

IIROC NOTICE

Rules Notice Request for Comments

Dealer Member Rules

Comments Due By: May 12, 2017

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17-0055

March 9, 2017

Investment in a Dealer Member – Proposed Changes to Forms and Guidance

Executive Summary

IIROC is proposing changes to our Investor Application Form and our Investor Notification Form (the **proposed Forms**). These changes reflect current practices and increase the efficiency of the application process.

We are also proposing updated guidance to help Dealer Members complete these forms (**proposed Guidance**). This proposed Guidance will replace [Member Regulation Notice 0308 \(MR0308\)](#). We are updating the proposed Guidance:

- to harmonize with National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) and Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**CP 31-103**)



- to ensure consistency with the requirements we are proposing as part of the Dealer Member Plain Language Rule Book Project (the **PLR Project**) (see Notice [17-0054](#) for more details).

The proposed Forms include additional information fields. The proposed Forms and proposed Guidance (referred to together as the **proposed Forms and Guidance**) will clarify filing and timing requirements.

How to Submit Comments

Comments are requested on all aspects of the proposed Forms and Guidance, including any matter they do not specifically address. Your comments should be in writing and delivered by **May 12, 2017** to:

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A copy should also be provided to the Recognizing Regulators:

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

Commenters should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iirc.ca.



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1. Background

1.1 Why are we publishing these documents for comment?

We are publishing the proposed Forms for comment so we can implement them simultaneously with the final version of the proposed IIROC Dealer Member Plain Language (**PLR**) Rule Book. Sections 2106 and 2108 of the proposed PLR Rule Book require the completion of these forms so we want them up-to-date for when these rules are effective.

While we don't usually publish guidance for comment, we are including the proposed Guidance in this publication as it explains how we expect the forms to be filed and the information that should accompany them. Consequently, we thought it would be helpful to commenters to be able to review the proposed Guidance alongside the proposed Forms.

2. Discussion of proposed Forms and Guidance

2.1 Investor Application Form

2.1.1 What is this Form?

IIROC Dealer Member Rule (**DMR**) 5.4 requires a Dealer Member to seek IIROC approval for any transaction that will permit an investor to own a **significant equity interest**¹ in the Dealer Member. Dealer Members use the Form when requesting this approval.

Section 2108 of the proposed PLR Rule Book will replace DMR 5.4 once the proposed PLR Rule Book is implemented. Proposed section 2108 will specifically require Dealer Members to use the proposed Investor Application Form when applying for IIROC approval for an investor to own a significant equity interest. As such, this Form will be an IIROC requirement.

2.1.2 Why are we updating it?

We propose updating the Investor Application Form to:

(a) Harmonize with the proposed PLR Rule Book

We propose using the same terminology in this Form as in the proposed PLR Rule Book. We also reviewed the form to ensure it did not conflict with any other requirements in the proposed PLR Rule Book or include any out-dated requirements. We also ensured it reflected proposed section 2108.

(b) Improve our current investor application process

Our current process can involve a significant amount of correspondence between IIROC and the Dealer Member. We often ask many questions to collect the information we need to process the application. We propose including more fields in the Form and have made drafting changes to clarify our requirements to minimize the amount of correspondence.

¹ Under DMR 5.4, a significant equity interest means the holding of:

(a) Voting securities carrying 10 percent or more of the votes carried by all voting securities of the Dealer Member or of a holding company of a Dealer Member;

(b) 10 percent or more of the outstanding participating securities of the Dealer Member or of a holding company of a Dealer Member; or

(c) An interest of 10 percent or more of the total equity in the Dealer Member.

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(c) Harmonize with NI 31-103 and CP 31-103

In section 11.10 of NI 31-103, the Canadian Securities Administrators lay out requirements for when a registered firm's securities are acquired. Similar to section 2108 of our proposed PLR Rule Book, section 11.10 of NI 31-103 requires a registered firm to notify their regulator 30 days before a proposed acquisition of 10% or more of their securities. While our requirements are harmonized with NI 31-103, they do differ.

When we updated this Form, we ensured it conformed with the NI 31-103 and CP 31-103 requirements.

2.1.3 What are we proposing to change?

We propose adding new fields to the Investor Application Form, including the following:

- Investor's previous names and when they were used
- Investor's employment history (if the investor is an individual)
- Past residential address information of the investor's partners, directors, officers, trustees, beneficiaries and/or beneficial owners (if the investor is not an individual)
- Dealer Member pre/post corporate organizational and direct and indirect ownership charts
- Additional details on the investor's holdings in the Dealer Member
- Proposed closing date
- Required National Instrument 33-109 "Registration Information Requirements" (**NI 33-109**) Forms
- Authorization (signature) for the application.

We also propose general drafting changes to clarify certain questions, ensure consistency with the proposed PLR Rule Book and to conform with NI 31-103.

2.1.4 Where can I find these changes?

The text of the proposed Investor Application Form is set out in **Appendix A** and a blackline of the changes is in **Appendix B**. If approved, the proposed Forms would be effective immediately upon the implementation of the proposed PLR Rule Book and posted on IIROC's website in fillable PDF format.

2.2 Investor Notification Form

2.2.1 What is this Form?

DMR 5.3 requires a Dealer Member to notify IIROC of any transaction that will permit an investor to own a non-significant ownership interest in the Dealer Member, with some exceptions for public ownership and indebtedness. Dealer Members use our current Form when notifying IIROC of this type of ownership change.

Section 2106 of the proposed PLR Rule Book will replace DMR 5.3 once the proposed PLR Rule Book is final. Proposed section 2106 will specifically require Dealer Members to use the proposed Investor Notification Form when notifying IIROC of an investment that is a non-significant equity interest. As such, this Form would be an IIROC requirement.

2.2.2 Why are we updating it?

We propose updating the Investor Notification Form to:

- (a) Harmonize with the proposed PLR Rule Book



We propose using the same terminology in this Form as in the proposed PLR Rule Book. We also reviewed the Form to ensure it did not conflict with any other requirements in the proposed PLR Rule Book or include any outdated requirements. We also ensured it reflected proposed section 2106.

(b) Improve our current investor notification process

Our current process can involve a significant amount of correspondence between IIROC and the Dealer Member. We often ask many questions to collect the information we need to process the notification. We propose including more fields in the Form and have made drafting changes to minimize the amount of correspondence.

2.2.3 What are we proposing to change?

We propose adding new fields to the Investor Notification Form, including the following:

- Investor's previous names and when they were used
- Dealer Member pre/post corporate organizational and direct and indirect ownership charts
- Proposed closing date
- Authorization (signature) for the application.

We also propose general drafting changes to clarify certain questions and ensure consistency with the proposed PLR Rule Book.

2.2.4 Where can I find these changes?

We set out the text of the proposed Investor Notification Form in **Appendix C** and a blackline of the changes in **Appendix D**. If approved, the proposed Forms will be effective immediately upon the implementation of the proposed PLR Rule Book and posted on IIROC's website in fillable PDF format.

2.3 Guidance on Investment in a Dealer Member – Notification and Approval

2.3.1 What is the purpose of the proposed Guidance?

The Proposed Guidance clarifies the requirements in sections 2106 and 2108 of the proposed PLR Rule Book. We explain what we expect to see in a Dealer Member's written submission to IIROC. We inform Dealer Members when they should file an Investor Approval Form or an Investor Notification form. We explain in detail the differences between the notification and approval process.

2.3.2 Why are we updating it?

We propose updating the proposed Guidance to:

(a) Harmonize with the proposed PLR Rule Book

We propose revising the proposed Guidance to reflect the requirements in sections 2106 and 2108 of the proposed PLR Rule Book. These sections update the timing requirements for the Investor Application Form and Investor Notification Form filings.

In MR0308, we advise Dealer Members they must submit the Investor Application Form 20 business days before the proposed transaction date. We are silent on when Dealer Members should file the Investor Notification Form. In section 2108 of the proposed PLR Rule Book, we would require Dealer Members file the Investor Application Form 30 days prior to the proposed closing date. In section



2106 of the proposed PLR Rule Book, we would require Dealer Members to file the Investor Notification Form 20 days prior to the proposed closing date, which is a new requirement.

We also reviewed the proposed Guidance to ensure it did not include any out-dated requirements.

(b) Harmonize with NI 31-103 and CP 31-103

We based part of the proposed Guidance on section 11.9 and 11.10 of CP 31-103, which explains the ownership change requirements found in section 11.9 and 11.10 of NI 31-103.

(c) Redraft the proposed Guidance in Plain Language

We also redrafted the proposed Guidance in plain language to better assist Dealer Members meet the ownership change requirements.

2.3.3 What are we proposing to change?

While we address the same topics in the proposed Guidance as we did in MR0308, we completely redrafted the document. We made the following substantive changes:

- We referenced the notice and application filing timing requirements from sections 2106 and 2108 of the proposed PLR Rule Book.
- We laid out the items Dealer Members must address in their application, consistent with section 2108 of the proposed PLR Rule Book.
- We discussed the requirements for subsequent purchases of a significant equity interest.
- We included a list of recommended topics for Dealer Members to include in their written submissions to IIROC.

We also revised the proposed Guidance to remove any outdated references, requirements and information.

2.3.4 Where can I find these changes?

We set out the text of the proposed Guidance in **Appendix E**. We did not include a blackline of the proposed Guidance, as it would not be meaningful because we completely redrafted MR0308. If approved, the proposed Guidance would be effective immediately upon the implementation of the proposed PLR Rule Book.

3. Impacts of the proposed Forms and Guidance

We anticipate the proposed Forms and Guidance will have a positive impact on Dealer Members by minimizing the amount of correspondence between Dealer Members and IIROC, and making the process more efficient.

We drafted our proposed Guidance in plain language to help Dealer Members make their submissions to IIROC. We also expect this to have a positive impact.

We do not expect the proposed Forms and Guidance to impose any burden or constraint on competition or innovation that is not necessary or appropriate to support IIROC's regulatory objectives. Likewise, we do not expect they will impose costs or restrictions on the activities of market participants that are disproportionate to the regulatory objectives.



4. Implementation

We anticipate minimal technological implication as a result of the proposed Forms and Guidance. Dealer Members may need to update their internal policies and procedures to account for the new fields required on the forms and to ensure they meet the new timing requirements.

The proposed Forms and Guidance will be effective immediately upon the implementation of the proposed PLR Rule Book.

5. Policy Development Process

The Board of Directors of IIROC (**Board**) has determined the proposed Forms and Guidance to be in the public interest and on January 25, 2017 approved them for public comment.

After considering the comments received in response to this Request for Comments together with any comments of the Recognizing Regulators, we may recommend that revisions be made to the applicable documents. If the revisions and comments are not material, the Board has authorized the President to approve the revisions on behalf of IIROC and the proposed Forms and Guidance as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, the proposed Forms and Guidance including any revisions will be submitted to the Board for approval for republication or implementation as applicable.

6. Appendices

[Appendix A](#) – Investor Application Form (clean)

[Appendix B](#) – Investor Application Form (blackline)

[Appendix C](#) – Investor Notification Form (clean)

[Appendix D](#) – Investor Notification Form (blackline)

[Appendix E](#) – Proposed Guidance – Investment in a Dealer Member – Notification and Approval