



# IIROC NOTICE

**Rules Notice**  
**Request for Comments**  
Dealer Member Rules

**Comments Due By: September 8, 2020**

Please distribute internally to:  
Institutional  
Legal and Compliance  
Senior Management  
Operations  
Retail

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**20-0162**  
**July 23, 2020**

## **Proposed early adoption of certain IIROC Rules into the Dealer Member Rules**

### **Executive Summary**

The Investment Industry Regulatory Organization of Canada (**IIROC**) is publishing for comment certain proposed amendments to the Dealer Member Rules (**DMRs**) (the **Proposed Amendments**) to align with their parallel provisions in the IIROC Dealer Member Plain Language Rule Book (**IIROC Rules**).

With implementation of the IIROC Rules having been postponed to December 31, 2021, the Proposed Amendments are intended to improve our DMRs without negatively impacting investor protection or increasing regulatory burden on Dealer Members (**Dealers**). We are publishing the Proposed Amendments for a comment period of 45 days.



### **How to Submit Comments**

Please provide your comments in writing and deliver them by **September 8, 2020** 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.iiroc.ca](http://www.iiroc.ca).**



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## 1. Discussion of Proposed Amendments

### 1.1 Objective of the Proposed Amendments

The Proposed Amendments seek to early adopt certain IIROC Rule provisions into the existing DMRs.

On August 22, 2019<sup>1</sup>, IIROC announced that the IIROC Rules would be implemented on June 1, 2020<sup>2</sup>. However, due to COVID-19 pandemic causing uncertainty in the economy and capital markets leading to enormous operational challenges on Dealers, the implementation of the IIROC Rules was postponed to December 31, 2021<sup>3</sup>.

With the implementation of the IIROC Rules being delayed for 18-months, IIROC staff reviewed the IIROC Rules to determine which, if any, provisions would be beneficial to adopt prior to December 31, 2021 to improve our DMRs without negatively impacting investor protection or increasing regulatory burden on Dealers. We discuss in detail below the changes we are proposing.

### 1.2 Client identity

On March 31, 2020, we published [Rules Notice 20-0063](#) which offered Dealers the possibility of exemptive relief in a number of specified areas due to hardships they were experiencing in complying with our DMRs as a result of the effects of the COVID-19 pandemic. One specific area identified in Rules Notice 20-0063 for possible exemptive relief is the requirement set out in DMR 1300.1(b)(i) for Dealers, when opening an account for a corporation, to ascertain the identity of beneficial owners who own more than 10% of the corporation.

As set out in [Rules Notice 19-0145](#), IIROC has previously published final client identification and verification amendments that would change the corporate beneficial ownership threshold from 10% to 25% to align with anti-money laundering and anti-terrorist financing requirements (the **AML laws**<sup>4</sup>) and with National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103)*. However, these changes will only take effect at the same time as the IIROC Rules are implemented – December 31, 2021.

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<sup>1</sup> See [Rules Notice 19-0144](#).

<sup>2</sup> Note, IIROC Rule section 3211 (Account Appropriateness) and subsection 3220(4) (Trading Authorizations) were to become effective on September 1, 2020.

<sup>3</sup> See [Rules Notice 20-0079](#).

<sup>4</sup> “AML laws” 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.



The current 10% corporate beneficial ownership threshold set out in the DMRs was established prior to the establishment of equivalent thresholds in AML laws and NI 31-103. At the time the 10% threshold was established, there was a general desire in the investment industry to obtain greater details of the beneficial owners of corporate accounts. Subsequently, a 25% corporate beneficial ownership threshold was adopted in AML laws and NI 31-103.

As part of its response to the COVID-19 pandemic, IIROC recently granted a number of exemptions from the 10% corporate beneficial ownership threshold requirement consistent with the 25% threshold set out in Rules Notice 19-0145 for a period of six months.

Given the 10% corporate beneficial ownership threshold in DMR clause 1300.1(b)(i) no longer aligns with AML laws and NI 31-103, we are proposing to early adopt the 25% corporate beneficial ownership threshold in IIROC Rule clause 3204(1)(iii) into DMR clause 1300.1(b)(i). This would permanently permit Dealers to identify beneficial owners of corporations at 25% threshold for consistency with AML laws and NI 31-103.

Blackline and clean copies of the Proposed Amendments to the Dealer Member Rules are provided in Appendices A and B, respectively.

### **1.3 Proficiency and education**

We are also proposing to early adopt certain IIROC Rule provisions relating to proficiency and education into the DMRs. Early adoption of these IIROC Rules will provide Dealers and individual registrants flexibility to meet certain proficiency requirements.

#### **1.3.1 Proficiency requirements for Registered Representatives, Investment Representatives, and Supervisors**

Under the existing DMRs<sup>5</sup> the proficiency requirements for Registered Representatives, Investment Representatives and Supervisors requires completion of the Canadian Securities Course (**CSC**). In the IIROC Rules<sup>6</sup>, these Approved Persons have the option of completing the CSC or Level I or higher of the Chartered Financial Analyst (**CFA**) program.

We are planning to early adopt the relevant provisions of IIROC Rules into the DMRs to provide registrants the flexibility of either completing CSC or Level I or higher of the CFA by amending DMR 2900 Part I, Part A.1.(a)(ii) and (iii), and Part A.3.(a)(i)(A).

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<sup>5</sup> DMR 2900 Part I, Part A.1.(a)(ii) and (iii), and Part A.3.(a)(i)(A)

<sup>6</sup> IIROC Rule 2602(3)(i), (ii), (vii), (viii) and (xvii)



Please see Appendices A and B for a blackline and clean copies of the Proposed Amendments to the Dealer Member Rules.

### **1.3.2 Post licensing requirements for Supervisors**

DMR 2900<sup>7</sup> requires Supervisors of Registered Representatives dealing with retail clients to complete the Effective Management Seminar (**EMS**) within 18 months of beginning to supervise Registered Representatives. The EMS is no longer a post-licensing requirement under the IIROC Rules<sup>8</sup> following an in-depth regulatory review.

Since the EMS will no longer be a proficiency requirement going forward, we plan to remove EMS as a post-licensing requirement in the existing DMR 2900, Part I, Part A.1., (a), (ii), D, for consistency with the equivalent IIROC Rule.

In addition, we propose to make conforming changes to DMR subsection 38.3(b) by removing the automatic suspension provision if a registrant fails to complete the EMS.

A blackline and clean copies of the Proposed Amendments to the Dealer Member Rules are provided in Appendices A and B, respectively.

### **1.3.3 Course validity and exemptions from re-writing courses**

Currently under DMR 2900<sup>9</sup> courses are valid for two years from the date of completion, except for the CSC which has a validity of three years<sup>10</sup>. Under the IIROC Rules<sup>11</sup>, all courses are valid for three years from the date of completion. This is consistent with section 3.3(1) of NI 31-103.

We propose to extend course validity to three years for all courses in the DMRs to align with IIROC Rules and NI 31-103 by amending DMR 2900, Part II, A.2.

Please see Appendices A and B for a blackline and clean copies of the Proposed Amendments to the Dealer Member Rules.

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<sup>7</sup> DMR 2900, Part I, Part A.1., (a), (ii), D.

<sup>8</sup> IIROC Rule 2602(3)(xvii)

<sup>9</sup> DMR 2900, Part II, A.2

<sup>10</sup> DMR 2900, Part II, A.3(a)(ii)

<sup>11</sup> IIROC Rule 2628(2)



### 1.3.4 Futures and Options trading and Supervision

Existing DMR 2900<sup>12</sup> requires any registrant involved in the trading or supervision of options or futures to complete the Derivatives Fundamentals Course (**DFC**) and Options Licensing Course (**OLC**). In the IIROC Rules<sup>13</sup>, the Derivatives Fundamentals and Options Licensing Course (**DFOL**) course is added as an alternative to the DFC and OLC.

We propose to formally recognize the DFOL as a proficiency in the current DMRs, and amend the layout of the proficiency requirements for improved clarity, for consistency with the IIROC Rules by amending DMR 2900 Part I, A.1(a)(iv) and(v), DMR 2900 Part I, A.1(b)(iii) and A.1(d), DMR 2900 Part I, A.7, 7.1(a) and DMR 2900, Part I, A.8(a).

Please see Appendices A and B for a blackline and clean copies of the Proposed Amendments to the Dealer Member Rules.

## 2. Impact of the Proposed Amendments

We believe that the Proposed Amendments will have no material impact on Dealers. The Proposed Amendments provide more flexibility and will reduce costs on Dealers without compromising investor protection.

## 3. Policy development process

### 3.1 Regulatory purpose

The Proposed Amendments are intended to improve our DMRs without negatively impacting investor protection or increasing regulatory burden on Dealers.

### 3.2 Rule making process

The Board of Directors of IIROC (**Board**) has determined the Proposed Amendments to be in the public interest and on June 24, 2020 approved them for public comment.

The Proposed Amendments align with the equivalent IIROC Rule which has been through the full rule-making process as part of the Dealer Member Plain Language Rule Book project<sup>14</sup>.

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<sup>12</sup> DMR 2900 Part I, A.1(a)(iv) and(v), DMR 2900 Part I, A.1(b)(iii) and A.1(d), DMR 2900 Part I, A.7, 7.1(a) and DMR 2900, Part I, A.8(a).

<sup>13</sup> IIROC Rule 2602(3)(iii), (iv), (v), (ix), (x), (xi), (xviii) and (xix)

<sup>14</sup> [Rules Notice 19-0144](#)



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 recommend changes to the applicable Proposed Amendments. If the changes are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and to seek approval from the Recognizing Regulators to implement the Proposed Amendments. If the changes are of a material nature, Board approval for republication or implementation will be sought.

**4. Appendices**

[Appendix A](#) - Blackline copy of the Proposed Amendments to the Dealer Member Rules

[Appendix B](#) - Clean copy of the Proposed Amendments to the Dealer Member Rules