

IIROC NOTICE

Rules Notice Request for Comments

Dealer Member Rules

Comments Due By: August 8, 2017

Please distribute internally to:

Institutional
Legal and Compliance
Senior Management
Trading Desk
Retail

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Proposed Amendments to Client Identification and Verification Requirements

Executive Summary

IIROC is proposing changes to Part A of Rule 3200 of the proposed IIROC Dealer Member Plain Language Rule Book (the **Proposed Amendments**). The Proposed Amendments are designed to make our rules consistent with other domestic standards.

The Proposed Amendments would:

- update the information Dealer Members are required to collect on clients who are not natural persons (such as corporations, partnerships and trusts)
- change the amount of time Dealer Members have to confirm certain client information
- reduce the number of clients who are exempt from Part A of Rule 3200 of the proposed IIROC Dealer Member Plain Language Rule Book (the **IIROC Rules**).



How to Submit Comments

Comments on the Proposed Amendments should be made in writing and delivered by **August 8, 2017** to:

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and to:

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



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1. Background

As a result of changes to federal and provincial regulations, the IIROC Rules have become inconsistent with anti-money laundering and anti-terrorist financing requirements (the **AML Rules**¹) and with [National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations \(NI 31-103\)](#).

While Dealer Members are exempt from certain sections of NI 31-103, including sub-section 13.2(3), they are subject to the AML Rules in this area, in addition to the IIROC Rules.

1.1 Key differences

The key differences between the IIROC Rules, the AML Rules and NI 31-103 relate to the identification of non-individual clients, such as corporations, partnerships and trusts. While Dealer Members are exempt from NI 31-103 requirements, they are required to comply with AML Rules and IIROC Rules.

More specifically, these key differences relate to the following:

1.1.1 Beneficial owners and beneficiaries

IIROC Rules require Dealer Members to *verify the identity* of all beneficial owners or beneficiaries of more than 10% of a corporation, partnership or trust. We also require they obtain the beneficial owner's, or beneficiary's, name, address, citizenship, occupation and employer.

In contrast, AML Rules require securities dealers to *collect and confirm* the names and addresses of directors and beneficial owners of 25% or more of a corporation or the names and addresses of all trustees, and known beneficiaries and settlors of a trust.

NI 31-103 requires registrants to *establish the identity* of any individual who is a beneficial owner of more than 25% of a corporation or who exercises control over the affairs of a trust or partnership.

1.1.2 Timing

IIROC Rules provide Dealer Members with 6 months to verify the identity of beneficial owners and beneficiaries.

Under AML Rules, securities dealers have 30 days to confirm the existence of a corporation, including collecting beneficial ownership information.

NI 31-103 is silent on this, but all Canadian Securities Administrators registrants are required to comply with the AML Rules.

¹ "AML Rules" means the [Proceeds of Crime \(Money Laundering\) and Terrorist Act](#) and its accompanying regulations, including the [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations](#).



1.1.3 Exemptions

IIROC Rules, AML Rules and NI 31-103 exempt certain types of entities from their identification requirements. While the three lists of entities are similar, they are not identical. As a result, certain entities are exempt under one regime but not the others.

We summarize these key differences in table format in section 2.6.

2. Discussion of Proposed Amendments

We propose amending the IIROC Rules to align with the most stringent of AML Rules and NI 31-103 requirements (as described above). We included a blackline of the Proposed Amendments in **Appendix 2**.

Here are the changes we are proposing:

2.1 Beneficial owners and beneficiaries

We propose requiring Dealer Members to establish:

- the identity of any beneficial owner of more than 25% of a corporation and obtain the names of all its directors
- the identity of any individual who exercises control over the affairs of a trust or partnership and obtain the names and addresses of all trustees and known beneficiaries and settlors of the trust.

2.2 Establishing identity

We propose requiring Dealer Members to:

- establish the identity of the individuals listed in 2.1 above by using methods that allow them to form a reasonable belief they know the identity of the individual and by taking reasonable measure to confirm the accuracy of that information
- keep a record that sets out the information obtained and the measures to confirm the accuracy of that information.

2.3 Timing

We propose providing Dealer Members with 30 days to take reasonable measures to establish the identity of those individuals for whom they are required to do so.

2.4 Exceptions

We propose exempting only the following types of entities from the IIROC Rules:

- firms registered under Canadian securities laws to trade in or advise on securities



- Canadian investment funds
- Canadian financial institutions
- Canadian schedule III banks
- Large corporations whose shares are publicly traded.

2.5 Other amendments to align with NI 31-103

To better align with NI 31-103, we also propose that Dealer Members must:

- establish the creditworthiness of the client if they are financing that client's acquisition of securities
- take reasonable steps to keep client identification information current
- establish the nature of the client's business.

2.6 Rule Comparison Chart

Here is how the Proposed Amendments compare to the IIROC Rules, AML Rules and NI 31-103:

Requirement	Current IIROC Rules	AML Rules	NI 31-103	Proposed Amendments to the IIROC Rules
Beneficial owners and beneficiaries (information firms must collect on the client)	Identity of: <ul style="list-style-type: none"> • beneficial owners or beneficiaries of more than 10% of the client and their name, address, citizenship, occupation and employer • settlor of trust 	Names & addresses of: <ul style="list-style-type: none"> • beneficial owners of 25% or more of a corporation, and all directors • all trustees, known beneficiaries and settlors of a trust 	Identity of: <ul style="list-style-type: none"> • beneficial owners of more than 25% of a corporation • individuals who exercises control over affairs of a partnership or trust 	Identity of: <ul style="list-style-type: none"> • beneficial owners of more than 25% of a corporation • individuals who exercise control over affairs of a partnership or trust Names & addresses of: <ul style="list-style-type: none"> • all directors of a corporation • all trustees, known beneficiaries and settlors of a trust



Requirement	Current IIROC Rules	AML Rules	NI 31-103	Proposed Amendments to the IIROC Rules
Establishing identity	<ul style="list-style-type: none"> ascertain and verify identity 	<ul style="list-style-type: none"> confirm information 	<ul style="list-style-type: none"> establish information 	<ul style="list-style-type: none"> establish information (as per s.3206 in Appendix C)
Timing (how long firms have to verify/establish/confirm the information)	<ul style="list-style-type: none"> 6 months 	<ul style="list-style-type: none"> 30 days 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> 30 days
Exceptions	<ul style="list-style-type: none"> bank, trust or loan company, credit union, caisse populaire, insurance company, mutual fund, mutual fund management company, pension fund, securities dealer or broker, investment manager (or affiliate of) entity whose securities are publicly traded (or an affiliate of) testamentary trust trust whose shares are publicly traded 	<ul style="list-style-type: none"> financial entity or affiliate (bank, credit union, caisse populaire, trust and loan companies) registered plans pension fund securities dealer investment fund life insurance company public body or large publicly-traded corporation 	<ul style="list-style-type: none"> Canadian registered firm Canadian financial institution Schedule III bank 	<ul style="list-style-type: none"> Canadian registered firm Canadian investment fund Canadian financial institution Schedule III bank public body or large publicly-traded corporation <p>(Note: the Proposed Amendments will clarify that foreign financial entities are not exempt.)</p>



3. Impacts of the Proposed Amendments

3.1 Beneficial owners and beneficiaries

Given that some current IIROC Rules are more stringent than the AML Rules and NI 31-103, the Proposed Amendments are generally more lenient on Dealer Members. For example, under the Proposed Amendments we only ask them to establish the identity of beneficial owners of more than 25% of a corporate client, as opposed to those who have more than 10%.

The Proposed Amendments require Dealer Members to collect information on all trustees and known beneficiaries and settlors of a trust, where currently IIROC Rules do not ask for trustee information. Dealer Members must also collect the names of all directors of a corporation. Functionally, however, this Proposed Amendment does not impact Dealer Members because they are already required to collect this information under the AML Rules.

3.2 Establishing identity

Dealer Members have to establish the identity of individuals such as beneficial owners and beneficiaries as described in proposed s.3206 in Appendix 1. They no longer need to collect details such as citizenship, occupation and employer.

3.3 Timing

Dealer Members have less time to establish the identity of key individuals involved in their clients, but they have less documentation to collect.

3.4 Exceptions

Our list of exceptions is narrower, which will impact Dealer Members. They must identify certain entity types they did not have to before, such as foreign entities. We propose this amendment for consistency with NI 31-103.

3.5 Other amendments to align with NI 31-103

We are proposing additional amendments to align with NI 31-103. We do not anticipate these amendments having a significant impact on Dealer Members as they are already required to comply with these requirements under the AML Rules.

4. Implementation

We plan to implement the Proposed Amendments when the proposed PLR Rule Book becomes effective. Depending on timing, we would incorporate the Proposed Amendments into the PLR Rule Book either:

- when the Notice of Approval (or republication for comment) of the proposed PLR Rule Book is published, or



- in between when the final PLR Rule Book is published and when it becomes effective (in a separate notice).

5. Policy Development Process

IIROC's Board of Directors (the **Board**) has determined the Proposed Amendments to be in the public interest and on June 28, 2017 approved them for public comment.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may make revisions to the applicable proposed amendments. If the revisions and comments received are not material, 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 Recognizing Regulators. If the revisions or comments are material, the proposed amendments including any revisions will be submitted to the Board for approval for republication or implementation as applicable.

6. Appendices

[Appendix 1](#) – proposed Part A of proposed IIROC Dealer Member Plain Language Rule Book Rule 3200 (clean)

[Appendix 2](#) – blackline of proposed Part A of proposed IIROC Dealer Member Plain Language Rule Book Rule 3200 showing the changes since the [previous publication](#) (March 9, 2017)