

IIROC NOTICE

Rules Notice

Notice of Approval/Implementation

Dealer Member Rules

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IIROC Dealer Member Plain Language Rule Book Implementation

The Canadian Securities Administrators (**CSA**) has approved the Investment Industry Regulatory Organization of Canada's (**IIROC**) Dealer Member Plain Language Rule Book (the **PLR Rule Book**), which is attached as **Appendix 2**.

On June 1, 2020 (the **Implementation Date**), we will repeal the existing [Dealer Member Rules \(DMRs\)](#) and implement the PLR Rule Book, with a few exceptions outlined below. Until the Implementation Date, the existing DMRs will continue to apply.

Upon implementation, we will refer to the PLR Rule Book as the IIROC Rules.



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1. Background

1.1 PLR Project

IIROC undertook a project to rewrite, reformat, rationalize, and reorganize our DMRs in plain language (the **PLR Project**).

1.1.1 Primary purpose

We started the PLR Project because our DMRs were in need of modernization. While IIROC is only 10 years old, our predecessor organization, the Investment Dealers Association (**IDA**), was founded in 1916. When IIROC was created, we adopted the IDA rules as our DMRs. While we amended and updated our rules along the way, our DMRs date back over 100 years.

Our primary purpose was to re-write our rules in plain language and develop rules that are clear, concise, and organized without changing the substance of the DMRs themselves. However, during the PLR Project, we identified certain DMRs that required material revisions to improve regulatory policy and updates to conform with National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**).

Unless we labelled a change to a current requirement as substantive or material, either in one of our PLR Project Notices (**Appendix 5**) or in the Table of Concordance (**Appendix 3**), we did not intend to make a substantive change to the requirement.

1.1.2 Intended benefits

The intent of the PLR Project is to:

- improve the understanding of our DMRs by clearly stating the objective of each rule or set of rules and rewriting them in plain language
- focus our rules on core requirements by moving non-essential rule details to guidance and eliminating obsolete, duplicative and unnecessary requirements
- improve the ability to find a particular rule by reorganizing, reordering and renumbering our rules and by using summary index tables with links to specific provisions.

1.1.3 Alternatives considered

Throughout the PLR Project, and in drafting the PLR Rule Book, we considered:

- the comments we received on the various requests for comment
- the need to proceed with certain changes (e.g. registration-reform-related changes) to ensure the DMRs conform with CSA requirements
- independent policy matters that arose in the periods between the original publications, the March 2016 publication, the March 2017 publication, the January 2018 publication (as defined below in section 1.2) and the current publication.



We balanced these considerations against our objective of bringing closure to the PLR Project. In light of this, we have not dealt with issues raised during the comment process that we considered are out of scope of the PLR Project – i.e. issues not related to the plain-language rewrite process or the registration-reform-related process. We intend to consider out-of-scope issues in future policy priorities.

1.1.3.1 Alternatives to substantive amendments made

We discuss the policy implications and alternatives of our substantive amendments in our previous PLR Project Notices¹. We list all substantive amendments made to the DMRs as part of the PLR Project in Appendix 3 (the Table of Concordance).

1.1.3.2 Alternatives to re-drafting our rules in plain language

Given the nature of the PLR Project, we did not consider any alternatives to re-drafting the DMRs in plain language.

1.2 Publication history

We initially drafted and published for comment the PLR Project in a number of discrete tranches (the **original publications**). We compiled the separately published PLR Rule Book tranches to create the proposed PLR Rule Book which we published for comment in March 2016 ([Notice 16-0052](#)) (the **March 2016 publication**) and in March 2017 ([Notice 17-0054](#)) (the **March 2017 publication**). In January 2018, we republished only those sections of the proposed PLR Rule Book with material changes ([Notice 18-0014](#)) (the **January 2018 publication**) from the March 2017 publication. With a few exceptions², we did not include any non-material changes (discussed in section 2) in the January 2018 publication.

1.3 PLR Rule Book and securities laws

The PLR Rule Book contains specific rules Dealer Members must follow as a condition of their IIROC membership. As registrants, Dealer Members must also comply with Canadian securities laws, including NI 31-103.

Dealer Members must also comply with any other domestic or foreign laws that are applicable to their business, including, for example, the securities laws of other jurisdictions, the Canadian criminal code, privacy legislation and anti-money laundering and anti-terrorist financing regulation.

1.3.1 Client Focused Reforms

The CSA published for comment proposed Client Focused Reforms (the Proposed Amendments to National Instrument 31-103 and Companion Policy 31-103CP) in June 2018. Depending on the final amendments to NI 31-103, amendments to the PLR Rule Book may be required.

¹ See Appendix 5

² See [Notice 18-0014](#) for details.



1.3.2 Policies and Procedures

The PLR Rule Book subsection 1404(2) contains the general requirement for Dealer Members to “establish, maintain and apply written policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance the *Dealer Member*, its *employees*³ and *Approved Persons* comply with *IIROC requirements*.” In addition to this general requirement, there are requirements for specific policies and procedures relating to certain IIROC requirements throughout the PLR Rule Book. In this current publication, we made non-substantive changes to clarify these requirements.

Regardless of whether there is a specific requirement, we remind Dealer Members that their policies and procedures should sufficiently address the IIROC requirements and all laws and requirements, including securities laws, applicable to their business.

2. Changes from the March 2017 and January 2018 publications

2.1 Non-material changes

We made non-material changes to the proposed PLR Rule Book based on comments we received on the March 2017 and January 2018 publications. These changes include:

- spelling, grammar and other related corrections
- formatting, re-organization and renumbering of rules
- standardization of terminology
- changes of an editorial nature
- re-drafting of sections to conform with, or clarify, our existing requirements
- drafting changes to ensure consistency of our plain language style
- harmonizing with NI 31-103.

To assist in your review, we have provided a blackline showing these non-material changes in Appendix 1.

2.2 Administrative changes

In addition to the non-material changes described above, we made the following administrative changes, which are also non-material.

2.2.1 Defined terms

We standardized the format of the defined-terms sections within the PLR Rule Book. All of these sections are now in table format and we list the defined terms in alphabetical order in each language (French and English). We are no longer using sub-section numbering for each defined term. As a result,

³ Our definition of “employee” in section 1201(2) of the PLR Rule Book includes agents.



terms may not be listed in the same order as in previous publications. Terms may also not be listed in the same order in both the English and the French versions due to language differences.

We also changed the name of certain defined terms. For instance, “recognized exchange” and “recognized association” are now “applicable exchange” and “applicable association”. The definitions themselves remain unchanged.

2.2.2. Structural changes to the 2000 Series

We reorganized the 2000 series by making the following structural changes.

- We amalgamated previous Rules 2150 (Dealer Member Structure), 2200 (Dealer Member Membership Changes), 2250 (Business Change Notification Requirements), 2300 (Branch Offices of Dealer Members) and 2350 (Trade Names and Disclosures) and renumbered and renamed them Rule 2200 – Dealer Member Organization.
- We renumbered previous Rule 2400 (Principal and Agent Relationships) as Rule 2300 –Principal and Agent Relationships.
- We renumbered previous Rule 2450 (Acceptable Back Office Arrangements) as Rule 2400 - Acceptable Back Office Arrangements.
- We amalgamated previous Rules 2500 (Dealer Member Directors and Executives) and 2550 (Approval of Individuals) and renumbered and renamed it as Rule 2500 – Dealer Member Directors and Executives, and Approval of Individuals.
- We renumbered previous Rule 2650 (Continuing Education Requirements for Approved Persons) as Rule 2700 - Continuing Education Requirements for Approved Persons.
- We renumbered previous Rule 2700 (The National Registration Database) as Rule 2800 – The National Registration Database.

We renumbered sections as necessary to support these changes. We did not make any substantive changes to this series.

2.2.3. Structural changes to the 4000 Series

We reorganized the 4000 series by making the following structural changes.

- We divided Rules 4100 and 4200 (General Dealer Member Financial Standards) into two separate rules:
 - Rule 4100 – General Dealer Member Financial Standards – Minimum Capital, Early Warning, Financial Reports and Auditors
 - Rule 4200 – General Dealer Member Financial Standards – Disclosure, Internal Controls, Calculation of Prices and Professional Opinions.
- We divided Rules 4300 and 4400 (Protection of Client Assets) into two separate rules:
 - Rule 4300 – Protection of Client Assets – Segregation, Custody and Client Free Credit Balances



- Rule 4400 – Protection of Client Assets – Safekeeping Client Assets, Safeguarding Cash and Securities, and Insurance.
- We divided Rules 4500 and 4600 (Financial Arrangements) into two separate rules:
 - Rule 4500 – Financial Arrangements – Repurchase Market Trading Practices
 - Rule 4600 – Financial Arrangements – Cash and Securities Loan, Repurchase Agreement, and Reverse Repurchase Agreement Transactions.
- We divided Rules 4700 and 4800 (Operations) into two separate rules:
 - Rule 4700 – Operations – Business Continuity and General Trading and Delivery Standards
 - Rule 4800 – Operations – Trading and Delivery Standards for Non-Centrally Cleared Transactions and Account Transfers.

We renumbered the parts within each rule as necessary to support these changes. We did not make any substantive changes to this series.

2.3 Consequential changes

Throughout the PLR Project, we made certain changes to our rules that resulted in changes to standard IIROC forms. We describe these changes below.

2.3.1 Investment in a Dealer Member – forms and guidance

In Notice 19-0147, we published final amendments to our Investor Application Form and our Investor Notification Form. These forms are now required by sections 2106 and 2108 of the PLR Rule Book. Dealer Members must submit these forms to IIROC when their ownership structure changes.

We also published updated guidance (“Investment in a Dealer Member – Notification and Approval”) to assist Dealer Members in completing and filing these forms. This guidance replaces [Member Regulation Notice 0308](#) (“Investor Notification and Approval Process”). We updated this guidance for consistency with the new timing requirements in the PLR Rule Book and with NI 31-103.

These forms and guidance will be effective on the Implementation Date.

2.3.2 Form 1

In Notice 19-0146, we published final amendments to Form 1. We made these amendments to ensure we use terms more consistently between Form 1 and the PLR Rule Book. These changes will become effective on the Implementation Date.

3. Implementation

The PLR Rule Book is effective as of the Implementation Date, except for the sections noted in 3.1 below. All existing [DMRs](#) are repealed as of the Implementation Date.



3.1 Delayed implementation for certain requirements

We are delaying the implementation of the following sections until September 1, 2020. These sections are new requirements. We are delaying their implementation to allow Dealer Members additional time to make any necessary operational adjustments.

The delayed sections are:

- Section 3211 – Account Appropriateness
- Subsection 3220(4) – Record-keeping – Persons with trading authorization

In Appendix 1 and Appendix 2, we put these sections in a grey box and indicate their implementation date.

3.2 Transition of Registered Representatives and other Approved Persons

Under PLR Rule Book section 2629, Registered Representatives with a business type of portfolio management have four months from the Implementation Date to transition into either the Portfolio Manager or Associate Portfolio Manager approval categories.

All individuals approved as of the Implementation Date are exempt from any new proficiency requirements⁴, provided the individual continues in the same role.

3.3 Managed Account Agreements

Under clause 3278(1)(i) of the PLR Rule Book, Dealer Members are now required to describe or refer to a client's current financial situation, investment knowledge and time horizon, in addition to their investment objectives and risk tolerance, in a managed account agreement. For many Dealer Members, this may involve re-executing agreements with their managed account clients.

While this rule will be effective as of the Implementation Date, we anticipate Dealer Members will be fully compliant with it on June 1, 2021. We expect Dealer Members to meet managed account clients on an annual basis as part of their ongoing suitability obligation and to use this opportunity to re-execute their managed account agreements, if required.

3.4 Portions of the PLR Rule Book already in effect

The following sections of the PLR Rule Book are already in effect:

- Rule 2650 - Continuing Education Requirements for Approved Persons ([the Continuing Education Rules](#)) (now Rule 2700 – Continuing Education Requirements for Approved Persons)
- Series 8000 Procedural Rules - Enforcement and Rules 9100 to 9400 ([the Consolidated Enforcement Rules](#)).

⁴ As contained in subsection 2602(3).



The Continuing Education Rules and the Consolidated Enforcement Rules currently have their own pages on the IROC website (see links above). When the PLR Rule Book is implemented, these rules will no longer have separate pages. They will be accessed through the IROC Rules' page.

3.4.1 Non-material changes to the Consolidated Enforcement Rules

Throughout the PLR Project, we proposed certain non-material changes to the Consolidated Enforcement Rules for consistency with the PLR Rule Book. These non-material changes appear in the blacklines included in the March 2017 publication, January 2018 publication and the current publication.

3.5 Separate rule amendment projects

Some DMRs are the subject of proposed amendments that we published for comment separately from the PLR Project (e.g. client identification and verification, cybersecurity incident reporting and debt concentration). To avoid confusion, with the exception of the client identification and verification proposed amendments discussed in section 3.5.1, we have not included these separate proposed amendments in the PLR Rule Book. We intend to finalize these discrete proposed amendments on a case-by-case basis and then add them to the PLR Rule Book.

3.5.1 Client Identification and Verification Rule Amendments

In Notice 19-0145, we published final amendments to our client identification and verification requirements in Part A of PLR Rule Book Rule 3200. These amendments:

- 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
- modify the types of clients we exempt from Part A of Rule 3200 of the PLR Rule Book.

We incorporated these amendments into Appendix 1 and Appendix 2. Appendix 1 will reflect the changes since the last publication of the client identification and verification proposed amendments ([Notice 18-0079](#)).

4. Other helpful information

4.1 Where is the PLR Rule Book located on IROC's website?

You can find the PLR Rule Book [here](#). In previous publications, for information purposes only, we included a left-hand column referencing the equivalent DMR for each section of the PLR Rule Book. We eliminated this column from the final PLR Rule Book. You can find this information in Appendix 3 (the Table of Concordance).



4.2 How is the PLR Rule Book organized?

We organized the PLR Rule Book in the following series of Rules:

Series	Title and Description
1000	Interpretation and Principles Rules – a consolidated set of definitions applicable to Dealer Member matters
2000	Dealer Member Organization and Registration Rules – rules concerning Dealer Member ownership and structure, and approval and proficiency of individuals acting on behalf of the Dealer Member
3000	Business Conduct and Client Accounts Rules – rules concerning business conduct (e.g. books and records), conflicts of interest, client accounts (e.g. account supervision), and dealing with clients (e.g. suitability obligations and complaints)
4000	Dealer Member Financial and Operational Rules – rules concerning Dealer Member financial and operational matters
5000	Dealer Member Margin Rules – rules concerning margin requirements
6000	Reserved ⁵
7000	Debt Markets and Inter-Dealer Bond Brokers Rules – rules concerning debt market trading activities and inter-dealer bond brokers
8000	Procedural Rules - Enforcement – rules concerning investigations, enforcement proceedings, disciplinary proceedings, hearing committees, and rules of practice and procedure
9000	Procedural Rules - Other – rules concerning compliance examinations, approvals and regulatory supervision, regulatory review procedures, opportunities to be heard, alternative dispute resolution, and CIPF requirements

4.3 Why are certain sections in grey?

We shaded in grey the changes published in [Notice 17-0224](#) - Housekeeping amendments to the IROC Consolidated Enforcement, Examination and Approval Rules.

We placed any sections with delayed implementation dates in grey boxes and noted their effective date.

⁵ We had initially reserved the 6000 series to incorporate IROC's [Universal Market Integrity Rules \(UMIR\)](#) into the PLR Rule Book. We do not plan to incorporate UMIR at this time. However, we will include a link to UMIR in the PLR Rule Book on the Implementation Date.



4.4 Where is the relevant guidance?

To assist in your review of our requirements, we will provide related guidance information on our website as part of the Guidance review project (discussed further below in section 5). This information will outline the guidance applicable to each PLR Rule Section.

4.5 What's changed from the current DMRs?

We attached a Table of Concordance at Appendix 3 that tracks the provisions of the PLR Rule Book to the existing DMRs and describes any repealed requirements and any material or non-material changes we made.

We will also be providing the Table of Concordance in a downloadable excel format on the IIROC website to allow you to more easily search and sort the document.

We describe the substantive changes we've made to the DMRs over the course of the PLR project in the January 2018, March 2017 and March 2016 publications, as well as in the earlier publications of the discrete tranches, which are listed in Appendix 5. For brevity, we decided not to reproduce these discussions here.

We did not include a detailed description of the changes made to the Consolidated Enforcement Rules in previous publications in the Table of Concordance. If you want more information on changes to the Consolidated Enforcement Rules, please consult [Notice 16-0122](#) and [Notice 17-0224](#).

4.6 What happens to existing exemptions from the DMRs?

As per subsection 1105(2) of the PLR Rule Book, we will grandfather any existing exemptions granted to Dealer Members or to Approved Persons, provided the applicable DMR on which the exemption is based continues in the PLR Rule Book.

We encourage Dealer Members having exemptions to review them and:

- consider whether they are currently relying on the exemption(s)
- consult the Table of Concordance (Appendix 3) to determine whether there have been any material changes to the DMR(s) they are exempted from
- consider whether they will still need the exemption once the PLR Rule Book is implemented
- speak with their Business Conduct Compliance Manager or Financial Operations Compliance Manager about their exemption(s) and any possible next steps.

Where the exemption relates to a proficiency requirement, we encourage the Approved Person to speak with IIROC's Registration department.



4.7 What happens to existing disciplinary actions?

Any ongoing disciplinary proceedings as of today's date will continue under the DMRs in force when the incident occurred, even though these rules will be repealed as of the Implementation Date. New proceedings that begin on or after the Implementation Date will be governed by the rules in effect at the time of the incident. For incidents that occur before the Implementation Date, the DMRs will apply. For incidents that occur after the Implementation Date, the PLR Rule Book will apply.

You can find the DMRs [here](#).

4.8 What happens to existing principal/agent agreements with IIROC?

We will grandfather all existing agreements between Dealer Members and IIROC required to be entered into under DMR 39.4(o), which will be section 2303 of the PLR Rulebook.

4.9 Will IIROC be providing any training?

IIROC will be providing training to help Dealer Members comply with the PLR Rule Book. We will issue a separate Notice with details of this training.

5. Guidance

We are reviewing our existing guidance in the context of the PLR Rule Book and have organized it as follows:

Group 1 – substantial revisions and new guidance – includes:

- guidance that we must substantially re-write in plain language for it to be consistent with the PLR Rule Book
- guidance that will replace portions of IIROC's current DMRs once the PLR Rule Book is implemented
- new guidance required for the PLR Rule Book.

Group 2 – minor revisions – includes:

- guidance that IIROC staff must make minor content adjustments to for it to be accurate once the PLR Rule Book is implemented.

Group 3 – update references – includes:

- guidance in which IIROC staff must update section references for it to be accurate once the PLR Rule Book is implemented.

Group 4 – archive – includes:

- guidance that is no longer relevant or current. We will move this guidance to a searchable archive page on our website.



We plan to publish Group 1 guidance soon after this publication, and we will publish the remaining updated guidance in a sequential fashion prior to the Implementation Date.

6. Future amendments

We will follow our customary public comment process for any future amendments. As noted in our responses to public comments, there are a number of issues which were out of the PLR Project's scope. These issues may become future discrete projects.

7. Impact of the PLR Rule Book

IIROC, Dealer Members and individuals acting on their behalf, and other interested parties, will benefit from the enhanced clarity and certainty the PLR Rule Book offers. We recognize the operationalization of the PLR Rule Book by Dealer Members and individuals acting on their behalf will require time and effort, and we have considered this when setting the Implementation Date and when deciding which sections to delay.

8. Policy development process

8.1 Regulatory purpose

The purpose of the PLR Rule Book is to:

- establish and maintain rules necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity
- ensure compliance with securities laws
- prevent fraudulent and manipulative acts and practices
- promote just and equitable principles of trade and the duty to act fairly, honestly and in good faith
- foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities
- foster fair, equitable and ethical business standards and practices
- promote the protection of investors.

8.2 Regulatory process

When IIROC's Board of Directors (the **Board**) approved the January 2018 publication⁶, they authorized IIROC's President to approve non-material changes on IIROC's behalf and to seek the Recognizing Regulators' approval to implement the final PLR Rule Book. As we did not make any material changes to the January 2018 publication, the President approved these most recent changes on behalf of IIROC.

The Board also approved the repeal of the DMRs immediately upon implementation of the PLR Rule Book.

⁶ See [Notice 18-0014](#) for details.



IIROC consulted Dealer Members extensively throughout the PLR Project including the Executive and various sub-committees of each of the Conduct, Compliance and Legal Section and the Financial and Operations Administrators Section, and with the National Advisory Committee.

9. Attachments

[Appendix 1](#) – IIROC Rule Book (blackline⁷)

[Appendix 2](#) – IIROC Rule Book (clean)

[Appendix 3](#) – Table of Concordance

[Appendix 4](#) – Response to public comments on the January 2018 publication

[Appendix 5](#) – IIROC Rules Notice Reference Numbers for the Previous Publications

⁷ Sections are blacklined to the last version of that section published either in the March 2017 publication or the January 2018 publication.