- (1) A *Dealer Member* that engages another *Dealer Member* to provide execution services on its behalf may include in its policies and procedures for *best execution* a link to the executing *Dealer Member's best execution* disclosure to comply with its obligations under clause 3123(1)(ii) and sections 3126 and 3129, provided that the non-executing *Dealer Member's* policies and procedures for *best execution* specifically address the following:
  - (i) the non-executing *Dealer Member* must conduct an initial review of the best execution disclosure of the executing *Dealer Member* and a review when material changes are made to the disclosure, to provide reasonable assurance that the executing *Dealer Member's* policies and procedures for *best execution* are complete and appropriate for its clients,
  - (ii) the non-executing *Dealer Member* must obtain an annual attestation from the executing *Dealer Member* that it has complied with and tested its policies and procedures on *best execution* in accordance with sections 3119 through 3129, and
  - (iii) the non-executing *Dealer Member* must follow-up with the executing *Dealer Member* if it identifies trade execution results that are inconsistent with the executing *Dealer Member's best execution* disclosure and document the results of its inquiry.

### 3125. Sending orders in bulk to foreign intermediaries

- (1) A *Dealer Member's* policies and procedures for *best execution* must not include the practice of sending client orders in *listed securities* in bulk to a foreign intermediary for execution outside of Canada, without considering other liquidity sources, including liquidity sources within Canada.

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**3127. Training**

- (1) A *Dealer Member* must have reasonable assurance its *employees* involved in the execution of client orders and transactions know and understand how to apply the *Dealer Member's* policies and procedures for *best execution* that they must follow.
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**3128. Compliance with the Order Protection Rule**

- (1) Despite any instruction or consent of the client, *best execution* of a client order for a *listed security* is subject to compliance with the Order Protection Rule under Part 6 of the *Trading Rules* by:
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**3129. Disclosure of best execution policies**

- (1) A *Dealer Member* must disclose to its clients in writing the following:
- (i) a description of the *Dealer Member's* obligation under section 3120,
  - (ii) a description of the factors the *Dealer Member* considers for the purpose of achieving *best execution* of:
    - (a) client orders for *listed securities*,
    - (b) client orders for *foreign-exchange traded securities*,
    - (c) client orders for *listed derivatives*,
    - (d) client transactions in *over-the-counter securities*, and
    - (e) client transactions in *over-the-counter derivatives*.
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- (v) a statement as to:
- (a) whether fees are paid by the *Dealer Member* or payments or other compensation is received by the *Dealer Member* for a client order routed, or a trade resulting from a

- client order routed, to a *marketplace* or intermediary identified pursuant to sub-clauses 3129(1)(iii)(a) or 3129(1)(iii)(b) above,
  - (b) the circumstances under which the costs associated with the fees paid by *Dealer Member* or the compensation received by the *Dealer Member* will be passed on to the client, and
  - (c) whether routing decisions are made based on fees paid by the *Dealer Member* or payments received by the *Dealer Member*,
- and,
- (vi) if providing market data as a service to clients, a description of any market data that is missing, including an explanation of the risks of trading with incomplete trading data.
- (2) A *Dealer Member* must provide separate disclosure for each class or type of client and each class or type of order or transaction if the factors and order handling and routing practices used for such clients, orders and transactions materially differ.
  - (3) A *Dealer Member* must identify in the disclosure:
    - (i) the class or type of client to which the disclosure applies,
    - (ii) the class or type of *securities* or *derivatives* order or transaction to which the disclosure applies, and
    - (iii) the date of the most recent changes to the disclosure.

**RULE 3200 | KNOW-YOUR-CLIENT AND CLIENT ACCOUNTS**

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**3201. Introduction**

- (1) Rule 3200 sets out *Dealer Members'* obligations when opening new accounts and maintaining existing accounts. Rule 3200 is divided into seven parts as follows:

- Part F – Additional Account Opening and Updating Procedures for Derivatives Trading:

- sets out additional account opening and updating procedures for *derivatives* trading accounts.

- [sections 3250 through 3255]

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**PART A – KNOW-YOUR-CLIENT AND CLIENT IDENTIFICATION REQUIREMENTS**

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**3207. Identification exceptions**

- (1) Sections 3203, 3204 and 3206 do not apply to:
    - (i) An entity registered under *securities laws* to:
      - (a) engage in the business of trading or advising in *securities* or *derivatives*, or
      - (b) act as an investment fund manager,
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**PART B – REQUIREMENTS FOR CLIENT ACCOUNTS**

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**3218. Pre-trade disclosure of charges**

- (1) Before a *Dealer Member* accepts an instruction from a *retail client* to purchase or sell a *security* or precious metals bullion or to transact in *derivatives* in an account other than a *managed account*, the *Dealer Member* must disclose to the client:
  - (i) the charges the client will be required to pay, directly or indirectly, in respect of the purchase, sale or transaction, or a reasonable estimate if the actual amount of the charges is not known to the firm at the time of disclosure,
  - (ii) in the case of a purchase or other transaction to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale or closing transaction and the fee schedule that will apply,
  - (iii) whether the firm will receive trailing commissions, and

- (iv) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the *security*.
- (2) Subsection 3218(1) does not apply to a *Dealer Member* in respect of an instruction involving:
  - (i) a client for whom the *Dealer Member* purchases, sells or transacts only as directed by a registered adviser acting for the client.

## **PART F – ADDITIONAL ACCOUNT OPENING AND UPDATING PROCEDURES FOR DERIVATIVES TRADING**

### **3250. Rules applicable to derivatives trading accounts**

- (1) For the purposes of Rule 3200, a *Dealer Member* that opens a *derivatives* trading account for a *retail client* must comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200.
- (2) For the purposes of Rule 3200, a *Dealer Member* that opens a *derivatives* trading account for an *institutional client* must:
  - (i) comply with the requirements in Parts A, B and F of Rule 3200, and if applicable, Parts C, D, E and G of Rule 3200, with the exception of sections 3216 through 3219, and
  - (ii) ensure the sub-account files of an *institutional client* refer to the documentation contained in the master file to which it is related.
- (3) A *Dealer Member* must ensure that *persons* trading on its behalf or advising clients in *derivatives* trading accounts meet minimum proficiency requirements.

### **3251. Additional requirements when opening a derivatives account**

- (1) Before executing an initial *derivatives* transaction in an account, whether the account is an *advisory account*, a *discretionary account*, a *managed account* or an *order execution only account*, a *Dealer Member* must:
  - (i) obtain a completed *derivatives* account application from the client,
  - (ii) obtain a completed and signed *derivatives* trading agreement from the client,
  - (iii) provide the client with the most recent *derivatives* disclosure statement or similar disclosure document, and
  - (iv) record the relevant *designated Supervisors'* approval in writing.
- (2) The relevant *designated Supervisors* must determine whether the risk characteristics of the strategies the client intends to use are appropriate for the client and in keeping with their personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon and puts the client's interest first. If they are not, the *designated Supervisors* should restrict the account from using inappropriate strategies and note on the *derivatives* account approval any trading restrictions imposed and communicate those restrictions to the *Registered Representative*, *Portfolio Manager* or *Associate Portfolio Manager* assigned to the account.

### 3252. Derivatives trading agreement

- (1) A *Dealer Member's derivatives* trading agreement must define the rights and obligations of the *Dealer Member* and the client and, at a minimum, must include the following:
  - (i) the time periods during which the *Dealer Member* accepts orders for execution,
  - (ii) the *Dealer Member's* right to:
    - (a) exercise discretion in accepting orders,
    - (b) impose trading or position limits or closeout positions under specified conditions,
  - (iii) the extent of the *Dealer Member's* right to:
    - (a) use client *free credit balances* within its own business or to finance other client account debits,
    - (b) use client account assets as collateral for the clients' debit and position obligations,
    - (c) raise money on and pledge assets held in the client's account
  - (iv) the conditions under which the *Dealer Member* may apply the client's funds, *securities* or other property in the account or any other accounts of the client to satisfy outstanding debts or margin calls,
  - (v) the *Dealer Member's* obligation to:
    - (a) if required under any *applicable laws* or requested to do so, provide information to regulators regarding position limit, exercise limit requirements and reporting *derivative* positions or *derivative* transactions related data,
    - (b) obtain client consent before the *Dealer Member* may take the other side to the client's transaction, and document whether the client provides such consent,
    - (c) address situations when errors and omissions occur,
  - (vi) where discretionary authority is given to the *Dealer Member*:
    - (a) disclosures explaining the discretionary authority that has been given,
    - (b) the client's acknowledgement that is has consented to the giving of the authority, provided the authority given is consistent with the requirements contained within Part G of Rule 3200 and unless the authority is given through the execution of a separate agreement,
  - (vii) the client's cumulative loss limit subject to the conditions set out in subsection 3252(2),
  - (viii) the client's obligation to:
    - (a) comply with *IIROC requirements* and the requirements of any entity through which the *derivative* is traded, cleared, or issued, including, without limitation, reporting, position limit and exercise limit requirements,
    - (b) maintain adequate margin collateral and to pay any debts owed to the *Dealer Member*,
    - (c) pay commission or other compensation, if any,
    - (d) pay interest, if any, on account debit balances,



- (ix) the client's acknowledgement of:
  - (a) receiving the most recent *derivatives* risk disclosure statement,
  - (b) their obligation to inform and update the *Dealer Member* of any circumstances under which they would be considered to be an insider of a reporting issuer or any other issuer whose *securities* are publicly traded,
- (x) any other matter required by a *derivatives* trading, clearing or issuing entity,
- (xi) for options, futures contract options and similar *derivatives*:
  - (a) the *Dealer Member's* deadlines for a client to submit an exercise notice,
  - (b) the method the *Dealer Member* will use to distribute assignment notices,
  - (c) disclosures indicating that:
    - (I) the *Dealer Member* may set maximum limits on short positions,
    - (II) the *Dealer Member* may apply cash-only terms during the last 10 days before expiry, and
    - (III) *IIROC* may impose other rules affecting existing or subsequent transactions.
  - (d) the client's obligation to instruct the *Dealer Member* to close out positions before expiry,
- (xii) for futures contracts, forward contracts, contracts for difference and similar *derivatives*, disclosures indicating that the *Dealer Member* requires the client to maintain minimum margin that is the greater of:
  - (a) the amount the *derivatives marketplace* or clearing house prescribes,
  - (b) *IIROC's requirements*, or
  - (c) the *Dealer Member's* requirements.
- (2) The client's cumulative loss limit under clause 3252(1)(vii),
  - (i) applies to an account, where the transactions involve futures contracts, forward contracts, contracts for difference, futures contract options or similar derivative contracts, or highly-leveraged *securities* or *derivatives*,
  - (ii) applies to a trading account, other than a hedging account, whether the account is an *advisory account*, a *discretionary account*, a *managed account* or an *order execution only account*, and
  - (iii) must, notwithstanding obligations under Rule 3400, be determined on
    - (a) a lifetime basis and validated with the client on an annual basis, or
    - (b) an annual basis and updated annually.

### **3253. Letter of undertaking**

- (1) Instead of a *derivatives* trading agreement, a *Dealer Member* may obtain a letter of undertaking for accounts where the client is classified as an *institutional client*.
- (2) The letter of undertaking must state:

- (i) that the client agrees to comply with *IIROC requirements*, any *applicable laws*, and the requirements of any entity through which the *derivative* is traded, cleared, or issued, including, without limitation, position limit, exercise limit requirements and reporting *derivative* positions or *derivative* transactions related data, and
- (ii) if the client has an account that is charged interest on a debit balance, the conditions under which transfers of the client's funds, *securities* or other property may be made between accounts, unless these conditions are acknowledged by the client in another document.

**3254. Derivatives risk disclosure statement**

(1) *A Dealer Member* must:

- (i) provide each *derivatives retail client* with the most recent *derivatives* risk disclosure statement or other similar document, approved by *IIROC* before accepting an initial *derivatives* order from the client,
- (ii) obtain the client's acknowledgement of receipt of the statement or document provided under clause 3254(1)(i),
- (iii) provide each *derivatives retail client* with any amendments to the statement or document provided under clause 3254(1)(i),
- (iv) maintain a record of the names and addresses of all clients to whom it has provided the statement or document under clause 3254(1)(i) and any amendments under clause 3254(1)(iii) and the dates on which they were provided, and
- (v) include with the risk disclosure statement or other similar document, for each *order execution only account* offering *over-the-counter derivatives* to *retail clients*, a disclosure of the percentage of such accounts that were profitable for each of the four most recent quarters.

**3255. Position and exercise limits**

- (1) *A Dealer Member* must comply with the requirements of any entity through which the *derivative* is traded, cleared, or issued, including, without limitation, reporting, position limit and exercise limit requirements.

**3256. – 3269. Reserved.**

**RULE 3400 | SUITABILITY DETERMINATION**

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### 3402. Retail client suitability determination requirements

- (1) Before a *Dealer Member* purchases, sells, withdraws, exchanges or transfers-out *securities* or precious metals bullion, or transacts in *derivatives* for a *retail client's* account, takes any other investment action for a client, makes a recommendation or exercises discretion to take any such action, the *Dealer Member* must determine, on a reasonable basis, that the action satisfies the following criteria:
  - (i) the action is suitable for the *retail client*, based on the following factors:
    - (a) the *retail client's* information collected in accordance with section 3202,
    - (b) the *Dealer Member's* assessment of and an *Approved Person's* understanding of the *security, derivative* or precious metals bullion, required in accordance with Rule 3300,
    - (c) the impact of the action on the *retail client's* account, including the concentration of *securities, derivatives* or precious metals bullion, within the account and the liquidity of those *securities, derivatives* or precious metals bullion,
    - (d) the potential and actual impact of costs on the *retail client's* returns, and
    - (e) a consideration of a reasonable range of alternative actions available to the *Registered Representative, Portfolio Manager, or Associate Portfolio Manager* through the *Dealer Member* at the time the determination is made, and
  - (ii) the action puts the *retail client's* interest first.
- (2) A *Dealer Member* must review the *retail client's* account and the *securities, derivatives* or precious metals bullion, in the *retail client's* account to determine whether the criteria in subsection 3402(1) are met, and take reasonable steps, within a reasonable time, after any of the following events:
  - (i) *securities, derivatives* or precious metals bullion are received or delivered into the client's account by way of deposit or transfer-in,
  - (ii) a *Registered Representative, Portfolio Manager* or *Associate Portfolio Manager* is designated as responsible for the account,
  - (iii) the *Dealer Member* becomes aware of a change in the *retail client's* information collected in accordance with subsection 3202(1) that could result in a *security, derivative* or precious metals bullion, or the *retail client's* account not satisfying subsection 3402(1),
  - (iv) the *Dealer Member* becomes aware of a change in a *security, derivative* or precious metals bullion, in the *retail client's* account that could result in the *security, derivative* or precious metals bullion, or account not satisfying subsection 3402(1), or
  - (v) the *Dealer Member* reviews the *retail client's* information in accordance with subsection 3209(4).

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**3403. Institutional client suitability determination requirements**

- (1) Subject to the applicable exemptions and exceptions set out in section 3404, a suitability determination must be made for an *institutional client*:
  - (i) before any order is accepted from the client, and
  - (ii) before a recommendation is made to the client to purchase, sell, exchange or hold a *security* or precious metals bullion, or transact in any *derivative*.
- (2) When a suitability determination must be made for an *institutional client* pursuant to subsection 3403(1), a *Dealer Member* must make a determination whether the client is sufficiently sophisticated and capable of making its own investment decisions in order to determine the level of suitability owed to that *institutional client*. In making a determination whether a client is capable of independently evaluating investment risk and is exercising independent judgment, relevant considerations include:
  - (i) any written or oral understanding that exists between a *Dealer Member* and its client regarding the client's reliance on the *Dealer Member*,
  - (ii) the presence or absence of a pattern of acceptance of the *Dealer Member's* recommendations,
  - (iii) the use by a client of ideas, suggestions, market views and information obtained from other *Dealer Members*, market professionals or issuers particularly those relating to the same type of *securities, derivatives* or precious metals bullion,
  - (iv) the use of one or more investment dealers, portfolio managers or other third-party advisors,
  - (v) the general level of experience of the client in financial markets,
  - (vi) the specific experience of the client with the type of instrument under consideration, including the client's ability to independently evaluate how market developments would affect the *security, derivative* or precious metals bullion and ancillary risks such as currency rate risk, and
  - (vii) the complexity of the *securities, derivatives* or precious metals bullion involved.

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**3404. Exemptions from the suitability determination requirements**

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- (3) Other than subsection 3403(4), section 3403 does not apply in respect to:
  - (i) an account held by a *Dealer Member, regulated entity*, exempt market dealer, portfolio manager, bank, trust company or insurance company, or
  - (ii) an account held by a non-individual *institutional client* that:
    - (a) is also a "permitted client", as defined in National Instrument 31-103,

- (b) is not a client described in clause 3404(3)(i), and
  - (c) has waived, in writing, the protections offered to them under subsections 3403(1) and 3403(2).
- (4) Subsection 3403(4) does not apply to an account held by an *institutional client* who is a *Dealer Member, regulated entity, exempt market dealer, portfolio manager, bank, trust company or insurance company*.
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## **RULE 3500 | SALES PRACTICES**

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### **3502. Definitions**

- (1) The following terms have the meaning set out below when used in Rule 3500:
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### **3503. Client priority**

- (1) A *Dealer Member* must give priority to client orders or transactions over all other orders or transactions for the same *security, derivative* or precious metals bullion at the same price.
- (2) The *Dealer Member* must not give priority to orders or transactions for an account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged.
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## **RULE 3600 | COMMUNICATIONS WITH THE PUBLIC**

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### **3601. Introduction**

- (1) A *Dealer Member's* policies and procedures must specifically address communication with the public and the *Dealer Member* must monitor compliance with these policies and procedures to provide reasonable assurance the *Dealer Member, its employees and Approved Persons* comply with the policies and procedures.
- (2) Rule 3600 is divided into the following parts:
- Part A – Advertisements, sales literature and correspondence  
[section 3602]

- Part B – Research reports  
[sections 3606 through 3623]
- Part C – Misleading Communications  
[section 3640]

## **PART A – ADVERTISEMENTS, SALES LITERATURE AND CORRESPONDENCE**

### **3602. Advertising**

- (1) A *Dealer Member* must not issue, participate in or knowingly allow the use of its name in any *advertisement, sales literature or correspondence* that:
  - (i) contains an untrue statement or omission of a material fact or is otherwise false or misleading,
  - (ii) contains an unjustified promise of specific results,
  - (iii) uses unrepresentative statistics to suggest unwarranted or exaggerated conclusions, or fails to identify the material assumptions made in arriving at these conclusions,
  - (iv) contains any opinion or forecast of future events which is not clearly labeled as such,
  - (v) fails to fairly present the potential risks to the client,
  - (vi) is detrimental to the interests of the public, *IIROC* or its *Dealer Members*, or
  - (vii) fails to comply with *IIROC requirements* or any *applicable laws*.
- (2) A *Dealer Member's* policies and procedures must specifically address the review and supervision of *advertisements, sales literature and correspondence* relating to its business.
- (3) A *Dealer Member* must ensure that the following items are approved by a *designated Supervisor* before use or publication:
  - (i) *research reports*,
  - (ii) market letters,
  - (iii) telemarketing scripts,
  - (iv) promotional seminar texts (excluding educational seminar texts),
  - (v) original *advertisements* or original template *advertisements*, and
  - (vi) any material containing performance reports or summaries that is used to solicit clients.
- (4) A *Dealer Member* must ensure that all *advertising, sales literature or correspondence* not listed in subsection 3602(3) is reviewed in a manner appropriate to the type of material through:
  - (i) pre-use approval,
  - (ii) post-use review, or
  - (iii) post-use sampling.
- (5) A *Dealer Member* must provide reasonable assurance:
  - (i) its *employees* and *Approved Persons* are familiar with its policies and procedures relating to *advertisements, sales literature and correspondence*, and

- (ii) its policies and procedures include specific ongoing measures to provide reasonable assurance its policies and procedures are being complied with.
- (6) A *Dealer Member* must retain copies of all *advertisements, sales literature* and *correspondence* and all *records* of supervision for the period set out in section 3803. These items must be readily available for inspection by *IIROC*.

**3603. – 3605. Reserved.**

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**RULE 3700 | REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS**

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**PART A – REPORTING REQUIREMENTS**

**3702. Reporting by an Approved Person to the Dealer Member**

- (1) An *Approved Person* must report to the *Dealer Member* any of the following matters within two *business days*:
  - (i) if there is a change in the *Approved Person's* registration information or Form 33-109F4,
  - (ii) if the *Approved Person* has reason to believe that he or she has or may currently be contravening any *IIROC requirements, securities laws, or any applicable laws,*
  - (iii) if the *Approved Person* is the subject of a written client complaint, or
  - (iv) if the *Approved Person* becomes aware of a client complaint, in writing or other form, about another *Approved Person* involving allegations of theft, fraud, misappropriation of funds, *securities* or other property, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading.

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**3703. Reporting by a Dealer Member to IIROC**

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- (2) A *Dealer Member* must report to *IIROC* any of the following matters, within the time period and using the method prescribed by *IIROC*:

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(iv) any time the *Dealer Member*, or a current or former *Approved Person* is subject to one of the following in any jurisdiction inside or outside of Canada, while in the employ of the *Dealer Member* or concerning matters that occurred while in the employ of the *Dealer Member*:

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(e) subject to a civil claim or arbitration notice involving any of the following:  
(I) any matters related to *securities, derivatives* or precious metals bullion,  
(II) any matter related to handling of client accounts or dealings with clients, or  
(III) any matter that is the subject of any legislation, rules, regulations, or policies concerning *securities, derivatives* or precious metals bullion or financial services of any *securities, derivatives* or financial services regulatory or self-regulatory organization in any jurisdiction,

(v) the resolution of any matters set out in clause 3703(2)(iv),

(vi) any internal disciplinary action that is taken by a *Dealer Member* against an *Approved Person* as a result of:

(a) a client complaint within the meaning of clause 3703(2)(i),

(b) a *securities, derivatives* or precious metals bullion related civil claim or arbitration notice,  
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## **PART B – INTERNAL INVESTIGATIONS AND INTERNAL DISCIPLINE**

### **3706. Requirement to commence an internal investigation**

(1) A *Dealer Member* must conduct an internal investigation if it appears that the *Dealer Member* or a current or former *Approved Person* while employed by the *Dealer Member* engaged in any of the following types of activities in any jurisdiction inside or outside of Canada:



- (i) theft,
- (ii) fraud,
- (iii) misappropriation of funds, *securities* or other property,
- (iv) forgery,
- (v) money laundering,
- (vi) market manipulation,
- (vii) insider trading,
- (viii) misrepresentation, or
- (ix) unauthorized trading.

**PART E – CLIENT COMPLAINTS – RETAIL CLIENTS**

**3721. Application**

- (1) Part E of Rule 3700 applies to complaints submitted by a *retail client* or a *person* authorized to act on behalf of a *retail client* in the following form:
  - (i) a recorded expression of dissatisfaction with a *Dealer Member* or *employee* alleging misconduct, or
  - (ii) a verbal expression of dissatisfaction with the *Dealer Member* or *employee* alleging misconduct where a preliminary investigation indicates that the allegation may have merit.
- (2) For the purpose of subsections 3720(1) and 3721(1), alleged misconduct includes, but is not limited to:
  - (i) allegations of breach of confidentiality, theft, fraud, misappropriation or misuse of funds, *securities* or other property, forgery, unsuitable investments, misrepresentation, or unauthorized trading relating to the client's account,
  - (ii) other inappropriate financial dealings with clients, or
  - (iii) engaging in *Dealer Member related activities* outside of the *Dealer Member*.

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**3728. Client complaint file**

- (1) A *Dealer Member* must retain the following information in accordance with section 3786 for each client complaint:
- (i) the complainant's name,
  - (ii) the date of the complaint,
  - (iii) the nature of the complaint,
  - (iv) the name of the *individual* who is subject of the complaint,
  - (v) the *securities, derivatives, other property or services* which are the subject of the complaint,
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**RULE 3800 | DEALER MEMBER RECORDS AND CLIENT COMMUNICATIONS**

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**3802. Definitions**

- (1) The following terms have the meaning set out below when used in Rule 3800:
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**3804. General requirements to maintain records**

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- (2) The *records* required under subsection 3804(1) include, but are not limited to, *records* that do the following:
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- (vi) permit the identification and *segregation* of client cash, *securities*, precious metals bullion and other property,

- (vii) identify all transactions conducted on behalf of the *Dealer Member* and each of its clients, including the parties to the transaction and the terms of the purchase or sale,
- (viii) provide an audit trail for:
  - (a) client instructions, orders and transactions, and
  - (b) each trade transmitted or transaction executed for a client or by the *Dealer Member* on its own behalf,
- (ix) permit the generation of account activity reports for clients,
- (x) provide securities, *derivatives* and precious metals bullion pricing as may be required by *securities laws*,
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- (xv) document compliance, training, and supervision actions taken by the *Dealer Member*,
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- (xviii) demonstrate compliance with misleading communications requirements,
- (xix) demonstrate compliance with the conditions for *temporary holds*, and
- (xx) demonstrate determination undertaken to classify a client as a *hedger* and as an *institutional client*.
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**3805. Trade blotters (records of original entry)**

- (1) A *Dealer Member* must maintain blotters or other *records* of original entry by itemizing daily, the following:
  - (i) all purchases and sales of *securities* and precious metals bullion,
  - (ii) all receipts and deliveries of *securities* (including certificate numbers) and precious metals bullion,
  - (iii) all transactions in *derivatives*,
  - (iv) all receipts and disbursements of cash, and
  - (v) all other debits and credits.
- (2) The blotters or *records* of original entry must contain, at a minimum, the following:
  - (i) in the case of trades in *securities* and precious metals bullion:
    - (a) the description, class and designation of *securities* and precious metals bullion,
    - (b) the number, value or amount of *securities* and precious metals bullion and the unit and aggregate purchase or sale price (if any),

- (c) the name or other designation of the *person* from whom or to whom the *securities* and precious metals bullion were purchased or received or sold or delivered,
  - (d) the trade dates, and
  - (e) the applicable account in which each transaction was effected,
- (ii) in the case of transactions in futures contracts, forward contracts, contracts for difference and similar *derivative* contracts:
- (a) the contract underlying interest,
  - (b) the contract quantity bought or sold,
  - (c) if applicable, the quantity of the underlying interest bought or sold,
  - (d) the contract delivery date,
  - (e) the price at which the contract was entered into,
  - (f) the transaction dates,
  - (g) the applicable account in which each transaction was effected,
  - (h) if applicable, the name of the *derivatives marketplace*,
  - (i) if applicable, the name of the dealer, used by the *Dealer Member* as its *agent* to effect the transaction, and
  - (j) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*),
- (iii) in the case of transactions in options contracts, futures contract options and similar *derivative* contracts:
- (a) the contract underlying interest,
  - (b) the contract quantity bought or sold,
  - (c) the contract type,
  - (d) the contract premium,
  - (e) the contract exercise or striking price,
  - (f) the contract declaration date,
  - (g) the transaction dates,
  - (h) the applicable account in which each transaction was effected,
  - (i) if applicable:
    - (I) the *futures contract* that is the subject of the *futures contract option*,
    - (II) the delivery month and year of the *futures contract* that is the subject of the *futures contract option*,
  - (j) if applicable, the name of the *derivatives marketplace*,
  - (k) if applicable, the name of the dealer used by the *Dealer Member* as its *agent* to effect the transaction, and
  - (l) if applicable, whether the transactions are opening or closing transactions (where required by the *marketplace*).
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**3807. Itemized client ledger accounts**

- (1) A *Dealer Member* must maintain ledger accounts (or other *records*) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other transactions of *securities, derivatives* and precious metals bullion for such account and all other debits and credits to such account.
- (2) When a *Dealer Member* receives *securities* and property to margin, *guarantee*, or secure the trades or transactions of a client's account, the ledger must contain, at a minimum, the following:
  - (i) a description of the *securities, precious metals bullion* or property received,
  - (ii) the date when received,
  - (iii) the identity of any deposit institution where such *securities, precious metals bullion* or property are *segregated*,
  - (iv) the dates of deposit and withdrawal from such institutions, and
  - (v) the date of return of such *securities, precious metals bullion* or property to the client or other disposition thereof, together with the facts and circumstances of such other disposition.

**3808. Client account statements**

- (1) A *Dealer Member* must send a daily statement to each *retail client* who at the end of the day has in their account:
  - (i) an open futures contract, forward contract, contract for difference or similar *derivative* contract position, or
  - (ii) an unexpired and unexercised option contract, futures contract option or similar *derivative* contract position.
- (2) A *Dealer Member* must send a monthly statement to each client who:
  - (i) requests to receive a client account statement on a monthly basis, or
  - (ii) at the end of the month has in their account:
    - (a) had a transaction during the month,
    - (b) has experienced a cash or account position modification, other than dividend or interest payments,
    - (c) an unexpired and unexercised option contract, futures contract option or similar derivative contract position, or
    - (d) an open futures contract, forward contract, contract for difference or similar derivative contract position.

- (3) A *Dealer Member* must send a quarterly statement to each client who, at the end of the quarter has:
- (i) a debit or credit balance, or
  - (ii) one or more *securities, derivatives* or precious metals bullion (including *securities* or precious metals bullion held in *safekeeping* or in *segregation*), in their account.
- (4) The statement must include all of the following information about the client's account at the end of the period for which the statement is made:
- (i) the opening cash balance in the account,
  - (ii) all deposits, credits, withdrawals and debits made to the account,
  - (iii) the closing cash balance in the account,
  - (iv) the description and quantity of each *security, derivative* and precious metals bullion position in the account,
  - (v) for each *security, derivative* and precious metals bullion position in the account:
    - (a) where the *market value* is determinable:
      - (I) the *market value*,
      - (II) the total *market value*, and
      - (III) if applicable, the notification required pursuant to either clause (i)(b) or clause (ii)(b) of the definition of *market value* in subsection 1201(2)
    - (b) where the *market value* is not determinable, the notification required pursuant to either clause (ii)(b) or clause (ii)(c) of the definition of *market value* in subsection 1201(2),
  - (vi) where the client is a *retail client* and the statement is a quarterly statement, the statement must also include:
    - (a) for each *security, derivative* and precious metals bullion position in the account:
      - (I) where the *cost* is determinable, either the *cost* or the total *cost*, and
      - (II) where the *cost* is not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1),
- and
- (b) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided that where the individual position *cost* information included in the statement is calculated using:
    - (I) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
    - (II) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,

- (vii) the total *market value* of all cash, *security, derivative* and precious metals bullion positions in the account, and
  - (viii) where the client is a *retail client* and the statement is a quarterly statement, the total *cost* of all cash, *security, derivative* and precious metals bullion positions in the account.
- (5) In the case of clients with any *security, derivative* and precious metals bullion positions which might be subject to a deferred sales charge if they are sold, a notation identifying each position that might be subject to a deferred sales charge.
- (6) In the case of clients with any open futures contracts, forward contracts, contracts for difference or similar *derivative* contracts, the daily and monthly statements must contain, at a minimum, the following:
- (i) the description and quantity of each open contract, and
  - (ii) the price at which each open contract was entered into.
- (7) In the case of clients with any unexpired and unexercised option contracts, futures contract options or similar *derivative* contracts, the daily and monthly statements must contain, at a minimum, the following:
- (i) the description and quantity of each unexpired and unexercised contract, and
  - (ii) the exercise or striking price of each unexpired and unexercised contract.
- (8) In the case where a *Dealer Member* has acted as an agent in connection with a liquidating transaction in a futures contract or similar listed *derivative* contract, the monthly statement must contain, at a minimum, the following:
- (i) the dates of the initial transaction and liquidating trade,
  - (ii) the commodity and quantity bought and sold,
  - (iii) the futures *marketplace* upon which the contract was traded,
  - (iv) the delivery month and year,
  - (v) the prices on the initial transaction and on the liquidating trade,
  - (vi) the gross profit or loss on the transactions,
  - (vii) the commission, and
  - (viii) the net profit or loss on the transactions.
- (9) In the case of transactions involving:
- (i) *securities* of the *Dealer Member*, or
  - (ii) *securities* of a *related issuer* of the *Dealer Member*, or
  - (iii) *securities* of a *connected issuer* of the *Dealer Member*, or
  - (iv) *securities* referenced in clauses 3808(9)(i) through 3808(9)(iii) that are in the course of a distribution to the public, or
  - (v) *derivatives* whose underlying interest is referenced in clauses 3808(9)(i) through 3808(9)(iv),

the monthly statement must indicate that the transactions involve *securities* of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member* or a *derivative* whose underlying interest is a *security* of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be.

- (10) If a *Dealer Member* does not deposit clients' *free credit balances* in a trust bank account, the client statement must include the following notation:

"Any free credit balances (except for RRSP funds held in trust) represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business."

- (11) In the case of *derivatives* transactions executed for an *institutional client* under a give-up agreement, the executing *Dealer Member* shall not be required to send a monthly statement, provided

- (i) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement
- (ii) the clearing *Dealer Member* is responsible, under the give-up agreement, for sending a monthly statement to the client, and
- (iii) the executing *Dealer Member*:
  - (a) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,
  - (b) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and
  - (c) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

### **3809. Report on client positions held outside of the Dealer Member**

- (1) A *Dealer Member* must send a quarterly report on *outside holdings* (report to be called "Report on client positions held outside of the *Dealer Member*") to each *retail client* who, at the end of the quarter holds outside of the *Dealer Member's* control, either in book-based client name or physical client name, one or more positions:

- (i) in *securities* issued by a scholarship plan, a mutual fund or an investment fund that is a labour sponsored investment fund corporation, or labour sponsored venture capital corporation, under *applicable laws* and the *Dealer Member* is the dealer of record for the client on the records of the issuer of the *security* or the records of the issuer's investment fund manager, and
- (ii) in any other *security*, *derivative* or precious metals bullion positions on which the *Dealer Member* receives continuing compensation payments related to the client's ownership of the position from the issuer of the position, the investment fund manager of the issuer or any other party.



- (2) The report must include all of the following information about the client's *outside holdings* at the end of the period for which the report is made:
- (i) the name and quantity of each position,
  - (ii) for each position where the *market value* is:
    - (a) determinable:
      - (I) the *market value*,
      - (II) the total *market value*, and
      - (III) if applicable, the notification required pursuant to clause (i)(b) of the definition of *market value* in subsection 1201(2), and
    - (b) not determinable, the notification required pursuant to clause (i)(c) of the definition of *market value* in subsection 1201(2),
  - (iii) for each position where the *cost* is:
    - (a) determinable, either the *cost* or the total *cost*, and
    - (b) not determinable, the notification required pursuant to clause (iii) of the definition of *cost* in subsection 3802(1),
  - (iv) a notation setting out the definitions of the calculation methodologies used to calculate the individual position *cost* information included in the statement, provided that where the individual position *cost* information included in the statement is calculated using:
    - (a) the *book cost* calculation methodology, the language set out in the definition of *book cost* in subsection 3802(1) or language that is substantially similar must be used as the notation, and
    - (b) the *original cost* calculation methodology, the language set out in the definition of *original cost* in subsection 3802(1) or language that is substantially similar must be used as the notation,
  - (v) the total *market value* of all positions,
  - (vi) the total *cost* of all positions, and
  - (vii) the name of the party that holds or controls each position and a description of the way it is held.
- (3) In the case of clients with any *outside holdings* which might be subject to a deferred sales charge if they are sold, the report must include a notation identifying each position that might be subject to a deferred sales charge.
- (4) The report must indicate:
- (i) that the client's *outside holdings* are not covered by the *Canadian Investor Protection Fund*, and
  - (ii) whether the client's *outside holdings* are covered under any other investor protection fund approved or recognized by a Canadian *securities regulatory authority* and, if they are, the name of the fund.

### 3810. Performance report

- (1) A *Dealer Member* must send an annual performance report to each *retail client* who, at the end of the 12-month period covered by the report has:
  - (i) an account with:
    - (a) a debit or credit balance, or
    - (b) one or more *security, derivative* or precious metals bullion positions (including *security* or precious metals bullion positions held in *safekeeping* or in *segregation*), or
  - (ii) holds one or more *outside holdings* for which quarterly reporting pursuant to section 3809 is required,and
  - (iii) there is at least one position in the account or at least one *outside holding* for which quarterly reporting pursuant to section 3809 is required, for which a *market value* can be determined pursuant to either clause (i) or clause (ii) of the definition of *market value* in subsection 1201(1),and
  - (iv) the client's account was opened at least 12 months ago.
- (2) The annual performance report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:
  - (i) the total combined *market value* of all cash, *security, derivative* and precious metals bullion positions:
    - (a) as at July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, as at the account opening date,
    - (b) as at the beginning date of the 12-month period covered by the report, and
    - (c) as at the end date of the report,
  - (ii) the total combined *market value* of all deposits and transfers in of cash, *security, derivative* and precious metals bullion positions:
    - (a) in the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date, to the end date of the report, and
    - (b) in the 12-month period covered by the report,
  - (iii) the total combined *market value* of all withdrawals and transfers out of cash, *security, derivative* and precious metals bullion positions:
    - (a) In the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, and
    - (b) In the 12-month period covered by the report,

(iv) the total combined change in *market value* of all cash, *security, derivative* and precious metals bullion positions:

(a) for the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, determined using the following formula:

Total *market value* change from account opening

- = Closing *market value*  
[Sub-clause 3810(2)(i)(c)]
- Account opening *market value*  
[Sub-clause 3810(2)(i)(a)]
- Deposits and transfers in  
[Sub-clause 3810(2)(ii)(a)]
- + Withdrawals and transfers out  
[Sub-clause 3810(2)(iii)(a)], and

(b) for the 12-month period covered by the report, determined using the following formula:

Total 12-month *market value* change

- = Closing *market value*  
[Sub-clause 3810(2)(i)(c)]
- Account opening *market value*  
[Sub-clause 3810(2)(i)(b)]
- Deposits and transfers in  
[Sub-clause 3810(2)(ii)(b)]
- + Withdrawals and transfers out  
[Sub-clause 3810(2)(iii)(b)],

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(5) For the purposes of this section 3810, the information in respect of cash, *security, derivative* and precious metals bullion positions of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.

(6) For the purposes of this section 3810, the information in respect of cash, *security, derivative* and precious metals bullion positions of a client required to be reported under section 3809 must be

included in the report for each of the client's accounts through which these positions were transacted.

- (7) Subsections 3810(5) and 3810(6) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* of a client required to be reported under section 3809 provided:
  - (i) the client has consented in writing to receiving a consolidated report, and
  - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (8) All annual performance reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3810(7), must:
  - (i) be prepared for the same 12-month period, and
  - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual fee/charge reports that are sent to the same client.
- (9) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivative* contracts, the *Dealer Member* shall not be required to send an annual performance report under this section 3810, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account in addition to the requirements set out under section 3808:
  - (i) the total profit or loss realized on positions exercised, expired or closed during the period covered,
  - (ii) the unrealized profit or loss for each opened position at the end of the period covered,
  - (iii) the profit or loss realized for each positions exercised, expired or closed during the period covered, and
  - (iv) a disclosure explaining to the client that for the period covered, the statement does not provide information on the changes in *market value* that occurred during the period covered, but provides the client with:
    - (a) profit or loss realized on positions exercised, expired or closed, and
    - (b) unrealized profit or loss for opened position at the end of the period covered.
- (10) For purposes of subsection 3810(9), all deposits, credits, withdrawals and debits made in the account can be disclosed as a single net deposit or net withdrawal in the statement.

### **3811. Fee/charge report**

- (2) The annual fee/charge report must include all of the following combined information about the client's account and *outside holdings* at the end of the period for which the report is made:

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(iv) the total amount of each type of *transaction charge* related to the purchase or sale of *securities* and precious metals bullion and transactions in *derivatives* paid by the client during the period covered by the report,  
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(viii) the total amount of each type of payment, other than *trailing commissions*, that is made to the *Dealer Member* or any of its registered *individuals* by a *securities* or *derivatives* issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment, and  
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- (3) For the purposes of this section 3811, the information in respect of *security*, *derivative* and precious metals bullion positions of a client required to be reported under section 3808 must be provided in a separate report for each of the client's accounts.
- (4) For the purposes of this section 3811, the information in respect of *outside holdings* of a client required to be reported under section 3809 must be included in the report for each of the client's accounts through which these positions were transacted.
- (5) Subsections 3811(3) and 3811(4) do not apply if the *Dealer Member* sends a single report to the client that consolidates the required information for more than one of a client's accounts and any *outside holdings* of a client required to be reported under section 3809 provided:
- (i) the client has consented in writing to receiving a consolidated report, and
  - (ii) the report that is sent specifies the accounts and *outside holdings* for which the consolidated information is being provided.
- (6) All annual fee/charge reports that are sent to a client, whether prepared for an individual account or prepared on a consolidated account basis pursuant to subsection 3811(5), must:
- (i) be prepared for the same 12-month period, and
  - (ii) include aggregated information for the same accounts and *outside holdings*, as the annual performance reports that are sent to the same client.
- (7) Where a *retail client* has an account with positions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivative* contracts, the *Dealer Member* shall not be required to send an annual fee/charge report under this section 3811, provided the *Dealer Member* sends the client a monthly or quarterly statement which includes the following information about the client's account for the period covered:

- (i) itemized transaction charge and operating charge information in accordance with this section 3811, and
  - (ii) if applicable, itemized information on compensation received by the *Dealer Member* in connection with a transaction.
- (8) For purposes of clause 3811(7)(ii), the following information will be acceptable where the compensation received by the *Dealer Member* relates to a bulk distribution arrangement:
- (i) a calculated product distribution compensation amount, or
  - (ii) where the distribution compensation amount cannot be unbundled from the manufacturer compensation amount,
    - (I) the entire compensation amount, and
    - (II) a note explaining that the amount disclosed is the entire product compensation amount.

**3813. Securities and precious metals bullion record**

- (1) A *Dealer Member* must maintain a *record* or a ledger, as of the trade or settlement dates (including positions in *safekeeping*) for each long and short *security* and precious metals bullion position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the following:
  - (i) the location of all long positions,
  - (ii) the offsetting position to all short positions, and
  - (iii) the name or designation of the account in which each position is maintained.

**3814. Derivatives record**

- (1) A *Dealer Member* must maintain a *record* or ledger, as of the transaction date, for each long and short *derivatives* position maintained for the *Dealer Member's* account or for the account of clients.
- (2) The *record* or ledger must contain the name or designation of the account in which each position is maintained.

**3815. Memoranda of orders, transactions and other instructions**

- (1) A *Dealer Member* must maintain an adequate *record* of each order, transaction or other instruction given or received for all purchases and sales of *securities* and precious metals bullion and transactions in *derivatives*, whether executed or unexecuted, showing at a minimum the following:
  - (i) the terms and conditions of the order, transaction or instruction and of any modification or cancellation thereof,
  - (ii) the account to which the order, transaction or instruction relates,
  - (iii) the time of entry of the order, transaction or instruction and, where it is entered pursuant to the exercise of discretionary power of a *Dealer Member*, a statement to that effect,

- (iv) where the order, transaction or instruction relates to an omnibus account, the component accounts within the omnibus account on whose behalf it is to be executed, and the allocation among the component accounts intended on execution,
  - (v) to the extent feasible, the time of execution or cancellation,
  - (vi) the price at which the order, transaction or instruction was executed,
  - (vii) the time of report of execution, and
  - (viii) whether the transactions are opening or closing transactions (where required by the *marketplace*).
- (2) A *Dealer Member* must record the name, sales number, or designation of the *person* placing the order, transaction or instruction, if it is placed by an *individual* other than:
- (i) the account holder, or
  - (ii) an *individual* authorized in writing to direct orders or instructions for the account.

### 3816. Trade confirmations

- (1) A *Dealer Member* must promptly send the client a written confirmation of all purchases and sales of *securities* and precious metals bullion and transactions in *derivatives*, and copies of notices of all other debits and credits of money, *securities*, property, proceeds of loans and other items for the client's account.
- (2) The written confirmation must contain, at a minimum, the day and the *marketplace* or *marketplaces* where the trade took place, or *marketplace* disclosure language acceptable to *IIROC*; the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade; the name of the salesperson, if any, involved in the transaction; the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, the settlement date of the trade:

and

- (i) in the case of trades in *securities* and precious metals bullion:
- (a) the quantity and description,
  - (b) the consideration,
  - (c) whether or not the *person* or company that executed the trade acted as principal or agent, and
  - (d) must maintain and make available to the client or *IIROC*, upon request, the name of the *person* or company from or to or through whom the *security* or precious metals bullion was bought or sold, if acting as an agent in a trade upon an equity *marketplace*,

and

- (ii) in the case of transactions in futures contracts, forward contracts, contracts for difference, foreign exchange contracts and similar *derivative* contracts:
- (a) the contract underlying interest,
  - (b) the contract quantity bought or sold,

- (c) if applicable, the quantity of the underlying interest bought or sold,
- (d) the contract delivery date, and
- (e) the price at which the contract was entered into,

and

(iii) in the case of transactions in options contracts, futures contract options and similar *derivative* contracts:

- (a) the contract underlying interest,
- (b) the contract quantity bought or sold,
- (c) the contract type,
- (d) the contract premium,
- (e) the contract exercise or striking price,
- (f) the contract declaration date,
- (g) if applicable:
  - (I) the futures contract that is the subject of the futures contract option,
  - (II) the date of the *futures contract* that is the subject of the *futures contract option*,

and

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(v) in the case of transactions in *over-the-counter securities* other than *debt securities*:

- (a) where the confirmation is sent to a *retail client*:
  - (I) the amount of each *transaction charge*, deferred sales charge or other charge in respect of the transaction, and
  - (II) the total amount of all charges in respect of the transaction,
- (b) where the confirmation is sent to an *institutional client*:
  - (I) the commission, if any, charged in respect of the transaction,

and

(vi) in the case of transactions in *debt securities*:

- (a) in the case of a purchase, where the *debt security* is a stripped coupon or a residual debt instrument:
  - (I) the yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped, and
  - (II) the yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other *debt securities* which are commonly regarded



as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed,

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and

(vii) in the case of transactions in

- (a) *over-the-counter securities*, other than *debt securities* or a *security* that is undergoing a primary market transaction, and *over-the-counter derivatives* other than contracts with non-standardized terms that are customized to the needs of a particular client and for which there is no secondary market, and
- (b) the confirmation is being sent to a *retail client*, either of the following:
  - (I) the total amount of any mark-up or mark-down, commission or other service charges the *Dealer Member* applied to the transaction,
  - (II) one of the following notifications or a notification that is substantially similar:
    - “Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale).”
    - “Dealer firm remuneration has been included as an adjustment to the price of this derivatives transaction.”,

and

(viii) in the case of transactions involving:

- (a) *securities* of the *Dealer Member*, or
- (b) *securities* of a *related issuer* of the *Dealer Member*, or
- (c) *securities* of a *connected issuer* of the *Dealer Member*, or
- (d) *securities* referenced in sub-clauses 3816(2)(viii)(a) through 3816(2)(viii)(c) that are in the course of a distribution to the public, or
- (e) *derivatives* whose underlying interest is referenced in sub-clauses 3816(2)(viii)(a) through 3816(2)(viii)(d),

the trade confirmation must indicate that the transactions involve *securities* of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member* or a *derivative* whose underlying interest is a *security* of the *Dealer Member*, a *related issuer* of the *Dealer Member* or a *connected issuer* of the *Dealer Member*, as the case may be,

and

(ix) in the case of a *Dealer Member controlled* by or affiliated with a financial institution, the relationship between the *Dealer Member* and the financial institution shall be disclosed

on each trade confirmation issued in connection with a trade in *securities* of a mutual fund sponsored by the financial institution or a corporation *controlled* by or affiliated with the financial institution, except where the names of the *Dealer Member* and the mutual fund are sufficiently similar to indicate that they are *controlled* by or *affiliated* with the same financial institution,

and

(x) notwithstanding the provisions of this section 3816, a *Dealer Member* shall not be required to provide a confirmation to a client in respect of:

(a) a trade in a *managed account*, provided:

- (I) prior to the trade, the client has consented in writing to waive the trade confirmation requirement,
- (II) the client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the *Dealer Member*, for trades following the date of receipt,
- (III) the provision of a confirmation is not required under any *securities laws* of the jurisdiction in which the client resides or the *Dealer Member* has obtained an exemption from any such *applicable laws* by the responsible *securities regulatory authority*, and

(IV) where:

(A) a *person* other than the *Dealer Member* manages the account:

- (i) a trade confirmation has been sent to the manager of the account, and
- (ii) the *Dealer Member* complies with section 3808, or

(B) the *Dealer Member* manages the account:

- (i) the account is not charged any commissions or fees based on the volume or value of transactions in the account,
- (ii) the *Dealer Member* sends to the client a monthly statement that is in compliance with section 3808 and contains all of the information required to be contained in a confirmation under this section 3816 except:
  - (a) the day and the *marketplace* or *marketplaces* upon which the trade took place, or *marketplace* disclosure language acceptable to *IIROC*,
  - (b) the fee or other charge, if any, levied by any *securities regulatory authority* in connection with the trade,
  - (c) the name of the salesperson, if any, in the transaction,
  - (d) the name of the dealer, if any, used by the *Dealer Member* as its agent to effect the trade, and
  - (e) must maintain and make available to the client or *IIROC*, upon request, the name of the *person* or company from

or to or through whom the security was bought or sold, if acting as an agent in a trade upon an equity *marketplace*,

- (iii) the *Dealer Member* maintains the information not required to be in the monthly statement pursuant to sub-paragraph 3816(2)(x)(a)(IV)(B)(ii) and discloses to the client on the monthly statement that such information will be provided to the client on request.
- (b) a trade in a delivery against payment or receipt against payment trade account, provided:
- (I) the trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *IIROC requirements* or *securities laws*,
  - (II) the *Dealer Member* maintains an electronic audit trail of the trade under *IIROC requirements* or *securities laws*,
  - (III) prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*,
  - (IV) the client is either:
    - (A) another *Dealer Member* who is reporting or affirming trade details through an acceptable trade matching utility in accordance with sections 4751, 4753, 4754, 4755 and 4756, or
    - (B) an *institutional client* who is matching delivery against payment/ receipt against payment account trades (either directly or through a custodian) in accordance with National Instrument 24-101,
  - (V) the *Dealer Member* and the client have real-time access to, and can download into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under this section 3816, and
  - (VI) for trades subject to broker-to-broker trade matching, the *Dealer Member* for the last four quarters:
    - (A) has not filed more than two reports under section 4756 informing *IIROC* that it has not met the quarterly compliant trade percentage; and
    - (B) none of the reports it filed under section 4756 informing *IIROC* that it has not met the quarterly compliant trade percentage has a quarterly compliant trade percentage of less than 85%.
  - (VII) for trades subject to institutional trade matching, the *Dealer Member* has a quarterly compliant trade percentage of greater than or equal to 85% for at least two of the last four quarters.

A client may terminate their trade confirmation waiver, referred to in sub-clause 3816(2)(x)(b), by providing a written notice confirming this fact to the *Dealer*

*Member*. The termination notice takes effect upon the *Dealer Member's* receipt of the notice.

- (c) a swap transaction, provided:
  - (I) the *Dealer Member* enters into a standard industry agreement with the client that is acceptable to *IROC*, and
  - (II) the agreement sets out the terms for a client to receive a confirmation of a swap transaction and the key terms of the confirmation.
- (d) a derivatives transaction where the *Dealer Member* is the executing broker and the transaction is executed for an *institutional client* under a give-up agreement, provided
  - (I) the client, executing *Dealer Member* and *Dealer Member* responsible to clear and settle the transaction are parties to the give-up agreement
  - (II) the clearing *Dealer Member* is responsible, under the give-up agreement, for issuing the transaction confirmation to the client, and
  - (III) the executing *Dealer Member*:
    - (A) executes the transaction in accordance with the client's instructions to give up such transaction to the clearing *Dealer Member*,
    - (B) provides limited transaction execution service to the client under the give-up agreement and does not maintain client account documentation, or receive the client's money, *securities*, margin or collateral, and
    - (C) provides the clearing *Dealer Member* a monthly invoice with details of the give-up transactions of the client and the clearing *Dealer Member* reconciles the transactions details with its own record.

### **3817. Options and similar derivative contracts in which the Dealer Member has an interest**

- (1) A *Dealer Member* must maintain a *record* of all puts, calls, spreads, straddles and other options or similar *derivative* contracts in which the *Dealer Member* has any direct or indirect interest or which the *Dealer Member* has granted or guaranteed, and the *record* must contain, at the minimum, an identification of the *security* or other underlying interest and the number of units involved.

## **RULE 3900 | SUPERVISION**

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### **3901. Introduction**

- (1) Rule 3900 sets out the *Dealer Member's* obligation to supervise its business and operations. The rule is divided into seven parts as follows:

Part A – General supervision requirements

[sections 3904 through 3918]

Part B – Supervision of all accounts

[sections 3925 through 3927]

Part C – Supervision of retail client accounts

[sections 3945 through 3948]

Part D – Supervision of institutional client accounts

[sections 3950 and 3951]

Part E – Supervision of order execution only accounts

[section 3955]

Part F – Supervision of *derivatives* trading accounts

[sections 3960 through 3964]

Part G - Supervision of discretionary accounts and managed accounts

[sections 3970 through 3973]

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## **PART C – SUPERVISION OF RETAIL CLIENT ACCOUNTS**

### **3945. Daily and monthly trade supervision**

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- (2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading, the policies and procedures relating to the supervision of *retail client* accounts must specifically address the detection of:
- (i) unsuitable trading,
  - (ii) undue concentration of *securities, derivatives* or precious metals bullion in a single account or across accounts,
  - (iii) excessive trading,
  - (iv) trading in restricted *securities* or transacting in *derivatives* whose underlying interest is a restricted *security*,
  - (v) conflict of interest between *Registered Representative, Investment Representative, Portfolio Manager* and *Associate Portfolio Manager* and client trading activity,

- (vi) excessive transaction transfers and trade cancellations indicating possible unauthorized trading,
- (vii) inappropriate or high risk trading strategies,
- (viii) deterioration of the quality of client holdings in an account,
- (ix) excessive or improper crosses of *securities, derivatives* or precious metals bullion between clients,
- (x) improper or excessive *employee* trading,
- (xi) front running,
- (xii) account number changes,
- (xiii) late payment,
- (xiv) outstanding margin calls,
- (xv) undisclosed short sales,
- (xvi) *manipulative and deceptive activities*, and
- (xvii) insider trading.

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**3946. Additional supervisory responsibilities**

- (1) In addition to transactional activity, the *Dealer Member's* policies and procedures must specifically address identifying, dealing with and informing the appropriate *Supervisors* of other client related matters, including:
  - (i) client complaints,
  - (ii) cash account violations,
  - (iii) transfers of funds and positions between unrelated accounts or between *non-client accounts* and client accounts or deposits from *non-client accounts* to client accounts, and
  - (iv) trading while the account is under margined.

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**PART D – SUPERVISION OF INSTITUTIONAL CLIENT ACCOUNTS**

**3950. Supervisory policies and procedures for institutional client accounts**

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- (2) In addition to meeting the *Dealer Member's* general supervisory obligations, including any relevant obligations relating to trading in *securities, derivatives* and precious metals bullion and the policies and procedures relating to the supervision of *institutional client* accounts must specifically address detecting improper or suspicious account activity including:
- (i) *manipulative and deceptive activities,*
  - (ii) trading in *securities* on the *Dealer Member's* restricted list,
  - (iii) transacting in *derivatives* whose underlying interest is on the *Dealer Member's* restricted list,
  - (iv) front running by *employee* or proprietary accounts,
  - (v) trading in *securities* that have restrictions on their transfer,
  - (vi) transacting in *derivatives* whose underlying interest has restrictions on their transfer, and
  - (vii) exceeding *derivative* position or exercise limits.
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## **PART E – SUPERVISION OF ORDER EXECUTION ONLY ACCOUNTS**

### **3955. Supervision of order execution only accounts**

- (1) A *Dealer Member* that is approved by *IIROC* to provide *order execution only accounts* within a separate legal entity or within a separate business unit must have policies and procedures in place to:
- (i) meet the *Dealer Member's* general supervisory obligations and any relevant obligations relating to transacting in *securities, derivatives* and precious metals bullion,
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## **PART F – SUPERVISION OF DERIVATIVES TRADING ACCOUNTS**

### **3960. Supervision of derivatives accounts**

- (1) A *Dealer Member* that transacts in or advises on *derivatives* must, where applicable:
- (i) appoint a *designated Supervisor* to supervise its activities that involve options contracts or similar *derivative* contracts, and
  - (ii) appoint a *designated Supervisor* to supervise its activities that involve futures contracts, forward contracts, contracts for difference, futures contract options or similar *derivative* contracts.

- (2) The *designated Supervisors* must have the qualifications and experience required to supervise the *Dealer Member's derivatives* activities.
- (3) The *Dealer Member* must appoint one or more alternate *Supervisors* if necessary to ensure continuous supervision of its *derivatives* activities.
- (4) An alternate *Supervisor* must assume all or part of the *designated Supervisor's* responsibilities if:
  - (i) the relevant *designated Supervisor* is absent or unable to carry out their duties, or
  - (ii) a *Dealer Member's* trading activity requires additional qualified *individuals* to supervise the *Dealer Member's derivatives*-related activities.

**3961. Responsibility of designated Supervisors for derivatives accounts**

- (1) The *designated Supervisors* are responsible for:
  - (i) approving new *derivatives* accounts, and
  - (ii) ensuring that the handling of clients' *derivatives* account trading complies with *IIROC requirements*.

**3962. Supervision of retail derivatives accounts**

- (1) The *designated Supervisors* for retail *derivatives* accounts are responsible for:
  - (i) reviewing and approving client loss limits when they are set annually or updated, taking into consideration previous losses,
  - (ii) ensuring that all recommendations made for an account are and continue to be suitable for the client; and
  - (iii) put the client's interest first.
- (2) The *Dealer Member* must ensure that *Registered Representatives, Investment Representatives, Portfolio Managers* and *Associate Portfolio Managers* only trade in or advise on those *derivatives* included in their approval category.
- (3) On a daily and monthly basis, the *designated Supervisor* must review all *derivatives* accounts that are designated as *discretionary accounts* and *managed accounts*.
- (4) The *Dealer Member* must have *policies* and procedures that specifically address notifying clients of:
  - (i) approaching expiry dates,
  - (ii) significant changes in *derivative* contracts resulting from changes in the underlying interest,
  - (iii) any changes in the *Dealer Member's* business policy, and
  - (iv) any new developments in the trading or regulation of *derivatives* that may impact clients.
- (5) The *Dealer Member* must have policies and procedures that specifically:
  - (i) require the *designated Supervisor* to approve the solicitation of clients to use *derivatives* programs, as well as clients' actual use of *derivatives*,
  - (ii) prevent a client from transacting in *derivatives* without executing a *derivatives* trading agreement with the *Dealer Member*,



- (iii) address the handling of futures contracts, forward contracts and similar *derivative* contracts with pending delivery months,
- (iv) address detection of *derivatives* trading by a client who is an insider of a reporting issuer or any other issuer whose *securities* are publicly traded to avoid insider trading restrictions,
- (v) prevent a *retail client* from holding contracts for difference or similar *derivatives* positions representing more than 0.5% of the float of a reporting issuer or any other issuer whose *securities* are publicly traded on an intra day or short term basis, and
- (vi) prohibit the offering of contracts for difference or similar *derivatives* to a retail client that confer the right or obligation to acquire or deliver the underlying interest or confer any other rights of shareholders, such as voting rights.

**3963. Supervision of retail derivatives account trading activity**

- (1) In addition to *IIROC requirements* relating to account supervision, the *Dealer Member's* policies and procedures must specifically address the review of *derivative* transactions to detect the following:
  - (i) excessive intra-day and short-term transactions,
  - (ii) transacting while the account is under-margined,
  - (iii) transacting beyond margin or credit limits,
  - (iv) cumulative losses exceeding approved client loss limits in trading accounts determined in accordance with clause 3252(1)(vii) and subsection 3252(2),
  - (v) exceeding *derivative* position or exercise limits,
  - (vi) speculative transactions in hedging accounts,
  - (vii) transactions in *derivatives* whose underlying interest is on the *Dealer Member's* restricted list,
  - (viii) transactions in *derivatives* whose underlying interest has restrictions on their transfer,
  - (ix) transacting in *derivatives* to avoid insider trading restrictions,
  - (x) exposures arising out of uncovered *option* positions, and
  - (xi) exposures to delivery obligations through the holding of futures contracts, forward contracts and similar *derivative* contracts into the delivery month.

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**3964. Access to Approved Persons qualified in derivatives**

- (1) The *Dealer Member's* policies and procedures must specifically address that *derivatives* clients have access, during normal business hours, to a *Registered Representative, Investment Representative, Portfolio Manager* or *Associate Portfolio Manager* qualified to deal in, where applicable:
  - (i) options contracts and similar *derivative* contracts, or

- (ii) futures contracts, forward contracts, contracts for difference, futures contract options or similar *derivative* contracts, or
- (iii) all *derivative* contracts.

**3965. - 3969. Reserved.**

**PART G –SUPERVISION OF DISCRETIONARY ACCOUNTS AND MANAGED ACCOUNTS**

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**3971. Supervision of managed accounts**

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(2) In addition to meeting the *Dealer Member's* general supervisory obligations and any relevant obligations relating to trading in *securities, derivatives* and precious metals bullion, the *Dealer Member's* policies and procedures dealing with the supervision of *managed accounts* must specifically address:

- (i) identifying when a *Portfolio Manager* or sub-adviser, as described in section 3279, has contravened *managed account* conflict of interest related requirements set out in section 3280, and
- (ii) ensuring fairness in the allocation of investment opportunities among its *managed accounts*.

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**RULE 4100 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS**

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**PART D - APPOINTMENT OF AUDITORS AND AUDIT REQUIREMENTS**

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**4174. No limitation on scope or procedures**

- (1) Nothing in Part D of Rule 4100:
    - (i) limits the scope of the audit, or
    - (ii) allows the *Dealer Member's auditor* to omit any additional audit procedure that it considers necessary under the circumstances.
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**4177. Account for all securities, derivatives, precious metals bullion, currencies, and other like assets**

- (1) The *Dealer Member's auditor* must account for all *securities, derivatives*, precious metals bullion, currencies and other like assets, including those held in *safekeeping* or in *segregation*, on hand, in a vault, or otherwise in the *Dealer Member's* physical possession.
- (2) The *Dealer Member's auditor* must physically examine all assets in the *Dealer Member's* physical possession and compare them with the *Dealer Member's records*.
- (3) If a *Dealer Member* has *employees* who are independent of its *employees* who handle or record *securities, derivatives*, precious metals bullion, currencies and other like assets, those independent *employees* may conduct all or part of the count and examination under the supervision of the *Dealer Member's auditor*.
- (4) The *Dealer Member's auditor* must test count and compare sufficient *security, derivative*, precious metals bullion, currency and other like asset counts with the independent *employees'* counts, if applicable, and with the position *records*, to be satisfied that the entire count was materially correct.
- (5) The *Dealer Member's auditor* must maintain control over the assets until the physical examination has been completed.

**4178. Verify positions in transfer and in transit**

- (1) On a test basis, the *Dealer Member's auditor* must verify positions in transfer and in transit between the *Dealer Member's* offices.

**4179. Review the Dealer Member's position balancing and account reconciliations**

- (1) The *Dealer Member's auditor* must review the *Dealer Member's*:
    - (i) balancing of all *security, derivative* and precious metals bullion positions,
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4181. **Review custodial agreements and approvals**

- (1) The *Dealer Member's auditor* must:
  - (i) ensure that all custodial agreements in the form prescribed by *IIROC*, are in place for *securities* and precious metals bullion lodged with *acceptable securities locations*, and
  - (ii) annually obtain evidence of a *Dealer Member's* board of directors' or authorized board committee's approval of other foreign *acceptable securities locations*. These approvals must be documented in the meeting minutes.

4182. **Obtain written positive confirmations**

- (1) The *Dealer Member's auditor* must obtain written confirmation for all accounts and *security*, precious metals bullion and *derivative* positions.
- (2) The *Dealer Member's auditor* must obtain written positive confirmation of:
  - (i) all bank balances and other deposits including hypothecated *securities*,
  - (ii) all money and *security*, precious metals bullion and *derivative* positions, including with clearing houses, similar organizations, and issuers of non-certificated instruments,
  - (iii) all money and *securities* loaned or borrowed (including *subordinated debt*) and details of collateral received or pledged, if any,
  - (iv) a sample of accounts of, or with, brokers or dealers representing regular, joint, and contractual commitment positions including money and *security*, precious metals bullion and *derivative* positions,
  - (v) all accounts of *Directors* and *officers* or partners, including money and *security*, precious metals bullion and *derivative* positions,
  - (vi) a sample of client, *employee*, and shareholder accounts, including money and *security*, precious metals bullion and *derivative* positions,
  - (vii) a sample of the *guarantee* and guarantor accounts, in cases where a margin reduction has been taken in the accounts for which the *guarantee* has been provided during the year or as at the end of the fiscal year,
  - (viii) statements from the *Dealer Member's* lawyers as to the status of lawsuits and other legal matters pending which, if possible, should disclose an estimate of the extent of the liabilities, and
  - (ix) all other accounts which, in the opinion of the *Dealer Member's auditor*, should be confirmed.

4183. **Selection of accounts for positive confirmation**

- (1) For accounts in subsection 4182(2) the *Dealer Member's auditor*:
  - (i) must send a positive confirmation request,

- (ii) has the option to send a second positive confirmation request where a reply to the initial request sent in clause 4183(1)(i) has not been received, and
  - (iii) must use appropriate alternative verification procedures, to obtain relevant and reliable audit evidence, where the second positive confirmation request in clause 4183(1)(ii) is not sent or where a reply to second positive confirmation request has not been received.
- (2) For accounts in clauses 4182(2)(iv), 4182(2)(vi), and 4182(2)(vii), the *Dealer Member's auditor* must:
- (i) select specific accounts for positive confirmation based on:
    - (a) account size (all accounts with net equity exceeding a certain dollar value, based on the level of materiality), and
    - (b) other characteristics such as accounts in dispute, accounts that are significantly under margined, nominee accounts, and accounts that would require significant margin during the year or as at the fiscal year-end without an effective *guarantee*,
  - (ii) select a sufficiently representative sample from all other accounts to provide reasonable assurance that any material error will be detected, and
  - (iii) send out negative confirmation requests for all remaining accounts that have not been selected for positive confirmation. The negative confirmation request must include instructions that any differences be reported directly to the auditor.

**4184. Written confirmation of clients' accounts with no balance**

- (1) The *Dealer Member's auditor* must, using positive or negative written confirmation procedures, confirm on a test basis client accounts with no balance and client accounts closed since the last fiscal year-end audit date. The *Dealer Member's auditor* must consider the adequacy of the *Dealer Member's internal control* system to decide the extent of these procedures.

**4185. Effect on capital if no positive written confirmation received for a guarantee**

- (1) If the *Dealer Member's auditor* does not receive a reply to a positive confirmation request for accounts within a *guarantee* arrangement made under clause 4182(2)(vii), the *guarantee* agreement must not be accepted for margin reduction purposes for the accounts guaranteed until:
- (i) the *Dealer Member's auditor* (or the *Dealer Member*, if after the Form 1 filing) receives positive written confirmation of the *guarantee* arrangement, or
  - (ii) the parties sign a new account *guarantee* agreement.
- (2) If in response to a positive or negative confirmation request, a guarantor disputes the validity or extent of the *guarantee*, that *guarantee* must not be accepted for margin reduction purposes until:
- (i) the dispute is resolved, and
  - (ii) the guarantor provides a confirmation of the account *guarantee* arrangement as set out in clause 4185(1)(i) or 4185(1)(ii).

**4188. Test statements for a description of securities and precious metals bullion held in safekeeping**

- (1) The *Dealer Member's auditor* must check on a test basis whether the *Dealer Member's* position record and client statements accurately describe the *securities* and precious metals bullion held in *safekeeping*.

**4189. Dealer Member obligations to auditor**

- (1) A *Dealer Member* must fully disclose all material facts and issues about its business and operations that relate to the fairness of the regulatory financial statements, in a representation letter from the *Dealer Member's* appropriate *Executives* to the *Dealer Member's auditor*.
- (2) A *Dealer Member* must provide its auditor with unrestricted access to all of the *Dealer Member's records*.
- (3) A *Dealer Member* must not interfere with the audit process, nor conceal, withhold, or destroy any *records* reasonably required for the audit.

**4190. Calculations for Form 1 and other reporting**

- (1) The *Dealer Member's auditor* must perform the procedures identified in the "Report on Compliance for Insurance, Segregation, and Guarantee/Guarantor Relationships Relied Upon to Reduce Margin Requirement During the Year" in Form 1 and report on the results as at the fiscal year-end audit date.

**4191. Auditor's records**

- (1) The *Dealer Member's auditor* must retain a final copy of Form 1 and all audit working papers for six years.
- (2) All audit working papers for the two most recent years must be readily accessible.
- (3) The *Dealer Member's auditor* must make all working papers available for review by *IIROC* and the *Canadian Investor Protection Fund*.

**4192. Auditor's obligation to report to IIROC**

- (1) If during the regular conduct of an audit, the *Dealer Member's auditor* observes any material breach of *IIROC requirements* related to:
  - (i) calculating the *Dealer Member's* financial position,
  - (ii) handling and custody of *securities* and precious metals bullion, or
  - (iii) maintaining adequate *records*,the *Dealer Member's auditor* must report that breach to *IIROC*.
- (2) The *Dealer Member's auditor* must report on any subsequent events, to date of filing, which have had material adverse effect on the *Dealer Member's risk adjusted capital* level.

4193. - 4199. Reserved.

## RULE 4200 | GENERAL DEALER MEMBER FINANCIAL STANDARDS – DISCLOSURE, INTERNAL CONTROLS, CALCULATIONS OF PRICES AND PROFESSIONAL OPINIONS

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### PART C - PRICING INTERNAL CONTROL REQUIREMENTS

#### 4240. Introduction

- (1) Part C of Rule 4200 sets internal control requirements so that a *Dealer Member* can ensure that *securities, derivatives* and precious metals bullion are valued using prices from objective and verifiable sources, and independent management oversight exists to ensure reasonability of prices used.

#### 4241. Pricing procedures

- (1) A *Dealer Member* must consistently and accurately price all *securities, derivatives* and precious metals bullion. In Part C of Rule 4200, references to:
  - (i) *securities* include client and inventory positions in *securities* and *securities* used in financing transactions such as *security borrow and lend, repurchase agreement* and *reverse repurchase agreement* transactions,
  - (ii) *derivatives* include client and inventory positions in *derivatives*, and
  - (iii) precious metals bullion include client and inventory positions in precious metals bullion.
- (2) On a daily basis, a *Dealer Member* must consistently and accurately mark to market its:
  - (i) long and short *security* positions,
  - (ii) long and short *derivative* positions, and
  - (iii) long precious metals bullion positions,to ensure accurate profit and loss reporting in accordance with *IROC requirements*.
- (3) A *Dealer Member's* policies and procedures must specifically address consistently pricing and verifying prices of *securities, derivatives* and precious metals bullion.
- (4) A *Dealer Member's* policies and procedures must specifically address appropriate pricing in *security, derivatives* and precious metals bullion *records* that it uses to prepare management reports for monitoring:
  - (i) inventory profit and loss,
  - (ii) its regulatory capital position, and
  - (iii) *segregation*.
- (5) A *Dealer Member* must assign knowledgeable *employees*, who are independent of its trading functions, to prepare the reports in subsection 4241(4), and must supervise the reports'

preparation. Conflicted *employees* must not be involved in *security* and precious metals bullion pricing or, failing that, the *Dealer Member* must adopt compensating procedures to ensure appropriate pricing.

**4242. Independent price verification and adjustment**

- (1) A *Dealer Member* must verify its *security* and precious metals bullion prices at each month-end by comparing them with independent (third-party) pricing sources.
- (2) The verification work must detect and quantify all pricing differences (distinguishing adjusted and unadjusted differences).
- (3) An appropriate *Executive* must:
  - (i) on a monthly basis, approve the resolution of all material differences, and
  - (ii) on an annual basis, review and verify the continued appropriateness of the existing pricing sources. Where appropriateness is identified as a material concern, the pricing sources used must be changed.

**4243. Retention of supporting documents**

- (1) A *Dealer Member* must retain supporting documents to show that it has verified *security* and precious metals bullion pricing and made appropriate adjustments.

**4244. Access to records**

- (1) *Dealer Member employees* involved in *security* and precious metals bullion trading must not have access to back-office *security* and precious metals bullion price *records*.

**4245. - 4259. Reserved.**

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**RULE 4300 | PROTECTION OF CLIENT ASSETS – SEGREGATION, CUSTODY AND CLIENT FREE CREDIT BALANCES**

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**4301. Introduction**

- (1) Rule 4300 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Segregation and related internal control requirements:

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Part A.3 - *Security* and precious metals bullion usage restrictions and correcting segregation deficiencies

[sections 4320 through 4326]

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**PART A - SEGREGATION AND RELATED INTERNAL CONTROL REQUIREMENTS**

**4310. Definitions**

(1) The following terms have the meaning set out below when used in Part A of Rule 4300:

"bulk segregation"	<i>Securities</i> and precious metals bullion in <i>segregation</i> for a <i>Dealer Member's</i> clients that are not reserved for particular clients.
"net loan value"	Of a <i>security</i> means: (i) for a long position, the <i>market value</i> of the <i>security</i> less any margin required, and (ii) for a short position, the <i>market value</i> of the <i>security</i> plus any margin required expressed as a negative number. Of a short <i>security</i> option position means, the <i>market value</i> of the option plus any margin required expressed as a negative number.  Of a long precious metals bullion position means, the <i>market value</i> of the precious metals bullion less any margin required.

"segregated precious metals bullion"	Precious metals bullion held in <i>segregation</i> by a <i>Dealer Member</i> for a client.
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**PART A.1 - GENERAL SEGREGATION REQUIREMENTS**

**4311. Introduction**

(1) The general *segregation* requirements set out the requirements for a *Dealer Member* to segregate client fully paid and excess margin *securities* and precious metals bullion.

**4312. Fully paid and excess margin securities and precious metals bullion**

- (1) A *Dealer Member* holding fully paid or excess margin *securities* and precious metals bullion for a client must:
  - (i) segregate those *securities* and precious metals bullion, and
  - (ii) identify those *securities* and precious metals bullion as being held in trust for that client.
- (2) A *Dealer Member* must not use *securities* and precious metals bullion held in *segregation* for its own purposes except with the express written approval of its client under the terms of a cash and securities loan agreement as detailed in section 5840.
- (3) *IROC* may prescribe how *segregated securities* and *segregated precious metals bullion* are held, and how the amount or value of *securities* and *segregated precious metals bullion* to be segregated must be calculated.

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**4314. Segregation of client securities and precious metals bullion**

- (1) A *Dealer Member* holding *segregated securities* and *segregated precious metals bullion* must:
  - (i) segregate those *securities* and *segregated precious metals bullion* in bulk in accordance with sections 4315 through 4319, or
  - (ii) segregate specific *securities* and *segregated precious metals bullion* for each client.
- (2) A *Dealer Member* must not segregate in bulk client *securities* and *segregated precious metals bullion* that are subject to a written *safekeeping* agreement.

**PART A.2 - BULK SEGREGATION CALCULATION**

**4315. Steps for bulk segregation calculation**

- (1) A *Dealer Member* that segregates *securities* and *segregated precious metals bullion* in bulk must, in accordance with sections 4316 through 4319:
  - (i) determine the *net loan value* and *market value* of *securities* and *segregated precious metals bullion* held in a client's account,
  - (ii) calculate the number of *segregated securities* and *segregated precious metals bullion* to be segregated in bulk,
  - (iii) determine the *securities* and *segregated precious metals bullion* to use to satisfy *segregation* requirements, and
  - (iv) perform regular calculations and compliance reviews.

**4316. Net loan value and market value of securities and precious metals bullion in a client's account**

- (1) A *Dealer Member* holding *securities* and precious metals bullion in *bulk segregation* must determine for all *securities* and precious metals bullion held for all accounts of each client:
  - (i) the number or quantity of *securities* and precious metals bullion that are part of a *qualifying hedge position*,

- (ii) the *net loan value* of *securities* and precious metals bullion (excluding *securities* and precious metals bullion that are part of a *qualifying hedge position*) less the aggregate debit cash balance in accounts (or plus in the case of a credit), and
  - (iii) the *market value* of *securities* and precious metals bullion (excluding *securities* and precious metals bullion that are part of a *qualifying hedge position*) not eligible for margin less the aggregate amount, if any, by which those accounts are under margined as calculated in clause 4316(1)(ii).
- (2) A *Dealer Member* must segregate the *net loan value* of *securities* and precious metals bullion calculated in clause 4316(1)(ii) and the *market value* of *securities* and precious metals bullion calculated in clause 4316(1)(iii) for each client account.
  - (3) A *Dealer Member* is not required to segregate an amount of *securities* and precious metals bullion greater than the *market value* of the *securities* and precious metals bullion held for those accounts.

**4317. Calculating the number of client securities to be segregated in bulk**

- (1) A *Dealer Member* that chooses to satisfy its *segregation* obligations under section 4312 by segregating in bulk must segregate in bulk for all its clients the number of securities calculated as follows:

(i) *Equity securities*

Number of <i>securities</i> required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of <i>security</i> required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of one unit of the <i>security</i> )
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(ii) *Debt securities*

Principal amount of <i>securities</i> required to be segregated	=	(aggregate loan value or <i>market value</i> of a class or series of <i>security</i> required to be segregated for each client in section 4316) ÷ (loan value or <i>market value</i> of each \$100 principal amount of the <i>security</i> ) x 100, rounded to lowest issuable denomination
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**4318. Determining securities and precious metals bullion to comply with segregation requirements**

- (1) A *Dealer Member* may choose any *securities* or precious metals bullion from a client's accounts to satisfy the *segregation* requirements for that client's positions, subject to the restrictions of applicable *securities laws* including, without limitation, a requirement that fully paid *securities* or precious metals bullion in a cash account be segregated before unpaid *securities* or precious metals bullion.
- (2) A *Dealer Member* that sells *securities* or precious metals bullion required to be segregated for a client must keep them segregated until one *business day* prior to settlement or value date.

- (3) *Securities* or precious metals bullion required to be segregated for a client must not be removed from *segregation* as a result of the purchase of any *securities* or precious metals bullion by that client until settlement or value date.

**4319. Frequency and review of bulk segregation calculation**

- (1) At least twice weekly, a *Dealer Member* must determine the *securities* or precious metals bullion required to be segregated according to the calculations in Part A.2 of Rule 4300.
- (2) A *Dealer Member* must conduct a daily review of *securities* or precious metals bullion *segregated* for clients to identify any deficiencies that exist between the actual amounts segregated and the amounts, determined in accordance with subsection 4319(1), that are required to be segregated. Where a deficiency exists, the *Dealer Member* must correct it in accordance with the requirements of sections 4320 through 4326.

**PART A.3 - SECURITY AND PRECIOUS METALS BULLION USAGE RESTRICTIONS AND CORRECTING SEGREGATION DEFICIENCIES**

**4320. General restrictions**

- (1) A *Dealer Member* must:
  - (i) ensure that a *segregation* deficiency is not knowingly created or increased, and
  - (ii) not deliver *securities* or precious metals bullion it holds against payment for the account of any client if those *securities* or precious metals bullion are required to satisfy the *Dealer Member's segregation* requirements.

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**4322. Call loan segregation deficiency**

- (1) A *Dealer Member* that determines it has a call loan *segregation* deficiency must recall the *securities* or precious metals bullion within the *business day* following the day it determines the deficiency exists.

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**4326. Fails – client or other Dealer Members**

- (1) If a *Dealer Member* has failed to receive *securities* or precious metals bullion within 15 *business days* of settlement date from a client or another *Dealer Member*, the *Dealer Member* must:
  - (i) borrow the same issue of *securities* or precious metals bullion to cover the deficiency, or
  - (ii) undertake to buy-in the *securities* or precious metals bullion.

**PART A.4 - MINIMUM SEGREGATION POLICIES AND PROCEDURES**

**4327. General**

- (1) A Dealer Member must, at a minimum, comply with the policies and procedures for *segregated securities* and *segregated precious metals bullion* in sections 4328 through 4332 and the supervision requirements in Rule 3900.

**4328. Records of segregated securities and precious metals bullion**

- (1) *Segregated securities* and *segregated precious metals bullion* must be described as being held in *segregation* on a Dealer Member's security and precious metals bullion position record (or related records) and client ledger and statement of account. This description must be in substance a fair representation of how the *securities* and precious metals bullion are being held in *segregation* at the custodian and therefore, the box locations of the Dealer Member must have a direct mapping (or relationship) to custody accounts set up at the custodian on behalf of the Dealer Member.

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**4331. Authorized employees to move securities and precious metals bullion**

- (1) A Dealer Member must limit who can move *segregated securities* and *segregated precious metals bullion* into or out of *segregation* to only authorized employees.

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**PART B - CUSTODY AND RELATED INTERNAL CONTROL REQUIREMENTS**

**PART B.1 - GENERAL CUSTODY REQUIREMENTS**

**4340. Introduction**

- (1) A Dealer Member takes on certain operational risks when it has custody of *securities* and precious metals bullion. These risks arise in connection with the location where and by whom they are held and whether a Dealer Member has adequate *internal controls* to deal with these risks. Part B of Rule 4300 prescribes *IIROC requirements* for managing the risks related to *securities* and precious metals bullion custody. As these risks are quantifiable, they are treated as margin charges when calculating Dealer Member risk adjusted capital. This Part B of Rule 4300, in conjunction with Form 1, prescribes these charges.

**4341. Definitions**

- (1) The following terms have the meaning set out below when used in Part B of Rule 4300:

“external acceptable securities location”	An <i>acceptable securities location</i> for <i>securities</i> and precious metals bullion that are not under a <i>Dealer Member’s</i> physical possession but which are under a <i>Dealer Member’s</i> control.
“internal acceptable securities location”	An <i>acceptable securities location</i> for <i>securities</i> and precious metals bullion that are in a <i>Dealer Member’s</i> physical possession or physical control. <i>Internal acceptable securities locations</i> include acceptable transfer locations.
“set-off risk”	The risk exposure resulting when a <i>Dealer Member</i> has other transactions, balances or positions with a custodian, and the resulting balances could be set off against the value of the <i>securities</i> and precious metals bullion held by the custodian.

**4342. Hold securities and precious metals bullion in an acceptable securities location**

- (1) A *Dealer Member* must hold *securities* and precious metals bullion, including book-based securities, in an *acceptable securities location* as prescribed in Rule 4300 and Form 1. *Acceptable securities locations* can either be *internal acceptable securities locations*, which include acceptable transfer locations; or *external acceptable securities locations*, which in Form 1 are simply referred to as “*acceptable securities locations*”.

**4343. Timely deposit**

- (1) A *Dealer Member* must deposit *securities* and precious metals bullion requiring *segregation* in an *acceptable securities location* on a timely basis.

**PART B.2 - ACCEPTABLE SECURITIES LOCATIONS**

**4344. Acceptable internal storage location**

- (1) *Securities* and precious metals bullion in a *Dealer Member’s* physical possession must be held in an internal storage location that meets the requirements in section 4345, in order for the internal storage location to be an *internal acceptable securities location*.

**4345. Acceptable internal storage location requirements**

- (1) A *Dealer Member’s* internal storage location must:
- (i) be subject to ongoing adequate *internal controls* and systems for safeguarding *securities* and precious metals bullion, and
  - (ii) hold all unencumbered *securities* and precious metals bullion positions in the physical possession of the *Dealer Member*.

**4346. Acceptable transfer locations**

- (1) *Securities* and precious metals bullion in transfer must be in the possession of a registered or recognized transfer agent and a *Dealer Member* must comply with the applicable confirmation requirements in sections 4356 through 4360, in order for the transfer location to be an acceptable transfer location.

**4347. Securities not under a Dealer Member’s physical possession**

- (1) *Securities* and precious metals bullion not under a *Dealer Member’s* physical possession but which are under a *Dealer Member’s* control must be held in an *external acceptable securities location* or the *Dealer Member* must comply with the client waiver requirements in section 4352.

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**4350. Application to IIROC for approval of foreign institutions and foreign securities dealers**

- (1) A *Dealer Member* must apply in writing to *IIROC* for review and approval of a foreign institution or foreign *securities* dealer as an *acceptable securities location*.
- (2) Prior to submission to *IIROC* the application must be approved by the *Dealer Member’s* board of directors or by a committee of the *Dealer Member’s* board of directors.
- (3) The application to *IIROC* must include the following:

<b>Document</b>	<b>Contents</b>	<b>Form (if IIROC prescribed)</b>
1. Foreign custodian certificate	1. <i>Dealer Member</i> responses to custodian due diligence questions 2. <i>Dealer Member</i> certification of approval of foreign custodian as a location for holding <i>securities</i> and precious metals bullion	In a form satisfactory to <i>IIROC</i>
2. Latest audited financial statements of proposed foreign custodian	Must evidence minimum net worth of C\$150 million	

**4351. Annual approval of foreign institutions and foreign securities dealers as acceptable securities locations**

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- (3) The annual approval by the *Dealer Member’s* board of directors or a committee of the *Dealer Member’s* board of directors must be given as follows:

Document	Contents	Notes
<i>Dealer Member's</i> board material and foreign custodian certificate	<i>Dealer Member</i> board's or committee of the <i>Dealer Member</i> board's annual written approval of foreign custodian as foreign location for holding <i>securities</i> and precious metals bullion	Approval must be documented in minutes of a meeting. Approval must be available for review by examiners during a field examination of the <i>Dealer Member</i>

**4352. Obtaining a client waiver when an external acceptable securities location is unavailable**

- (1) If a *Dealer Member* holds client *securities* and precious metals bullion in a foreign jurisdiction where:
  - (i) *applicable laws* and circumstances may restrict the transfer of *securities* and precious metals bullion from that jurisdiction, and
  - (ii) the *Dealer Member* cannot arrange to hold the client's *securities* and precious metals bullion in the jurisdiction at an *external acceptable securities location*,  
the *Dealer Member* must obtain a waiver from the client.
- (2) The client's waiver in approved form must be obtained for each transaction.
- (3) In the waiver, the client must:
  - (i) consent to the arrangement,
  - (ii) acknowledge the risks associated with holding *securities* and precious metals bullion at the specified foreign custodian on behalf of the *Dealer Member* in the specified country, and
  - (iii) waive any claims it may have against the *Dealer Member* and hold the *Dealer Member* harmless if the foreign custodian loses the *securities* and precious metals bullion.
- (4) On obtaining the waiver, a *Dealer Member* may hold those client *securities* and precious metals bullion at a custodian in the foreign jurisdiction if the *Dealer Member* has a written custodial agreement with the custodian.

**PART B.3 - WRITTEN CUSTODIAL AGREEMENT REQUIREMENT**

**4353. Agreement with each external securities location**

- (1) As required in Form 1, a *Dealer Member* must execute a written custodial agreement with each external custodian. In order for the external custodian to qualify as an *external acceptable securities location* the written custodial agreement must state that:
  - (i) the *Dealer Member* must give prior written consent to any use or disposal of the *securities* and precious metals bullion,



- (ii) *security* certificates can be delivered promptly on demand or, if certificates are not available and the securities are book-based, must be transferable either from the location or to another *person* at the location promptly on demand,
- (iii) the *securities* and precious metals bullion are held in *segregation* for the *Dealer Member* or its clients free and clear of any charge, lien, claim or encumbrance in favour of the custodian, and
- (iv) the custodian indemnifies the *Dealer Member* against losses due to the custodian's failure to return any securities, precious metals bullion or other property it holds to the *Dealer Member*. However, the custodian's liability is limited to the *market value* of the *securities*, precious metals bullion and other property at the time it was required to deliver them to the *Dealer Member*.

When custody is secured by a global custodial agreement, including where the custodian uses a subcustodian, the custodian's indemnity must:

- (a) meet standard industry practice,
- (b) be legally enforceable, and
- (c) be of sufficient scope and in a form that is acceptable to *IIROC*.

#### **PART B.4 - CONFIRMATION AND RECONCILIATION REQUIREMENTS**

##### **4355. Securities in transit**

- (1) If *securities* or precious metals bullion are in transit between internal storage locations:
  - (i) for which there are no adequate *internal controls* maintained, or
  - (ii) for more than five *business days*,

those *securities* or precious metals bullion are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation*.

##### **4356. Confirmations from external acceptable securities locations**

- (1) A *Dealer Member* must receive a positive confirmation of all *securities* or precious metals bullion positions annually at its fiscal year-end audit date from each *external acceptable securities location*.
- (2) If a *Dealer Member* does not receive a positive fiscal year end audit confirmation of a *securities* or precious metals bullion position from an *external acceptable securities location*, then the *Dealer Member* must transfer the position to its difference account.

## PART B.5 - MARGIN REQUIREMENTS

### 4362. Acceptable securities location

- (1) For *securities* or precious metals bullion a *Dealer Member* holds at an *acceptable securities location*, custodial related margin requirements only apply to unresolved differences.

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### 4364. Non-acceptable internal storage and non-acceptable securities location

- (1) If *securities* or precious metals bullion are:
  - (i) not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* under section 4355, or
  - (ii) not under a *Dealer Member's* physical possession and are held at a non-acceptable *securities* location because:
    - (a) the location does not meet the criteria for an *internal acceptable securities location* as specified in section 4345, or
    - (b) the location does not meet the criteria for an *external acceptable securities location* as specified in section 4348, or
    - (c) there is no annual written approval of a foreign institution or foreign *securities* dealer as an *acceptable securities location* as specified in section 4351,

then, when it calculates *risk adjusted capital*, a *Dealer Member* must deduct 100% of the *market value* of the *securities* or precious metals bullion held in custody with the non-acceptable securities location.

### 4365. No confirmation from location

- (1) *Security* and precious metals bullion positions where the *Dealer Member* has not received:
  - (i) a positive fiscal year end audit confirmation under subsection 4356(2) or where an adequate month-end reconciliation process is not performed by the *Dealer Member*,
  - (ii) a confirmation from a transfer agent, within the required time period, under subsection 4357(3), 4358(3) or 4359(3), or
  - (iii) a confirmation of a related stock split or stock dividend under subsection 4360(2)are not considered to be under the *Dealer Member's* control or physical possession for purposes of good *segregation* and must be transferred to a *Dealer Member's* difference account.
- (2) For difference account positions in subsection 4365(1), the *Dealer Member* must:
  - (i) provide for the purposes of calculating *risk adjusted capital*, as an amount required to margin, the sum of the *security* and precious metals bullion position *market value* and the normal inventory margin, and
  - (ii) undertake to borrow or buy-in the position pursuant to section 4368.

**4366. No written custodial agreement**

- (1) If a *Dealer Member* does not have a written custodial agreement with a custodian, and that entity would otherwise qualify as an *acceptable securities location*, it must provide margin on the *security* and precious metals bullion positions held in custody at that custodian in accordance with subsections 4366(2) and 4366(3).
- (2) *Dealer Member* has no *set-off risk* with the custodian
  - (i) If the *Dealer Member* has no *set-off risk* with the custodian, in determining its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement 10% of the *market value* of the *security* and precious metals bullion positions held in custody at the custodian.
- (3) *Dealer Member* has *set-off risk* with the custodian
  - (i) If the *Dealer Member* has *set-off risk* with the custodian, in determining:
    - (a) its *risk adjusted capital*, the *Dealer Member* must deduct as a margin requirement the lesser of:
      - (I) 100% of the *set-off risk* exposure, and
      - (II) 100% of the *market value* of the *security* and precious metals bullion positions held in custodyand
    - (b) its *early warning excess* and *early warning reserve*, the *Dealer Member* must deduct as a margin requirement the lesser of:
      - (I) 10% of the *market value* of *security* and precious metals bullion positions held in custody at the custodian, and
      - (II) 100% of the *market value* of *security* and precious metals bullion positions held in custody at the custodian less amount required in sub-clause 4366(3)(i)(a).

**4368. Difference accounts**

- (1) A *Dealer Member* must maintain a difference or suspense account to record all *security* and precious metals bullion positions not received due to unreconcilable differences or errors in any accounts.
- (2) If a *Dealer Member* has not received the *security* and precious metals bullion positions recorded in a difference account within 30 *business days* of recording the deficiency, the *Dealer Member* must:
  - (i) borrow the *security* or precious metals bullion position to cover the deficiency, or
  - (ii) undertake to purchase the *securities* or precious metals bullion immediately.

## PART C - CLIENT FREE CREDIT BALANCE REQUIREMENTS

### 4381. Dealer Member's use of client free credit balances

- (1) A Dealer Member may use its clients' *free credit balances* in its business only in accordance with Part C of Rule 4300.

### 4382. Notation on client account statements

- (1) A Dealer Member that does not keep its clients' *free credit balances*:
  - (i) *segregated* in trust for clients in an account with an *acceptable institution*, and
  - (ii) separate from other money the Dealer Member receives, must clearly write the following or equivalent on all statements of account it sends to clients:

"Any free credit balances represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business."

### 4383. Calculating usable free credit balances

- (1) A Dealer Member must not use in its business an amount of clients' *free credit balances* that totals more than the greater of:
  - (i) general free credit limit:

twelve times the Dealer Member's *early warning reserve* amount, or
  - (ii) margin lending adjusted free credit limit:

twenty times the Dealer Member's *early warning reserve* amount for margin lending purposes plus twelve times the remaining *early warning reserve* amount for all other purposes, where the remaining *early warning reserve* amount equals the *early warning reserve* amount minus 1/20th of the total settlement date client margin debit amount.
- (2) A Dealer Member must segregate clients' *free credit balances* in excess of the amount calculated in subsection 4383(1) either:
  - (i) in cash held in trust for clients in a separate account with an *acceptable institution*, and this trust property must be clearly identified as such at the *acceptable institution* or
  - (ii) in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills, and other *securities* with a maturity of one year or less of, or guaranteed by, the Government of Canada, a province of Canada, the United Kingdom, the United States, or any other national foreign government that is on the List of Basel Accord Countries (provided such other foreign government *securities* are currently rated

Aaa or AAA by Moody’s Investors Service, Inc. or Standard & Poor’s Corporation, respectively).

**As described in IIROC Notice 21-0028, effective September 1, 2022, clause 4384(2)(ii) will be repealed and replaced with the following:**

(ii) in the following *securities*:

<b>Securities eligible for client free credit segregation purposes</b>			
<b>Category</b>		<b>Minimum designated rating organization current credit rating</b>	<b>Qualification(s)</b>
1.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by the following: <ul style="list-style-type: none"> <li>• national governments of Canada, United Kingdom, and United States</li> <li>• Canadian provincial governments</li> </ul>	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other <i>securities</i> with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government must be a member of the Basel Accord
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating Must be issued by a Canadian <i>chartered bank</i> <i>Securities</i> issued by a provider of capital, as defined in Form 1,

				Schedule 14, are not eligible
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**4384. Weekly calculation**

- (1) At least weekly, but more frequently if required, a *Dealer Member* must calculate the amounts that must be segregated under section 4383.

**4385. Daily compliance review**

- (1) Every day, a *Dealer Member* must compare the amount of client *free credit balances* it has segregated to the amount subsection 4383 (2) requires to be segregated.
- (2) A *Dealer Member* must identify and correct any deficiency in amounts of *free credit balances* required to be segregated within five *business days* following the determination of the deficiency.

**4386. - 4399. Reserved.**

**RULE 4400 | PROTECTION OF CLIENT ASSETS – SAFEKEEPING CLIENT ASSETS, SAFEGUARDING CASH AND SECURITIES, AND INSURANCE**

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**4401. Introduction**

- (1) Rule 4400 sets out the following *Dealer Member* requirements relating to the protection of client assets:

Part A - Safekeeping requirements

[sections 4402 through 4407]

Part B - Internal controls requirements for safeguarding cash, *securities* and precious metals bullion

[sections 4420 through 4433]

Part C - Insurance requirements

[sections 4450 through 4468]

**PART A - SAFEKEEPING REQUIREMENTS**

**4402. Introduction**

- (1) Part A of Rule 4400 requires a *Dealer Member* to have adequate *safekeeping* arrangements in place to protect its clients' assets.

**4403. Written safekeeping agreement**

- (1) A *Dealer Member* with *securities* or precious metals bullion held for *safekeeping* must have a written *safekeeping* agreement with each client it holds *securities* or precious metals bullion for.

**4404. Securities free from encumbrance**

- (1) A *Dealer Member* must keep *securities* or precious metals bullion held for *safekeeping* free from any encumbrance.

**4405. Procedures to keep securities apart**

- (1) A *Dealer Member* must keep *securities* or precious metals bullion held for *safekeeping* separate from all other positions and must have procedures in place to ensure this separation.

**4406. Identifying securities held for safekeeping in records**

- (1) A *Dealer Member* must specifically identify and record *securities* or precious metals bullion held for *safekeeping* in its *securities* or precious metals bullion position *records* and client's ledger and statement of account.

**4407. Release of securities held in safekeeping**

- (1) A *Dealer Member* may release *securities* or precious metals bullion held for *safekeeping* to others only when the client so instructs.

**4408. - 4419. Reserved.**

**PART B - INTERNAL CONTROL REQUIREMENTS FOR SAFEGUARDING CASH, SECURITIES AND PRECIOUS METALS BULLION**

**4420. Introduction**

- (1) Part B of Rule 4400 requires a *Dealer Member* to have policies and procedures to prevent loss of its clients' and its own assets.

**4421. Safeguarding client and Dealer Member cash, securities and precious metals bullion**

- (1) A *Dealer Member* must safeguard its clients' and its own cash, *securities* and precious metals bullion:
  - (i) to protect them against material loss, and
  - (ii) to detect and account for potential losses (for regulatory, financial and insurance purposes) on a timely basis.
- (2) A *Dealer Member's* policies and procedures must specifically address the minimum requirements for safeguarding cash, *securities* and precious metals bullion as described in sections 4422 through 4433.
- (3) *IIROC* recognizes that a *Dealer Member* with a small operation may be unable to comply with Rule 4400 requirements to segregate duties. If these minimum requirements are inappropriate because of a *Dealer Member's* small size, it must implement alternative control procedures that *IIROC* approves.

**4422. Receipt and delivery of securities and precious metals bullion**

- (1) *Employees* who receive and deliver physical *securities* and precious metals bullion must not have access to the *Dealer Member's securities* and precious metals bullion *records*.
- (2) The *Dealer Member* must handle *securities* and precious metals bullion in a restricted and secure area.
- (3) The receipt and delivery of *securities* and precious metals bullion must be promptly and accurately recorded (including certificate numbers, registrations, and coupon numbers).
- (4) A *Dealer Member* using mail service must send negotiable certificates by registered mail.

- (5) A *Dealer Member* must obtain signed receipts from the client or agent for all *securities* and precious metals bullion not delivered against payment.

#### **4425. Protecting securities and precious metals bullion**

- (1) A *Dealer Member* must assess the risk of any location that holds *securities* or precious metals bullion for it and for the accounts of its clients.
- (2) A *Dealer Member's* processing controls must separate duties for recording entries from duties for initiating transfers on depository *records* (for instance, transfers between the "free" and "seg" boxes).
- (3) At least monthly, a *Dealer Member* must reconcile its *records of security*, precious metals bullion and other asset positions to the custodian's *records* where the positions are held. The *Dealer Member* must investigate differences and make appropriate adjustment entries as necessary.
- (4) A *Dealer Member* must have a proper written custody agreement with each custodian where *securities* and precious metals bullion are held.

#### **4426. How to handle security records**

- (1) *Employees* maintaining and balancing *securities* and precious metals bullion *records* must not be involved in handling physical *securities* and precious metals bullion.
- (2) A *Dealer Member* must promptly update its *securities* and precious metals bullion *records* to reflect changes in location and ownership of *securities* and precious metals bullion under its control.
- (3) Journal entries made to *securities* and precious metals bullion *records* must be clearly identified and a *Dealer Member* must review and approve adjustments before processing.

#### **4427. Rules for counting securities**

- (1) At least once a year, a *Dealer Member* must count physical *securities* and precious metals bullion held:
  - (i) in *segregation*, and
  - (ii) for *safekeeping*,in addition to its annual external audit physical *securities* and precious metals bullion count.
- (2) At least monthly, a *Dealer Member* must count physical *securities* and precious metals bullion held in current boxes.
- (3) Only *employees* who do not handle *securities* and precious metals bullion may conduct physical *securities* and precious metals bullion counts.
- (4) Count procedures must include all physical *securities* and precious metals bullion held in the box location subject to the count and must simultaneously verify related positions such as positions in transit or in the process of being transferred.



- (5) During a physical *securities* and precious metals bullion count, both the description of the *security* and the quantity must be compared to the *Dealer Member's records*. Any discrepancies must be investigated and corrected promptly. Positions not reconciled within a reasonable period must be promptly reported to the *Dealer Member's* appropriate *Executives* and accounted for.

**4428. Moving certificates, securities and precious metals bullion between branches**

- (1) A *Dealer Member* must record the location of certificates in transit between its offices in separate transit accounts on its *security position records*. The *Dealer Member* must reconcile these accounts monthly.
- (2) When *securities* or precious metals bullion are in transit, a *Dealer Member* must book out the *securities* or precious metals bullion from the branch account and book them into the transit account. When the *securities* or precious metals bullion are physically received at a branch, the *Dealer Member* must book them out of the transit account and into the receiving branch's account.
- (3) The receiving branch must check *securities* or precious metals bullion received against the accompanying transit sheet.
- (4) The methods of transportation a *Dealer Member* chooses for *securities* or precious metals bullion in transit must:
  - (i) comply with insurance policy terms, and
  - (ii) take into account the value, negotiability, urgency, and cost factors.

**4433. Cash**

- (1) The department manager or another appropriate manager must review and approve all bank reconciliations.
- (2) At least monthly, a *Dealer Member* must reconcile bank accounts in writing, identifying and dating all reconciling items.
- (3) Journal entries to clear reconciling items must be made on a timely basis and approved by a department manager or another appropriate manager.
- (4) Bank accounts must be reconciled by *employees* who do not have:
  - (i) access to funds, either receipts or disbursements, or
  - (ii) access to *security*, precious metals bullion or *derivative* positions, or
  - (iii) record keeping responsibilities that include the authority to write or approve journal entries.

4434. - 4449. Reserved.

**PART C - INSURANCE REQUIREMENTS**

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**4451. Definitions**

(1) The following terms have the meanings set out below when used in Part C of Rule 4400:

"base amount"	The greater of:  (i) the aggregate client net equity for all client accounts, where net equity for each client is the excess, if any, of the total value of cash, <i>securities, derivatives</i> , precious metals bullion, and <i>other acceptable property</i> the <i>Dealer Member</i> owes to the client over the total value of cash, <i>securities, derivatives</i> , precious metals bullion, and <i>other acceptable property</i> the client owes to the <i>Dealer Member</i> , and  (ii) the aggregate <i>Dealer Member</i> liquid and other allowable assets calculated in accordance with Form 1, Statement A.
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**4456. Financial institution bond**

(1) A *Dealer Member* must have and maintain insurance against losses, using a financial institution bond with a discovery rider attached or discovery provisions incorporated in the financial institution bond. The five types of losses the insurance must cover are:

- (i) **Fidelity** - Any loss, including loss of property, from a dishonest or fraudulent act of a *Dealer Member's employees*:
  - (a) committed anywhere, and
  - (b) committed alone or with others.
  
- (ii) **On premises** - Any loss of money, *securities*, precious metals bullion, or other property through robbery, burglary, theft, hold-up or other fraudulent means, mysterious disappearance, damage, or destruction while in any of:
  - (a) the insured's offices,
  - (b) a banking institution's offices,
  - (c) a clearing house, or

- (d) a recognized place of safe-deposit,  
all as defined in the *standard form financial institution bond*.
- (iii) **In transit** - Any loss of money and negotiable or non-negotiable *securities*, precious metals bullion or other property, while in transit. The value of *securities*, precious metals bullion in transit in an *employee's* or *agent's* custody must not exceed the protection under this clause. In transit coverage must be calculated on a dollar for dollar basis. A *Dealer Member* must provide, for *IIROC* approval, a list of exceptions to the money, *securities*, precious metals bullion, or other property protected under this clause.

**RULE 4700 | OPERATIONS – BUSINESS CONTINUITY AND GENERAL TRADING AND DELIVERY STANDARDS**

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**4701. Introduction**

- (1) Rule 4700 sets out the following requirements relating to *Dealer Member* operations:
  - Part A - Business continuity plan  
[sections 4710 through 4716]
  - Part B - General trading and delivery standards applicable to all transactions  
[sections 4750 through 4761]

**4702. - 4709. Reserved.**

**PART A - BUSINESS CONTINUITY PLAN**

**4710. Definitions**

- (1) The following terms have the meanings set out below when used in Part A of Rule 4700:

“significant business disruption”	A cybersecurity incident or any other incident that may result in a significant impairment in client access to their <i>security</i> , precious metals bullion or <i>derivative</i> positions or accounts or to the client’s ability to liquidate or close-out their account positions.
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**4711. Introduction**

- (1) To manage risk prudently and maintain investor confidence, *Dealer Members* must ensure they can continue to carry on business after a *significant business disruption* and provide clients with prompt access to their assets.

**4712. Creating a business continuity plan**

- (1) A *Dealer Member* must establish and maintain a business continuity plan.

**4713. Business continuity plan procedures**

- (1) A *Dealer Member's* business continuity plan must identify the procedures it will take to deal with a *significant business disruption*.
- (2) The procedures in subsection 4713(1) must be based on the *Dealer Member's* assessment of its key business functions and required levels of operation during and following a disruption.
- (3) The procedures in subsection 4713(1) must provide reasonable assurance the *Dealer Member* stays in business long enough to meet its obligations to its clients and capital markets counterparties after a *significant business disruption*.

**4714. Update business continuity plan**

- (1) A *Dealer Member* must update its business continuity plan to reflect any significant change in any of its operations, structure, business, or locations.

**4715. Annual review and test**

- (1) Every year:
  - (i) a *Dealer Member* must review and test, and
  - (ii) an appropriate *Executive* must approve,its business continuity plan.
- (2) During its annual review, a *Dealer Member* must make any modifications to its business continuity plan that are necessary due to changes in its operations, structure, business, or locations.
- (3) *IIROC* may require a qualified third party to carry out the annual review and test.

**4716. Notice of disruption and invoking the business continuity plan**

- (1) Where a *significant business disruption* occurs, the *Dealer Member* must
  - (i) notify *IIROC* of this incident as soon as possible after its discovery of the disruption,
  - (ii) include in the notice, details on the disruption and the *Dealer Member's* proposed course of action to address and resolve the disruption, as well as resulting consequences of the disruption,
  - (iii) indicate in the notice whether the *Dealer Member* intends to invoke its business continuity plan, and
  - (iv) inform *IIROC* of any changes and provide timely updates on the actions set out in the notice, and provide any additional information requested by *IIROC*.
- (2) When a *Dealer Member* invokes its business continuity plan, it must
  - (i) notify *IIROC* as soon as possible,
  - (ii) provide details on the circumstances leading the *Dealer Member* to invoke its business continuity plan and its proposed course of action, and
  - (iii) inform *IIROC* of any changes and provide timely updates on the actions set out in the notice, and provide any additional information requested by *IIROC*.

4717. – 4749. Reserved.

**RULE 4900 | OTHER INTERNAL CONTROL REQUIREMENTS – DERIVATIVES RISK MANAGEMENT**

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**4901. Introduction**

- (1) Rule 4900 sets out the *internal control* requirements for *derivative* risk management.

**DERIVATIVES RISK MANAGEMENT**

**4910. Introduction**

- (1) A *Dealer Member* must have an independent risk management function to:
  - (i) manage the risks resulting from its use of *derivatives*, which include *listed derivatives* and over-the-counter *derivatives*,
  - (ii) ensure that an appropriate *Executive* that reports to the board of directors understands all risks, and
  - (iii) ensure that its *risk adjusted capital* is calculated properly.

**4915. Pricing**

- (1) In addition to the requirements in Part C of Rule 4200, a *Dealer Member* must comply with the requirements in subsections 4915(2) through 4915(4) in pricing *derivatives*.
- (2) *Derivative* positions must be marked to market at least daily.

**Attachment D - Summary of public comments received on the Initial publication and IIROC’s staff response**

**Comments received in response to IIROC Notice 19-0200 - Proposed Derivatives Rule Modernization, Stage 1**

On November 21, 2019, IIROC issued [Notice 19-0200](#) requesting comments on amendments to the IIROC Rules (**IIROC Proposals**) relating to the modernization of IIROC’s derivatives-related rules. IIROC received six comment letters from the following commenters:

- Bourse de Montréal Inc. (**MX**)
- Canadian Advocacy Council of CFA Societies Canada (**CFA**)
- CMC Markets Canada Inc. (**CMC**)
- Investment Industry Association of Canada (**IIAC**)
- Questrade, Inc. (**Questrade**)
- Toronto Futures Options Swaps Exchange Inc. (**tFOSE**)

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

SUMMARY OF COMMENTS	IIROC RESPONSE
<b>General Comments</b>	
1. Overall, most commenters agree with IIROC’s stated objectives in connection with the IIROC Proposals and are generally supportive of its initiative to review its derivatives-related rules to identify necessary clarifications and eliminate inconsistencies in the treatment of securities, listed and over-the-counter (OTC) derivatives. ( <b>MX, CFA, CMC, Questrade, IIAC, tFOSE</b> )	We acknowledge the comments.
2. One commenter, while agreeing with the objectives of IIROC Proposals, believes IIROC should wait for the final proposed CSA Derivatives Rules to be published to reflect changes in these proposals ( <b>IIAC</b> ) and another believes the proposed changes do not go far enough to develop the derivatives market in Canada. ( <b>tFOSE</b> )	We acknowledge the comments.

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>3. One commenter believes IIROC should continue to consider how best to reduce regulatory burden without having a negative impact on investor protection, including by harmonizing rules where possible (<b>CFA</b>) and another believes IIROC-regulated firms should be exempted from the CSA requirements to reduce duplicative regulation and regulatory burden. (<b>IIAC</b>)</p>	<p>IIROC is committed to achieving the goal of ensuring relatively consistent regulatory requirements across all the securities and derivatives related business lines of its Dealer Members.</p> <p>We believe this approach would avoid an increase in compliance costs that would otherwise be incurred where requirements are materially different.</p> <p>The CSA's proposed NI 93-101 and NI 93-102 provide exemptions from requirements set out in the respective appendices, where Dealer Members must comply with corresponding conduct and other regulatory requirements of IIROC.</p> <p>We believe the IIROC Proposals ensure our rules are harmonized with the equivalent CSA requirements.</p>
<p><b>1.1 Definitions</b></p>	
<p><b>1.1.1 Types of derivatives</b></p>	
<p>4. One commenter agrees with the proposal to broaden the definition of a derivative to detail the general features of a derivative and thus capture more instruments than futures contracts, futures contract options and options but stresses that the final definitions and scope of the rules should be compatible with evolving international standards. (<b>CFA Societies</b>)</p>	<p>We believe our proposed definitions will continue to be compatible with evolving international standards. The IIROC Proposals use principles-based definitions which we believe broaden the scope of application. This approach ensures each general defined term's meaning continues to evolve without needing periodic revisions to the wording.</p>
<p>5. One commenter believes the definitions should be modified to reflect the appropriate scope of the regulation of these products by the CSA (<b>IIAC</b>) and another believes there could be implications for swaps and dealer platforms. (<b>tFOSE</b>)</p>	<p>We do not feel it is necessary for IIROC to specify in its rules all the exclusions provided by various provincial legislation and instruments. Such exclusions apply irrespective of the definitions used by IIROC. When new regulation is introduced by the CSA, IIROC will evaluate the need for amendments to its definitions and other related regulatory requirements.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>6. Two commenters point out that some OTC derivatives are traded on an execution venue that is also a marketplace which doesn't make that product a listed derivative and suggest articulating the difference. <b>(IIAC, tFOSE)</b></p> <p>One commenter also asks whether a "listed derivative" on a marketplace can trade without being cleared through a recognized clearing house and does that cause confusion about the level of risk for unsophisticated investors? <b>(tFOSE)</b></p>	<p>We believe the proposed definition of "listed derivative" adequately reflects the conditions under which a derivative will qualify as a "listed derivative", and as such excludes OTC derivatives trade on venues such as a derivatives trading facility (DTFs).</p>
<p><b>1.1.2 Categories of client-facing Approved Persons</b></p>	
<p>7. One commenter asks if Approved Persons will be required to be proficient in all derivatives including any future ones developed. <b>(Questrade)</b></p>	<p>The amendments proposed to the definition of Investment Representative and Registered Representative do not require these Approved Persons to be proficient in all derivatives.</p> <p>IIROC Rule 2600, <i>Proficiency Requirements and Exemptions from Proficiencies</i>, sets out the minimum proficiency requirements for individuals requiring IIROC approval. The requirements provide that Approved Persons must have the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each product the Approved Persons recommend.</p> <p>Based on the proposals set out in section 1.4 of the IIROC Proposals we have clarified that an individual must be approved by IIROC to transact in any type of derivatives (i.e., not only options, futures contracts, or futures contract options).</p> <p>We have also signalled that a detailed review of the proficiency and continuing education requirements for Approved Persons dealing in derivatives will be done later as part of a comprehensive review of</p>



SUMMARY OF COMMENTS	IIROC RESPONSE
	<p>the adequacy of the proficiency and continuing education requirements for all securities and derivatives business lines.</p> <p>Please refer to IIROC Notice <a href="#">20-0174</a> – Administrative Notice – Request for Comments - <i>Consultation Paper - Competency Profiles for Registered Representatives and Investment Representatives, Retail and Institutional</i> (August 18, 2020) for the first phase of IIROC’s competency profiles project which will serve as a cornerstone to IIROC’s proficiency regime.</p>
<b>1.1.3 Inclusion of derivatives within the “securities related business” definition</b>	
<p>8. One commenter points out that the use of “agent related activities” may be confusing and even incorrect and suggests renaming it, “agent or principal related activities”. (IIAC)</p>	<p>Our intention was to differentiate between registerable activities that an individual can perform for a Dealer:</p> <ul style="list-style-type: none"> <li>• as an agent pursuant to a principal and agent relationship and</li> <li>• as an employee pursuant to an employer and employee relationship.</li> </ul> <p>To respond to the concern that this change will cause confusion we will instead replace the term “<i>securities related business</i>” by the term “<i>securities and derivatives related business</i>”.</p>
<b>1.1.5 Revision of “institutional client” definition</b>	
<p>9. One commenter believes that adopting a different IIROC institutional client definition for OTC derivatives-related activities, to more closely mirror the CSA definitions in Proposed NI 93-101 and Proposed NI 93-102, is preferable to a single institutional client definition for securities, listed derivatives and OTC derivatives. This commenter also encourages IIROC to consider more closely harmonizing its “institutional client” definition for securities and exchange-traded derivatives activities to align with the “permitted</p>	<p>The goal is to have one definition to reduce the gap between the definitions used to identify sophisticated clients notwithstanding the business lines, securities and derivatives (listed or OTC).</p> <p>However, we understand the concerns and we will take this comment into consideration. Once the CSA finalizes its proposed NI 93-101 and NI 93-102, we will assess the impact and consider amendments to the definition of institutional client.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>client” definition in NI 31-103, while implementing the lower thresholds proposed by IIROC for these product types. <b>(IIAC)</b></p>	<p>Of note, if we decide to adopt a different definition for OTC derivatives-related activities than that used for securities and listed derivatives-related activities, we will need to adopt additional provisions to determine how an account is to be classified when it holds a mixture of OTC derivative and security and/or listed derivative positions. This additional complexity is unfortunate but will be necessary if more than one institutional client definition is used.</p>
<p><b>10. Institutional Client definition – Hedger</b></p> <p>One commenter believes the meaning of ‘hedger’ should be consistent with definitions currently used by the CSA in its proposed NI 93-101 and NI 93-102. <b>(CFA)</b></p> <p>Two commenters believe that the proposed definition of hedger should apply, in respect of individual clients, to listed and OTC derivatives (the latter, to the extent permitted under the CSA definitions in Proposed NI 93-101 and Proposed NI 93-102 and the hedger category, including individuals, should not be subject to a minimum financial asset test. <b>(IIAC, tFOSE)</b></p> <p>One commenter notes that the exclusion of individuals from the proposed definition of hedger is not aligned with the definition of “accredited counterparty” used in the Quebec <i>Derivatives Act</i>.</p> <p>Moreover, like the Quebec <i>Derivatives Act</i>, the Montreal Exchange's rules also define “hedger” as a “Person or company”. To avoid any potential inconsistencies, the commenter urges IIROC to consider using a definition that includes individuals in the notion of hedger and/or to explain why individuals were excluded from the definition. <b>(MX)</b></p>	<p>As indicated above, we will take these comments into consideration. Once the CSA finalizes its proposed NI 93-101 and NI 93-102, we will assess the impact and consider if new amendments are needed to the definition of institutional client, including the need to expand the ‘hedger’ category.</p>
<p><b>11. Institutional Client definition – The Notion of High Degree of Negative Correlation</b></p>	<p>The notion of high degree of negative correlation was borrowed from the definition of hedging found in National Instrument 81-102</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>Two commenters believe that the notion of high degree of negative correlation does not add any benefit in light of the other criteria, particularly the requirement that it must be reasonable to believe that the hedging transactions will offset the risk and suggest a comparison with a CFTC description of ‘hedging’. (IIAC, tFOSE)</p>	<p><i>Investment Funds</i>, which is also used in the definition of hedging found in the <i>Quebec Derivatives Act</i>.</p> <p>However, as indicated above, we will take your comment into consideration. Once the CSA finalizes its proposed NI 93-101 and NI 93-102, we will further assess the impact and consider if new amendments are needed to the definition of institutional client.</p>
<p><b>12. Client Identification through Legal Entity Identifiers (LEI)</b></p> <p>This same commenter further believes that an individual being classified as an institutional client should not be required to obtain an LEI for reporting purposes. (IIAC)</p>	<p>We acknowledge the comment. When a client is not eligible to obtain a ‘<i>Legal Entity Identifier</i>’, the Dealer can provide the account number of the client as the identifier. Individuals classified as ‘institutional client’ would therefore be excluded from providing an LEI if they are not eligible to get one.</p>
<p><b>Question #1</b></p> <p><b>Do you agree that we should allow certain qualifying individuals to be able to request and consent to being classified as institutional clients?</b></p>	
<p>13. Five commenters agree qualifying individuals should be able to request and consent to being classified as institutional clients. (CMC Markets, CFA Societies, IIAC, Questrade, tFOSE)</p> <p>One commenter is of the opinion that the financial criteria for an individual client to qualify as an institutional client is exceptionally high. (CMC Markets)</p> <p>Another commenter notes that caution is warranted prior to expanding the institutional definition based on financial assets which is not in all cases a proxy for investor sophistication. (CFA Societies)</p> <p>One more commenter believes the proposed changes do not go far enough as both individuals and businesses need to hedge risks on a regular basis and have expertise regarding the underlying interests and risks. (tFOSE)</p>	<p>We acknowledge the comments. The IIROC Proposals extends the ‘assets under management’ approach to qualifying individuals and set out a flat threshold for both individuals and non-individuals.</p> <p>For the proposed definition of hedger, please refer to our response above.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>14. Two commenters require clarification regarding the concept of “request and consent”. (IIAC, Questrade)</p>	<p>The concept of ‘request and consent’ in the IIROC Proposals aim to have a qualifying individual or a hedger make a request to a Dealer Member and consent to the classification of “<i>institutional client</i>”. To ensure an informed consent from the client, the Dealer Member will be expected to disclose and explain, with adequate details, the requirements which apply to “<i>institutional clients</i>” as opposed to retail clients under the IIROC Rules before accepting the classification. Dealer Members should also provide clear examples of information they do not have to provide to institutional clients (for example, relationship disclosures and pre-trade disclosure of charges).</p> <p>In addition, for a hedger the Dealer Member will be expected to ascertain that the client’s business or operations, for purposes of qualifying as a “<i>hedger</i>”, relate to hedging activities.</p> <p>The Draft Guidance Note enclosed as Attachment A to the Notice 19-0200 provides additional information to guide Dealer Members.</p>
<p><b>Question #2</b></p> <p><b>Do you agree that IIROC should include a hedger category within its institutional client definition and that this category include all hedging activities rather than hedging activities involving OTC derivatives?</b></p> <p><b>Do you agree that meeting a minimum financial assets threshold is unnecessary to qualify as a hedger? If you don’t agree, at what level should IIROC set a minimum financial assets threshold for hedgers?</b></p>	
<p>15. Four commenters agree that hedgers should be included in the definition of an institutional client, that the category should include all hedging activities rather than hedging activities only involving OTC derivatives, and that a minimum financial assets threshold is unnecessary to qualify as a hedger (CFA Societies, IIAC, Questrade, tFOSE)</p>	<p>We acknowledge these comments.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p><b>Question #3</b>  <b>Is the concept of hedger well defined? How could the definition of hedger be improved?</b></p>	
<p>16. Three commenters believe the definition of “hedger” could be streamlined (<b>CFA Societies, Questrade, tFOSE</b>)</p> <p>One commenter adds that the definition should include individuals and that the determination of who qualifies as a hedger should be done as part of a dealer's KYC obligations. (<b>tFOSE</b>)</p>	<p>Please refer to our response above relating to ‘<b>Institutional Client definition – Hedger</b>’. Once the CSA finalizes its proposed NI 93-101 and NI 93-102, we will make an assessment and consider if new amendments to the definition of institutional client would be warranted.</p>
<p><b>1.2 Business Conduct</b></p>	
<p><b>1.2.1 Business Continuity Plan</b></p>	
<p><b>Question #4</b>  <b>What considerations do you think this guidance should itemize in determining when a dealer should invoke their business continuity plan?</b></p>	
<p>17. One commenter notes that implementing a BCP may not necessarily be the best course of action for a Dealer Member, depending on the specific circumstances of the disruption, particularly for a cyber-related disruption. This commenter rather supports the requirement to inform IIROC of any such disruption. (<b>CFA Societies</b>)</p> <p>Another commenter believes that firms must be given enough time to assess the situation and the impacts of such a situation before reporting it, and invoking their business continuity plan. (<b>IIAC</b>)</p> <p>Another commenter believes that IIROC's view on how and when to invoke the BCP needs to be consistent with good business practices. Guidance based on principles could be helpful by facilitating consideration of relevant factors without being prescriptive about the solutions. (<b>tFOSE</b>)</p>	<p>We acknowledge these comments. The IIROC Rules set out a principle-based framework for Dealer Members to establish and maintain a business continuity plan commensurate to its key business functions and in line with good business practices.</p> <p>As an extension to this principle-based framework, we agree with the suggestion to the requirement of a notification where there is a significant business disruption and the Dealer Member’s plan to resolve the disruption (including invoking its business continuity plan, as applicable), instead of the requirement for the Dealer Member to invoke its business continuity plan.</p> <p>We will change the proposed requirement to require that IIROC be notified of the disruption and to require that this notification must detail the dealer’s plans to resolve the disruption and indicate whether the dealer intends to invoke their BCP.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>18. Two commenters (<b>IIAC, Questrade</b>) also raised specific questions in their responses, including:</p> <ul style="list-style-type: none"> <li>• What is the definition of “significant impairment”?</li> <li>• What is the reporting deadline?</li> <li>• Will firms be given adequate time to understand the source of the issue prior to reporting?</li> <li>• Does the Dealer Member need to report if the issue is downstream at the exchanges?</li> <li>• How many customers must be impacted before the Dealer Member needs to report the issue?</li> <li>• Does the Dealer Member need to report the issue if the data provider is down but the client is still able to execute trades?</li> <li>• Does the Dealer Member need to report if orders are being placed but there is an issue with the status of an order in the platform for an extended period? Again how many customers must be impacted for this?</li> <li>• Does the Dealer Member need to report if a single platform is down but the client can liquidate from other platforms? (i.e. Mobile platform is not operating but desktop is functioning)</li> </ul>	<p>Where there is an impairment in client access to their derivatives or securities positions/accounts or to the client’s ability to liquidate or close-out their account positions, this would be considered to be a “<i>significant business disruption</i>”.</p> <p>We have not specified within the IIROC Proposals the minimum duration and severity of an impairment that would result in it being considered as a “<i>significant business disruption</i>” nor have we specified the exact steps a firm must take when dealing with a significant impairment, other than keeping IIROC apprised. This is because assessing the significance of an impairment and identifying the steps to address the issue can be very incident-specific and could vary depending on dealer’s business model and size.</p> <p>However, we plan on issuing guidance setting out important considerations to assist Dealer Members in determining when an impairment qualifies to trigger the requirements relating to a “<i>significant business disruption</i>” under the IIROC Rules.</p> <p>We thank you for the questions raised in your response as they will help us with the projected guidance.</p>
<p><b>1.2.2 General business conduct requirements</b></p>	
<p>19. One commenter asks if the proposed amendments would require Dealer Members to proceed with suitability assessments for existing derivatives accounts at the time the amendments would enter in force and suggests considering that the amendments apply only to new derivatives accounts. (<b>MX</b>)</p>	<p>There are already expectations that derivative positions (both listed and OTC) maintained in:</p> <ul style="list-style-type: none"> <li>• either an advisory account or a managed account must be considered in determining suitability of the overall account portfolio of investments</li> </ul>

SUMMARY OF COMMENTS	IIROC RESPONSE
	<ul style="list-style-type: none"> <li>an order execution only account or a direct electronic access account are not subject to the suitability determination obligation.</li> </ul> <p>The IIROC Proposals seek to codify these expectations.</p> <p>Please refer to IIROC Notice <a href="#">21-0148</a> – Rules Notice –IIROC Rules – <i>Client Focused Reforms</i> for subsequent amendments made to IIROC Rules sections 3402 and 3403 regarding the suitability assessment obligations for retail and institution clients.</p>
<b>Best Execution and Client Priority</b>	
<p>20. One commenter is supportive of the proposal to require that the best execution obligation applies to all derivatives orders and transactions and includes specific best execution considerations for listed derivatives and fair pricing considerations for OTC derivatives. <b>(CFA Societies)</b></p>	<p>We acknowledge this comment.</p>
<p>21. One commenter wonders how “fair pricing” can be determined for OTC derivatives stating that the pricing of a derivatives transaction depends upon several factors that are interrelated and therefore, it will be very difficult to establish tests to ensure a firm complying with such requirement.</p> <p>This commenter adds that there is no simple way to determine whether all the components of a trade are fair. Given the nature of derivatives transactions, the term “fair” in the context of “fair price” should be interpreted to mean what is commercially reasonable. <b>(IIAC)</b></p>	<p>Section 3122 of the IIROC Proposals provides that to ensure fair pricing when acting as principal, a Dealer Member must not transact in OTC derivatives with a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:</p> <ul style="list-style-type: none"> <li>the fair market value or settlement price of the equivalent listed derivative at the time of the transaction, and</li> <li>the fair market value of the derivatives underlier and of any related derivatives involved in the same trading strategy at the time of the transaction,</li> <li>the expense involved in effecting the transaction or transactions,</li> <li>the fact that the Dealer Member is entitled to a profit, and</li> </ul>

SUMMARY OF COMMENTS	IIROC RESPONSE
	<ul style="list-style-type: none"> <li>the total dollar amount or dollar amount at risk of the transaction or transactions.</li> </ul> <p>IIROC is proposing that all current factors taken in consideration by a Dealer Member when pricing an OTC derivatives transaction should be specifically addressed in its policies and procedures. We believe having policies and procedures that address such relevant factors would be beneficial to clients and not unduly burdensome to achieve for Dealer Members.</p>
<p>22. Two commenters request clarification with respect to the monitoring and enforcement approach IIROC will take with respect to the best execution and client priority requirements, noting that MX rules already provide for best execution and client priority requirements for listed derivatives orders and transactions. (IIAC, MX)</p>	<p>The IIROC Proposals are extending the scope of application of the best execution obligations to derivatives traded on any marketplace. We acknowledge that MX rules also provide for such requirements with respect to derivatives listed on MX. We share the view that MX and IIROC should work together for an efficient monitoring and enforcement of our respective best execution and client priority requirements in so far as MX listed derivatives are involved.</p>
<p><b>Complaint Reporting - IIROC Rule 3728</b></p>	
<p>23. One commenter points out that it will be important to ensure that there is harmonization between the proposed requirements to report complaints relating to derivatives and the potential impact on gatekeeper requirements already implemented by the Montreal Exchange. (MX)</p>	<p>IIROC Rule section 3786 already requires Dealer Members to keep an up-to-date record of all client complaints and associated documentation relating to the conduct, business and affairs of its Dealer Members. This requirement includes the derivatives offering of Dealer Members. The proposed amendment to IIROC Rule section 3728 is meant to clarify that information about derivatives or other property should be retained when subject to a complaint.</p>
<p><b>1.2.3 Derivatives-specific business conduct</b></p>	
<p>24. One commenter points out that it isn't clear under the proposed IIROC Rule section 3251 if an entirely separate and new derivatives account application is required. For example, in the case of an OEO</p>	<p>A single account application would suffice provided the relevant account opening procedures are followed. IIROC Rule 3200 Part F currently provides additional account opening and updating</p>



SUMMARY OF COMMENTS	IIROC RESPONSE
<p>client opening a margin account and seeking to trade both equities and derivatives, are two separate account applications required? This same commenter also raises the question whether a designated supervisor must be proficient on all derivatives. <b>(Questrade)</b></p>	<p>procedures that are specific to options, futures contract and futures contract options. The IIROC Proposals broaden the scope of these requirements, where appropriate, to apply to all derivatives transactions, positions and accounts. In the case of an OEO client opening a margin account and seeking to trade both equities and derivatives, the applicable requirements would be those provided under IIROC Rule 3200 Parts A, B, D, E and F pursuant to IIROC Rule section 3240.</p> <p>Under the IIROC Proposals, designated supervisors must be proficient in the category relevant to the account they are responsible for the supervision. For example, supervisors designated to be responsible for the supervision of options and similar derivative contract accounts must have completed the courses provided under IIROC Rule clause 2602(3)(xxiii).</p>
<p>25. One commenter notes that forcing firms to enter into a trading agreement may, in some circumstances, be contrary to industry practices and does not add any value versus the current process of sending trade confirmations. <b>(IIAC)</b></p>	<p>Trading agreements (or where permissible, undertakings in lieu of a trading agreement) are already required for options, futures contracts and futures contract options under IIROC Rules sections 3253, 3254, 3258 and 3259.</p> <p>The IIROC Proposals broaden the scope of this requirement so that it applies to all derivatives transactions, positions and accounts. The trading agreement defines the rights and obligations between the Dealer Member and the client and the undertaking, which may be obtained in lieu of the trading agreement where the client is classified as an institutional client, confirms that the client agrees to comply with IIROC requirements and the requirements of any entity through which the derivative is traded, cleared, or issued. We believe these requirements are fundamental and a necessary part of the Dealer Member/client relationship.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>26. One commenter notes that the requirement to have policies and procedures in place to provide clients with access to qualified front-line Approved Persons for all derivatives and securities account offerings should be specific to a firm’s product shelf only and not for all possible offerings in derivatives and securities. <b>(IIAC)</b></p>	<p>The IIROC Proposals extend the scope of existing requirements under IIROC Rules to all derivatives offerings, whereby a Dealer Member should have policies and procedures in place to provide clients with access to qualified front-line Approved Persons as it relates to the products it offers. The amendments to IIROC Rule section 3964 provide that Dealer Member’s policies and procedures must specifically address that derivatives’ clients have access, during normal business hours, to a Registered Representative, Investment Representative, Portfolio Manager or Associate Portfolio Manager qualified to deal in, where applicable:</p> <ul style="list-style-type: none"> <li>(i) options contracts and similar derivative contracts, or</li> <li>(ii) futures contracts, forward contracts, contracts for difference, futures contract options or similar derivative contracts, or</li> <li>(iii) all derivative contracts.</li> </ul>
<p>27. Two commenters raise significant impact to the business and operational cost concerns associated with establishing, reviewing, and monitoring of risk capital limits for all derivatives products by pointing out that the percentage of clients trading options is significantly higher than CFDs. In addition, from a practical perspective:</p> <ul style="list-style-type: none"> <li>• options are often used in conjunction with equity positions for the purpose of hedging. A loss on the option may be offset partially or wholly by a gain on the underlying equity</li> <li>• separation of losses tied to options vs. other products would require significant work</li> </ul>	<p>The intention was to require that risk capital limits be established for all speculative accounts with derivative positions held by retail clients. We will revise the relevant proposed amendments to make this clearer.</p> <p>There may also be a misunderstanding as to the intended application of this proposed new requirement. Specifically, if an account is opened by a client to speculate in positions in a number of derivative types within the same account, it is not intended that a separate risk limit be established and maintained for each derivative type; rather it is intended that a risk limit be established and maintained for the account.</p> <p>Finally, we believe that many of the practical concerns raised are more relevant to hedging accounts rather than speculative accounts.</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<ul style="list-style-type: none"> <li>• firms have thousands of account trading options. There would be a significant staffing requirement to facilitate proper loss limit monitoring and approvals</li> <li>• keeping track of cumulative loss limits for equity options would be a significant undertaking for futures firms that include equity options in equity accounts</li> <li>• no equity reporting system keeps track of cumulative option losses, nor is there any easy way to separate these amounts from the stocks, mutual funds and other types of products in those accounts. <b>(IIAC, Questrade)</b></li> </ul>	
<p>28. One commenter suggests that the designated supervisor for any type of derivative account offering allows for the designated supervisor to be the same individual designated for equity accounts if the participant so chooses. <b>(MX)</b></p>	<p>A Dealer Member that trades in options, futures contracts and futures contract options on behalf of clients must already designate a qualified supervisor to supervise those accounts under IIROC Rule 3900 Part F. The IIROC Proposals broaden this requirement to apply to any type of derivative account offering (i.e. not only options, futures contracts and futures contract options). The IIROC Rules and IIROC Proposals do not preclude a designated supervisor to be responsible for both equities and derivatives accounts.</p>
<p>29. Another commenter asks whether from a proficiency standpoint a designated Supervisor is expected to be proficient on all derivatives immediately on the effective date of the amendments. There may be designated Supervisors who have options courses but not futures courses and it will take considerable time for them to complete the required courses. If needed, this would greatly impact business as that individual would not be able to approve “derivatives” accounts. <b>(Questrade)</b></p>	<p>The amendments proposed do not require for designated supervisors to be proficient in all derivatives.</p> <p>IIROC Rule 2600, <i>Proficiency Requirements and Exemptions from Proficiencies</i>, sets out the minimum proficiency requirements for individuals requiring IIROC approval. The requirements provide that Approved Persons must have the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure,</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
	<p>features and risks of each product the Approved Persons recommend.</p> <p>The IIROC Proposals clarify that an individual must be duly qualified in the relevant category to be responsible for approving customer account opening and establishing and maintaining acceptable procedures for any type of derivative account offering (i.e. not only options, futures contracts, or futures contract options)</p> <p>The individual will therefore have to show proficiency based on the type of derivatives account they will be responsible for.</p> <p>We have also signalled that a detailed review of the proficiency and continuing education requirements for Approved Persons dealing in derivatives will be done later as part of a comprehensive review of the adequacy of the proficiency and continuing education requirements for all securities and derivatives business lines.</p> <p>Please refer to IIROC Notice <a href="#">20-0174</a> – Administrative Notice – Request for Comments - <i>Consultation Paper - Competency Profiles for Registered Representatives and Investment Representatives, Retail and Institutional</i> (August 18, 2020) for the first phase of IIROC’s competency profiles project which will serve as a cornerstone to IIROC’s proficiency regime.</p>
<b>1.2.4 Expectations, undertaking and conditions to offer CFDs and Forex</b>	
<p>30. Two commenters believe the expectations regarding advance approval of new products is unclear. A commenter questions whether the approval would be at a security-by-security level or a new class of products (ex. Index CFDs vs Share CFDs)? While the other commenter does not believe IIROC should pre-approve all</p>	<p>The IIROC proposal relating to the advance approval of new products is a codification of the existing requirements applicable to investment dealers who offer contracts for difference to retail clients.</p> <p>The proposed language does not refer exclusively to contracts for difference as these are not the only products where investor</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>new offerings citing for example new listed products of a foreign exchange. <b>(Questrade, IIAC)</b></p> <p>Another commenter suggests that these requirements may be appropriate for riskier highly leveraged instruments but consideration should be given to whether the application is too broad or too restrictive. <b>(tFOSE)</b></p>	<p>protection concerns with the product or the product underlier may arise. Also, the proposed language does not refer exclusively to OTC products as investor protection concerns may arise with listed products, particularly in jurisdictions with lower listing standards and/or less product feature/risk transparency.</p> <p>We do not expect to use this approval authority frequently but require this authority to ensure that we can act in circumstances where a product featuring higher risk characteristics or complexity, and where investor protection may be a concern, is proposed to be made available to retail clients.</p>
<p>31. Two commenters note that dealers are reliant on client disclosure to maintain accurate awareness and information on a client’s insider status and that any obligation placed on the dealer to restrict insider derivatives trading should be on a “best efforts” basis, taking into consideration information reasonably available to the dealer. <b>(IIAC, MX)</b></p>	<p>We have revised the language relating to the requirement to identify insiders as part of IIROC’s Client Focused Reform amendments. The revised language clarifies that a Dealer Member must ‘take reasonable steps’ to establish whether a client is an insider. Please refer to IIROC Notice <a href="#">21-0148</a> – Rules Notice – Implementation – IIROC Rules – <i>Client Focused Reforms – IIROC Rule</i> (August 26, 2021) for subsequent amendments made to IIROC Rules section 3202.</p>
<p>32. Another commenter adds that IIROC should clarify that insider trading is only prohibited when executed based on non-public material information. <b>(MX)</b></p>	<p>The IIROC Proposals specify that a Dealer Member must have policies and procedures that specifically prevent a client that is an insider of an issuer of publicly traded securities from transacting in derivatives to avoid insider trading restrictions (see proposed IIROC Rule clause 3962(5)(iv)). Dealers would also need to have policies and procedures that specifically address the review of derivative transactions to detect those made to avoid insider trading restrictions (see proposed IIROC Rule clause 3963(1)(ix)). We don’t believe it would be helpful to indicate within the IIROC</p>

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	requirements when insider trading is prohibited as this is already addressed within securities legislation.
<b>1.3 Client disclosure and periodic client reporting</b>	
<b>1.3.1 Risk Disclosure Statement</b>	
<p>33. Two commenters believe that requiring disclosure on the percentage of accounts that were profitable for OTC derivatives is not consistent with IIROC’s harmonization approach and is currently limited to “qualified persons” under the Quebec Derivatives Act. (IIAC, tFOSE)</p>	<p>The addition of this requirement would be in line with requirements applicable under the Quebec Derivatives Act (see section 11.36 of the Quebec Derivatives Regulation).</p> <p>Retail foreign exchange dealers, futures commission merchants and introducing brokers offering Forex to retail clients are subject to a similar requirement under U.S. Commodity Futures Trading Commission regulations (see 17 CFR 1 § 5.5(e)).</p> <p>This disclosure requirement is also part of the measures set by other jurisdictions / regulatory bodies:</p> <ul style="list-style-type: none"> <li>• OICV-IOSCO, FR17/2018: <i>Report on Retail OTC Leveraged Products</i>, September 2018</li> <li>• ESMA’s previous product intervention measures relating to contracts for differences (see Decisions (EU) 2018/796, (EU) 2018/1636, (EU) 2019/155 and (EU) 2019/679)</li> <li>• Financial Conduct Authority, PS 19/18: <i>Restricting contract for difference products sold to retail clients</i>, July 2019.</li> </ul>
<b>1.3.2 Pre-transaction compensation disclosure</b>	
<p>34. One commenter questions how pre-transaction compensation disclosure would work for OTC derivatives. (IIAC)</p> <p>Another commenter notes that IIROC should determine if such a change would bring technological as well as operational challenges to Dealer Members and to provide Dealer Members sufficient</p>	<p>IIROC currently expects Dealer Members to provide pre-transaction compensation disclosures to retail clients for all transactions, not just securities transactions. This expectation is set out in FAQ #2 of IIROC Rule Notice <a href="#">16-0113</a> – Rules Notice – Technical, <i>Client Relationship Model (“CRM”) Frequently Asked Questions</i> (May 30,</p>

SUMMARY OF COMMENTS	IIROC RESPONSE
<p>time to comply with the new rules. In addition, IIROC should specify if the required disclosure is on a trade-by-trade basis or otherwise. IIROC should also consider if such disclosure obligation should be necessarily applicable to the same population of clients as for all investment product transactions. (MX)</p>	<p>2016). Adopting this recommendation will result in the codification of this expectation. Please note that since new issue distributions are not transactions and are subject to separate disclosure requirements, such distributions will continue to be excluded from the pre-transaction compensation disclosure requirement.</p>
<p><b>1.3.3 Trade Confirmation</b></p>	
<p>35. One commenter would like IIROC to clarify the intent of new IIROC Rule sub-clause 3816(2)(x)(c) to exempt a Dealer Member from having to provide a trade confirmation for a swap transaction in circumstances where the firm enters into a standard industry agreement that is acceptable to IIROC (such as the ISDA Master Swap Agreement) and the agreement confirms the key terms of the swap transaction. This commenter points out that ISDA Master Agreements do not confirm the key terms of a derivatives transaction.</p>	<p>The intent of the IIROC Proposals is to allow, where appropriate, the use of the confirmation format used within certain acceptable international agreements (such as the ISDA Master Agreement) rather than the confirmation format prescribed with the IIROC Rules.</p>
<p>36. This same commenter believes a specific section on Give-Up arrangements should be included in the IIROC Proposals, notably regarding the requirement to deliver month-end statements and trade confirmations for institutional customer trades “given-up” to institutional clients.  It is industry standard that once a “Give-Up Agreement” is signed and acknowledged by all relevant parties (client, executing firm and clearing firm) that the clearing firm has the obligation to provide the end-client with all trade confirmations and statements pertaining to transactions agreed to and directed to their accounts. Including a specific section on Give-up arrangements would prevent individual</p>	<p>We acknowledge the comment to codify the exemption relief from the requirements to deliver trade confirmations under IIROC Rule section 3816 and month-end statements under IIROC Rule section 3808, for institutional clients who entered a ‘give-up’ arrangement. We will add this exemption in the revised IIROC Proposals.</p>

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<p>executing firms from seeking exemptions with both the provincial securities commissions and with IIROC. (IIAC)</p>	
<p>37. One commenter notes that the Montreal Exchange’s rules already impose a one-year retention period for telephone recordings. This commenter believes that requiring Dealer Members to keep records such as telephone recordings for a period longer than one year may not be the current market practice and that it will be important for IIROC to make sure it does not create any inconsistencies. (MX)</p>	<p>IIROC Rule section 3803 currently provides that a Dealer Member must retain copies of all records required under IIROC requirements for a minimum of seven years from the date the record is created unless IIROC requirements or securities laws relating to the specific type of record require a different retention period.</p> <p>In the IIROC Rules, a “record” is defined as ‘Books, records, client files and information and other documentation, including electronic documents, related to the Regulated Person’s business’. If a telephone conversation is recorded to comply with securities laws, it will be captured under the definition of “record”. As such under IIROC Rule section 3803 such telephone conversation is a record and must be retained for a minimum of 7 years.</p>
<p><b>1.3.4 Revisions to the “market value” definition</b></p>	
<p>38. One commenter believes that clarification may be needed regarding market value of firm inventory and client account positions. This commenter is hoping for greater harmonization and not two different market values for the same positions held in inventory vs. in a client account. (IIAC)</p>	<p>The term “market value” is currently defined within the General Notes and Definitions section of Form 1 and within Dealer Member Rule 200. The definition language is the same in both spots.</p> <p>As part of the IIROC Proposals we have moved the “market value” definition in IIROC Rule subsection 1201(1), the definition section, and included additional language to address the unique issues associated with daily and intra-day reporting of market value information, including the reporting of this information to clients.</p> <p>The intent of this additional language is not to permit the reporting of different market values for the same positions held in inventory and client accounts at the same time. Rather, the intent is to provide more flexibility when reporting market value information daily, where there is significantly less time to validate the</p>



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	information, in relation to the time firms currently have to validate periodic market value information (including the information used in periodic account statements sent to clients and periodic regulatory financial filings sent to IIROC).
<b>1.3.5 Monthly Account Statement</b>	
<p>39. One commenter believes that the economic exposure of the derivative product should be reported together with the market value, cash positions and other features of the derivative. <b>(CFA Societies)</b></p>	<p>The possible inclusion of an additional reporting element within the monthly statement has been considered by assessing the potential benefits and costs of this inclusion.</p> <p>While there are no doubt benefits associated with this inclusion, the associated costs would likely be significant, particularly in instances where firms use external vendors to prepare account statements and these vendors generally conform to the account statement reporting requirements imposed by regulators in the United States. Based on this assessment we will not be pursuing this inclusion at this time.</p>
<b>1.4 Registration and Proficiency</b>	
<p>40. One commenter believes the IIROC proficiency requirements should remain product specific despite the proposed general definition of derivatives.</p> <p>This commenter wonders if the requirements will become more prescriptive for OTC derivatives if there will be a grandfathered clause prior to any new requirements becoming valid.</p> <p>This commenter also notes that IIROC-regulated members have a rigorous proficiency requirement structure and should be exempt from the CSA proficiency requirements. <b>(IIAC)</b></p>	<p>The amendments proposed to the proficiency requirements remain product specific.</p> <p>IIROC Rule 2600, <i>Proficiency Requirements and Exemptions from Proficiencies</i>, sets out the minimum proficiency requirements for individuals requiring IIROC approval. The current requirements provide that Approved Persons must have the education, training and experience that a reasonable person would consider necessary to perform the activity competently, including understanding the structure, features and risks of each product the Approved Persons recommend.</p>

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	The IIROC Proposals require individuals to be approved by IIROC to transact in any type of derivatives, including OTC options.
41. One commenter notes that the CPH is a new requirement for IRs dealing in Futures and would like IIROC to confirm if there are any grandfathering provisions or if existing registrants who have not completed CPH will be required to. <b>(Questrade)</b>	The intention is that all client facing registered individuals must complete the CPH and that this requirement will not include grandfathering provisions once implemented. We will allocate adequate time for those affected to pass the CPH when determining the implementation date for this requirement.
42. One commenter would like IIROC to confirm that the proposed amendments to IIROC Rule section 2602 do not impact the "Trader on Montreal Exchange" category. <b>(MX)</b>	The IIROC Proposals do not impact the Traders on the Montreal Exchange category (see IIROC Rule clause 2602(3)(xvi)).
43. One commenter urges IIROC and the CSA to address the fundamental barrier to providing products that enable investors to mitigate their investment portfolio risks that is exacerbated by the fact that initial proficiency requirements for advisers at securities firm do not include derivatives. <b>(tFOSE)</b>	<p>A detailed review of the proficiency and continuing education requirements for Approved Persons dealing in derivatives will be done later as part of a comprehensive review of the adequacy of the proficiency and continuing education requirements for all securities and derivatives business lines.</p> <p>Please refer to IIROC Notice <a href="#">20-0174</a> – Administrative Notice – Request for Comments - <i>Consultation Paper - Competency Profiles for Registered Representatives and Investment Representatives, Retail and Institutional</i> (August 18, 2020) for the first phase of IIROC’s competency profiles project which will serve as a cornerstone to IIROC’s proficiency regime.</p>
<b>3.4 Effects of the revised proposed amendments on market structure, Dealer Members, non-members, competition and costs of compliance</b>	
44. One commenter notes that the proposed rules will create incremental compliance costs for Dealer Members and refers to the following elements of the OSC Regulatory Burden Reduction report:	We have narrowed the scope of some of the IIROC Proposals and as a result we believe they will impose costs and restrictions on the activities of market participants that are proportionate to the goals of the regulatory objectives sought to be realized.

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<ul style="list-style-type: none"> <li>• D-2 Leverage existing regulatory requirements to eliminate duplicative obligations for dealers and advisers that are already registered;</li> <li>• D-3 Ensure domestic and foreign dealers remain active in offering OTC derivatives products to institutions hedging commercial risks associated with their businesses;</li> <li>• D-4 Expand the availability and ease the use of exemptions for international dealers, and international advisers and sub-advisers;</li> <li>• D-5 Leverage the existing registration regime to eliminate duplicative obligations for dealers and advisers that are already registered;</li> <li>• D-6 Review the existing registration regime for potential regulatory gaps to determine whether those regulatory gaps can be addressed by measures that are less burdensome than an OTC derivatives registration rule. (IIAC)</li> </ul>	<p>Moreover, as indicated earlier, we will wait for the CSA to finalize its proposed NI 93-101 and NI 93-102 before proposing new amendments.</p>
<b>Hedger Guidance</b>	
<b>Question #5</b> <b>Does this proposed guidance detail all of the necessary considerations for determining which clients may qualify as hedgers?</b>	
<p>45. One commenter notes that further clarification should be given on the nature of “request and consent” as it relates to a hedger being classified as an “institutional client”. (Questrade)</p>	<p>Thank you for your suggestion. The intent behind the “request and consent” language within the proposed institutional client definition is to ensure the institutional client categorization is initiated by the client and that it consents to the implication of being classified as such. To ensure an informed consent from the client, the Dealer Member will be expected to disclose and explain, with adequate details, the requirements which apply to “institutional clients” as opposed to retail clients under the IIROC Rules before accepting</p>

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	<p>the classification. Dealer Members should also provide clear examples of information they do not have to provide to institutional clients (e.g. relationship disclosures and pre-trade disclosure of charges).</p> <p>The Draft Guidance Note enclosed as Attachment A to the Notice <a href="#">19-0200</a> provides additional information to guide Dealer Members.</p>
<p>46. One commenter requests clarification with respect to obtaining the hedging strategy/program.</p> <p>This commenter would also like to know how Dealer Members are expected to establish in a “conclusive and verifiable manner” that the requisite conditions were met. (IIAC)</p>	<p>Dealer Members should have reasonable basis to classify a hedger as an institutional client. For example, a Dealer Member should review with the client the nature and extent of the risk that is sought to be hedged and to confirm that the transactions are primarily for hedging purposes and not also for speculative purposes. This could be achieved by obtaining the client’s hedging strategy, if available.</p> <p>As indicated, we will wait for the CSA to finalize its proposed NI 93-101 and NI 93-102 before proposing new amendments to the definition of institutional client.</p>
<p>47. One commenter supports the guidance because it is principle based and leaves implementation to firm's judgment. (tFOSE)</p>	<p>We acknowledge the comment.</p>
<p><b>Question #6</b></p> <p><b>Does this proposed guidance provide enough detail regarding necessary disclosure to clients by Dealer Members? If not, please provide examples of obligations that we should discuss further.</b></p>	
<p>48. One commenter believes enough detail on necessary disclosures has been provided. (IIAC)</p>	<p>We acknowledge the comments.</p>
<p>49. One commenter supports the guidance because it is principle based and leaves implementation to firm's judgment. (tFOSE)</p>	

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50. One commenter believes sufficient detail has been provided. (Questrade)	
<b>Attachment B – Draft Guidance Note – Derivatives Risk Disclosure Statement</b>	
<b>Question #7</b> <b>Have we captured all of the important risks relevant to derivatives in the proposed revised Derivatives Risk Disclosure Statement?</b>	
51. Two commenters believe all important risks have been captured. (IIAC, Questrade)	We acknowledge the comments.
52. One commenter notes that the proposed Derivatives Risk Disclosure Statement is significantly more general than the current version and should reference common specific risks such as volatility risk and time risk.  This commenter believes the counterparty risk for OTC derivatives should be explained, particularly for the benefit of individuals who qualify as institutional investors.  This commenter also believes it is important to add a reference to the potential risk of a clearinghouse failure or failure of a clearinghouse member for listed derivatives. (CFA Societies)	Changes will be made to include specific common risks such as volatility risk and time risk amongst others.
53. Another commenter notes that the discussion on OTC derivatives platforms is overly broad in its description and seems to be inconsistent with the definition of "listed derivatives." (tFOSE)	Changes will be made to harmonize the disclosure statement with the proposed definition of listed derivative.
<b>Attachment C – Impact Assessment</b>	
54. One commenter notes that firms will require a significant transition period to properly implement the changes and to update their policies and procedures. The additional tasks required by member firms to implement the IIROC Proposals, as currently written, are	An appropriate period of time will be provided before the IIROC Proposals are implemented.

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significant and cannot be completed quickly. Therefore, the transition period should be significant. <b>(IIAC)</b>	
<b>Question #8</b> <b>Have we identified all of the proposal provisions that will materially impact clients, Dealer Members or IIROC?</b>	
55. One commenter believes that some CSA OTC derivatives exemptions should be part of the IIROC Proposals, such as the exemption for transactions with affiliates. <b>(IIAC)</b>	We do not feel it is necessary for IIROC to adopt in its rules all the exemptions or exclusions provided by various provincial legislation and instruments for transactions between affiliates.
<b>Question #9</b> <b>Overall, IIROC has qualitatively assessed that the benefits of these proposals exceed their costs. Do you agree with IIROC's assessment?</b>	
56. Two commenters believe the requirement for risk limits on all derivative accounts should be removed. <b>(IIAC, Questrade)</b>	We recognize the significant implications associated with establishing, reviewing, and monitoring of risk capital limits for options and have revised the scope of the requirement by limiting it to futures contracts, forward contracts, contracts for difference, futures contract options or similar derivative contracts.
57. One commenter notes that while IIROC has provided an analysis of benefits and impacts, the impacts do not assess the actual costs. <b>(tFOSE)</b>	Based on our impact assessment, we believe the IIROC Proposals impose costs and restrictions on the activities of market participants that are proportionate to the goals of the regulatory objectives sought to be realized. Unfortunately, the dollar magnitude of the collective impacts of the IIROC Proposals can't be known without detailed stakeholder feedback.
58. One commenter supports IIROC's process of assessing the benefits of the proposal in light of the potential costs. This commenter is of the view that elements of the proposals do materially resolve in favour of investor interests. <b>(CFA Societies)</b>	We acknowledge the comment.