

## Chapter 13

# SRO Notices and Disciplinary Proceedings

### 13.1.1 Comments Received in Response to Request for Comments – IIROC Amendments to Implement the Registration Reform Project

#### COMMENTS RECEIVED IN RESPONSE TO REQUEST FOR COMMENTS IIROC AMENDMENTS TO IMPLEMENT THE REGISTRATION REFORM PROJECT

On September 26, 2008 IIROC published for comment proposed changes to its Dealer Member Rules to implement the Registration Reform Project of the Canadian Securities Administrators (collectively the “IIROC Registration Reform Rule Amendments”). A copy of the September 2008 publication is publicly available on IIROC’s website ([www.iiroc.ca](http://www.iiroc.ca)) under the heading “Policy” and sub-heading “Dealer Proposals/Comments”. IIROC received 7 submissions on the rule amendments from the following commenters:

- BMO Nesbitt Burns
- CSI Global Education Inc.
- Edward Jones
- IGM Financial Inc.
- The Investment Funds Institute of Canada (“IFIC”)
- Investment Industry Association of Canada (“IIAC”)
- RBC Dominion Securities

A copy of each comment letter submitted in response to the IIROC Registration Reform Amendments can also be found on IIROC’s website.

The following table presents a summary of the comments received on the IIROC Registration Reform Rule Amendments together with IIROC’s response to those comments. Commenters were generally supportive of the IIROC Registration Reform Rule Amendments and in some cases also indicated support for specific rule changes. The summary below does not generally address comments in support of the amendments. We also received a number of comments on topics which are outside the scope of these particular amendments, such as IIROC’s Client Relationship Model and CSA requirements applicable to exempt market dealers. These comments have also not been summarized.

Applicable Rule Sections	Commenter and Summary of Comment	IIROC Response to Comment and Additional IIROC Commentary
General - Timing	<p>One commenter questions the timing of the IIROC amendments given that the CSA has delayed the release of NI 31-103 until April 2009, and at that time, we are uncertain if there will be another comment period. If there are significant changes to the new instrument that would impact IIROC’s rule proposals, the commenter respectfully reserves the right to have the opportunity to comment again.</p> <p>[BMO Nesbitt Burns]</p>	<p>IIROC Staff have been working closely with the CSA on the Registration Reform Project to ensure that our respective rule proposals can be implemented on the same timetable and that there are no inconsistencies between CSA and IIROC regulations regarding registration requirements. The CSA published a notice in April indicating that subject to applicable government approval they intend to implement NI 31-103 by the end of September 2009. Subject to CSA approval, IIROC intends to implement these rules proposals on the same time frame.</p> <p>We have also not made material changes to the</p>

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		rule proposals that we published for comment in September 2008 which require a second publication for comment.
Rule 1 – Interpretation and Effect	<p>Commenter seeks clarification on the role and accountabilities that can be associated with the term “Supervisor”.</p> <p>[RBC Dominion Securities]</p>	<p>A Supervisor is any person to whom a Member has given responsibility and authority to manage the activities of other partners, directors, officers, employees or agents of the Member so as to ensure their compliance with laws and regulations governing their and the Member’s securities-related activities.</p> <p>The new Supervisor approval category encompasses the following current IIROC approval categories of: Branch Manager, Assistant Branch Manager, Sales Manager, Alternate Designated Person, Registered Options Principals, Registered Futures Principals and Futures Contract Options Supervisor. The new Supervisor category will also capture a potentially broader class of persons, however, as it includes any person whom the Member has given both the responsibility and authority to supervise operational or other issues that are subject to securities-related or regulatory requirements.</p>
Rule 4 – Business Locations	<p>Commenter appreciates the changes made to Rule 4 as it allows more flexibility with respect to non-retail locations being supervised from a firm’s head office. Commenter would appreciate, however, guidance for the continued registration and operation of sub-branch offices.</p> <p>[RBC Dominion Securities]</p>	<p>We are eliminating the currently mandatory Branch Office supervision structure. Firms can, however, continue to use the branch structure. IIROC will only require notification of a firm’s business locations and notification upon the closure of a business location. Moreover a firm’s policies and procedures must specify the firm’s supervision regime.</p>
Section 7.7 – Conflict of Interest Disclosure	<p>One commenter notes that section 7.7 [Multiple Employments of Officers] will be replaced with the more principles based approach to dealing with conflicts of interest contained in NI 31-103. The commenter believes it would be helpful to supplement this section with guidance and examples to compensate for the precision that is lost with the move to principles based regulation. The guidance should make it clear that only conflicts that need to be disclosed to clients are ones that are relevant to the dealer-client relationship and could have materially adverse effects on such clients.</p> <p>[IIAC]</p>	<p>We note that NI 31-103 has been revised to clarify that only <i>material</i> existing and potential conflicts of interest must be identified and responded to by a registered firm. The companion policy to NI 31-103 also contains numerous examples of where a registrant may be in a conflict of interest and how to manage such conflicts. IIROC regulated firms will be subject to the conflict related parts of NI 31-103.</p> <p>It should be noted that IIROC also published for comment on April 24, 2009 changes to the client relationship model related rule amendments which include requirements requiring the management and disclosure of conflicts of interest. We will consider the request for further guidance as we finalize those rule proposals.</p>
Rule 18 – Registered Representatives and Investment	<p>Commenter believes there is some inconsistency between the inclusive nature of “retail business” in Rule 18, as currently drafted, and the proposed definition of “Retail</p>	<p>We do not believe there is an inconsistency between the definition of “retail business” in Rule 18 and the definition of “retail customer” in Rule 1 as the terms are used in different contexts in</p>

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Representatives	<p>customer” in Rule 1. The Commenter believes it would be preferable to allow for certain RRs and IRs to deal with all types of clients without exception, subject to the notification requirements set out in Rule 18.</p> <p>[RBC Dominion Securities]</p>	<p>different Dealer Member Rules.</p> <p>The term “retail business” is used principally in Dealer Member Rule 18 which contains the approval and notice requirements for Registered Representatives (RR) and Investment Representatives (IR). Under Rule 18, a Dealer Member must notify IIROC prior to an RR or IR beginning to conduct certain types of business. If a firm notifies IIROC that an RR or IR will be conducting “retail business”, this means that the RR or IR may be conducting both retail and institutional business. Where a firm notifies IIROC that an RR or IR will be conducting institutional business, the RR or IR will only be conducting institutional business.</p> <p>The term “retail customer” is used in the context of a variety of different rules which set out specific requirements for RR and IR who deal with “retail customers” (i.e., not institutional customers), such as specific proficiency and supervisory requirements.</p>
	<p>One commenter notes that the scope of an RR has been expanded to include those that trade in securities that are exempt.</p> <p>[BMO Nesbitt Burns]</p>	<p>The current definition exempts only those that trade in debt securities of Canadian government, not all exempt products. That exemption is proposed to be removed so that all those selling investment products on behalf of members must be approved.</p>
Proprietary Traders	<p>One commenter asked whether IIROC expects that proprietary traders dealing in exempt securities seek IIROC approval and satisfy the same proficiencies as that of retail investment advisors.</p> <p>[BMO Nesbitt Burns]</p> <p>One commenter believes that if proprietary traders are to be registered, they should have a separate category with proficiency requirements related only to their functions, recognizing that they do not deal with public clients.</p> <p>[IIAC]</p>	<p>If the proprietary trader is trading in markets that do not have requirements and do not deal with customers, they do not require IIROC approval.</p> <p>We note that the Companion Policy to National Instrument 31-103 has been amended to remove the suggestion that proprietary traders must be registered.</p>
Section 18.6(a)	<p>Commenter recommends that IIROC consider adopting a supervision report similar to the MFDA model in which the supervisor affirms at the end of the six month period that supervision has been completed on a monthly basis rather than requiring six separate monthly reports.</p> <p>[RBC Dominion Securities]</p>	<p>We have considered the comment but continue to believe that monthly supervision reports are appropriate where an RR or IR has not previously been approved by IIROC. The approach taken for new RRs and IRs is also consistent with the reporting format that IIROC requires when an individual is approved subject to terms and conditions requiring some form of heightened supervision.</p>
Rule 18.7 Representatives	<p>One commenter noted that the amendments continue the existing rules that requires IRs or</p>	<p>We agree and the provision has been retained.</p>

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restricted to sale of mutual funds	<p>RRs that are restricted to the sale of mutual funds to upgrade to a full approval within 18 months. The commenter supports this approach and encourages IIROC to retain the provision.</p> <p>[IGM Financial]</p>	
Rule 20.18 – Power of District Council and automatic transfers	<p>One commenter while generally supportive of the initiative to allow for automatic transfers between registrants and the strengthening of Rule 20.18 (which allows for the imposition of terms and conditions), the commenter is concerned that there are situations where such transfers are not in the public interest (for example, if registrants are walking away from trouble at their former dealers). In the commenter’s view there should be the ability to hold up such transfers in extraordinary cases where such circumstances exist.</p> <p>[IGM Financial]</p>	<p>We share the commenter’s concern and have raised the issue with the CSA for their consideration. Both Dealer Member Rule 40.7 and NI 33-109 have been revised to prevent automatic transfers where an individual has been dismissed for cause or was asked by his/her firm to resign, following an allegation against the individual of (i) criminal activity; (ii) a breach of securities laws; or (iii) a breach of SRO rules.</p> <p>The IIROC rule proposals have also been amended to include in Rule 20.18 a power for district council to revoke or suspend an approval at any time if it appears to District Council that the individual no longer meets the “fit or proper requirements” or that their continued approval is not in the public interest. The revocation, suspension or imposition of terms and conditions will be subject to the approved person’s right to an opportunity to be heard and right of appeal to a hearing panel and ultimately to the applicable securities regulator. The amendment to give District Council enhanced power to intervene is an important investor protection tool whose importance has been magnified in light of the move to automatic reinstatements.</p>
Rule 38 – Compliance and Supervision  Section 38.4(b)	<p>Commenter seeks confirmation that a firm has the discretion to determine whether a person is qualified by virtue of training or experience; if not, please consider amending the rules to set out what is required with respect to the necessary training or experience required of a person to whom a Supervisor may delegate supervisory functions.</p> <p>[RBC Dominion Securities]</p> <p>One commenter notes that there may be supervisors whose authority deals solely with operational or other issues that are not subject to securities related legal or regulatory requirements and who are not, therefore, required to be approved by IIROC as “Supervisors” (e.g., approval of specified types of material as noted in proposed Rule 29.7(3)). The commenter seeks clarification that these types of functions can be delegated to individuals who are not approved as Supervisors but are qualified by virtue of training or experience to properly execute them</p>	<p>A Supervisor who delegates specific supervisory functions or procedures must satisfy himself/herself that the delegatee has the appropriate training and experience necessary to properly execute the delegated functions.</p> <p>We acknowledge that there are supervisors whose authority deals solely with operational or other issues that are not subject to securities related or regulatory requirements and who are not therefore required to be approved by IIROC. The supervisors cited in the example by the commenter could, however, require approval given that the Supervisors would be responsible for ensuring compliance with IIROC rules. We note, however, that there would be no proficiency requirements for the supervisory functions noted by the commenter.</p>

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	<p>as per Rule 38.4(b). The commenter further notes that completion of the PDO or the Branch Manager Examination and approval as a Supervisor does not appear to be relevant to these functions.</p> <p>[Edward Jones]</p>	
<p>Section 38.5</p>	<p>Two commenters are opposed to the requirement that the UDP category occupied by the CEO. The commenters believe that this requirement does not provide firms with sufficient flexibility to manage the critical elements of compliance in a manner that is best suited to varying management structure. One of the commenters believes that the current IIROC rules that permit the UDP to be the CFO or the COO is a much more appropriate model. It may also be appropriate to permit the President to fulfil this role.</p> <p>[RBC Dominion Securities and IIAC]</p>	<p>The CSA continues to believe that the appropriate person to be registered as UDP is the most senior directing mind of a registered firm or the operating division carrying out its registerable activity. In light of the direction taken by the CSA, IIROC's rules must be amended to ensure that there is no inconsistency between CSA and IIROC regulations regarding registration and approval of the UDP. We have also made a number of changes to the UDP and CCO requirements in Rule 38 to align with the requirements of NI 31-103.</p>
	<p>One commenter believes it would be advisable to retain the Alternate Designated Person (ADP) and the CFO as registration categories consistent with IIROC regulation.</p> <p>[IIAC]</p>	<p>The CFO will continue to be an approval category. We continue to believe that the Alternate Designated Person category should be eliminated as part of the initiative to simplify approval categories. Those currently approved as Alternate Designated Persons will become Supervisors under the new category structure.</p>
<p>Rule 38.5 and 38.7</p>	<p>One commenter questioned why it is necessary for a firm to seek IIROC approval where the firm seeks to designate more than one individual as the CCO or UDP. The commenter notes that in a principle based environment, the firm should be able to determine whether their business model requires more than one person to fulfill these roles.</p>	<p>The appointment of multiple UDPs or CCOs is tantamount to seeking an exemption to the general rules regarding the designation of the UDP and CCO and therefore requires IIROC approval. The designation of multiple UDPs or CCOs would also require an exemption by securities regulators under NI 31-103. We recognize, however, that in especially large firms the scale and kind of activities undertaken by different operating divisions may warrant the designation of more than one CCO. IIROC and the CSA will consider applications, on a case-by-case basis, for different individuals to act as the CCO of a firm's operating divisions.</p>
<p>Rule 1300 – Supervision of Accounts</p>	<p>Commenter believes the proposed repeal of section 1300.9(b) which allows an individual who has held registration under Canadian securities legislation as an Investment Counsel/Portfolio Manager (IC/PM) to transfer to an IIROC firm without requalification is a significant change. The commenter encourages IIROC to harmonize its rule proposals with NI 31.103 and either consider maintaining section 1300.9(b), or redefine the registration requirements for RRs with managed accounts relative to an individual with IC/PM experience.</p>	<p>We believe the repeal continues to be appropriate. In this context, we note that historically IC/PMs could not effect an "automatic transfer" to IIROC because most securities legislation included a requirement for salespeople of investment dealers to have successfully completed the Conduct and Practices Handbook Course and the Canadian Securities Course.</p> <p>We would expect most individuals in this situation would have the requisite proficiency with the exception possibly of the Conduct and</p>

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	[RBC Dominion Securities]	Practices Handbook Course which we believe is a core proficiency requirement for IIROC approved persons. This issue was discussed with the Education and Proficiency Committee who were in agreement with the approach taken by IIROC in the rule proposals.
	<p>One commenter asks for additional guidance on the approval process for new policies and procedures that have significant impact on the compliance system. What would be deemed significant? Who would be an acceptable individual to approve such changes? Are there different levels of approvals required for varying levels of significance? How does one measure the efficacy of its business conduct procedures? The commenter would appreciate further commentary on these issues.</p> <p>[BMO Nesbitt Burns]</p>	<p>These are important questions that a dealer member must consider in crafting or changing its supervisory systems. They are not ones that can readily be answered out of the context of a firm's particular business. They should be specified in the dealer's policies and procedures as outlined in Rule 2500.A.1. Current rules require that all policies, procedures and amendments thereto be approved by senior management, without specifying who that is. If a dealer member follows the current rule it will be in compliance with the new requirements. The new rules permit, however, a dealer member to make less important changes without senior management approval.</p>
Rule 1300.6 Supervision of Discretionary and Managed Accounts	<p>One commenter notes that rule 1300.6 indicates that the designated supervisor for discretionary accounts cannot delegate the review of these accounts to any other person. The commenter urges that IIROC consider allowing for the delegation of an alternate supervisor to fulfill these duties. This would be consistent with other supervisory roles and with the practicality of ensuring there is adequate coverage of these duties.</p> <p>[BMO Nesbitt Burns]</p>	<p>We believe that the review of discretionary account performance is a critical function of the designated supervisory of discretionary accounts. The firm can take into account the time and resources involved in conducting that review when it designates a particular person as the supervisor of discretionary accounts.</p>
Section 1300.15(c)	<p>Two commenters asked for clarification as to the use of the term "direct supervision" in the context of section 1300.15(c). The commenters are concerned that, as currently drafted, the section could lend itself to the interpretation that the Supervisor of an RR with less than two years experience related to discretionary management of managed accounts be required to be physically present at the same branch location in order to be considered to be performing supervisory tasks in a "direct" fashion.</p> <p>[BMO Nesbitt Burns and RBC Dominion Securities]</p>	<p>"Direct Supervision" means that an experienced portfolio manager must be designated to supervise the portfolio management activities. The means of supervision must be spelled out in the firm's policies and procedures and should be reasonably designed to ensure that the management of the customer accounts is suitable for the clients and in keeping with their investment objectives and risk tolerance. The term "direct supervision" does not mean that the supervisor must be in the same location, although a resident Supervisor may be in the best position to conduct such supervision.</p>

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	<p>Given that the category of Associate Portfolio Manager (APM) is proposed to be repealed, one commenter notes that to obtain registration as a Portfolio Manager (PM) one requires two years of experience managing money on a discretionary basis. In this context, the commenter believes that there is a disconnect between the proficiency and experience requirements. The commenter questions how an individual would be able to manage accounts on a discretionary basis without the appropriate registration; and also be able to obtain the requisite experience if they cannot be registered as a PM without the experience.</p> <p>[BMO Nesbitt Burns]</p>	<p>We have eliminated the PM approval category. The term “portfolio manager” is used in the revised Rule 1300 to refer to a registered representative who exercises discretionary authority over managed accounts. Before an RR conducts portfolio management, the dealer member must ensure that the registered representative meets the proficiency and experience requirements in Rule 2900 and provides notice to IIROC that the person will exercise discretionary authority over managed accounts. For the first two years of doing so, they must be directly supervised by a portfolio manager who is not under the same supervision.</p>
<p>Section 1300.15</p>	<p>Two commenters believe that the rule requiring that the CCO be a member of the committee to conduct an annual review of its policies and procedures to supervise managed accounts, does not afford firms with the flexibility to determine if that person is the most appropriate to fulfill this role. The provision should permit the firms to determine who is most suited to serve on this committee, based on the structure and competencies within their organization, consistent with the principles based approach of the proposed amendments.</p> <p>[BMO Nesbitt Burns and IIAC]</p>	<p>The role of the managed accounts committee is limited to do at least an annual review of the firm’s supervisory system and procedures for managed accounts. We believe that as the senior officer responsible for a dealer member’s supervisory systems and procedures, who must report to the Board at least annually on compliance matters, the CCO should be a member of that committee.</p>
	<p>One commenter asked whether individuals that perform supervisory functions at a head office level that do not deal with retail clients will now be required to complete the Branch Manager’s course and continuing education, where previously the Partners, Directors and Officers examination was sufficient.</p> <p>[BMO Nesbitt Burns]</p>	<p>An individual conducting second level review at a firm’s head office is not expected to be a designated Supervisor or have the supervisor proficiencies. We would expect, however, that where second level reviews are conducted by personnel or a department responsible only for monitoring activity that the Dealer Member would have procedures for referring issues that cannot be resolved with first level Supervisors to a higher level Supervisor or CCO who has the authority to resolve them.</p> <p>We would expect that firms will have at least one individual (or multiple individuals) who are responsible for looking at the accounts of producing Supervisors. This individual or individuals have the responsibility, but are not required to perform all review functions. The individual or individuals may delegate review functions to other individuals in the firm’s compliance group, who themselves do not need approval as a Supervisor. The “ultimate” supervisor of a producing Supervisor may be a Sales Manager at the firm (who would be an approved Supervisor) or the firm’s Chief Compliance Officer. The Chief Compliance Officer exam will be considered an acceptable</p>

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		alternate course for a CCO who is ultimately responsible for the review of a producing Supervisor's client accounts.
	<p>Once commenter is unsure where there are two designated supervisors (e.g. Co-managers or Branch Managers, or Branch Managers/Assistant Branch Managers) how this information will be recorded with IIROC to differentiate these arrangements.</p> <p>[BMO Nesbitt Burns]</p>	<p>The specific responsibilities and relative authority of supervisors in any branch will become a matter for the firm's policies, procedures and records. In the example cited by the commenter, the firm may have co-managers or a manager and an assistant manager in a given branch. All will require approval by IIROC only as supervisors. Their specific responsibilities must therefore be spelled out in the firm's policies and procedures. Those procedures must specify the supervision duties and ensure that all necessary duties are identified and assigned. The procedures or additional documents such as job description or delegations of authority must spell out the responsibilities and authority of each supervisor consistent with the overall supervisory structure of the firm.</p>
<p>Rule 2500 – Minimum Standards for Retail Account Supervision</p> <p>Part II</p>	<p>Two commenters request that IIROC provide guidance on how a dealer's gatekeeping responsibility is to be met. For example, do the proposed amendments contemplate other obligations beyond reviewing documentation as part of the requirements of anti-money laundering and terrorist financing legislation and regulations?</p> <p>[IFIC and IGM Financial]</p>	<p>The gatekeeper responsibility of investment dealers extends beyond anti-money laundering and terrorist financing legislation and related regulations. In response to the commenters request we have added some additional commentary in Rule 2500 about a firm's gatekeeper responsibility.</p>
<p>Rule 2500 – Minimum Standards for Retail Account Supervision</p> <p>Part II A.6</p>	<p>One commenter recommends that the review of account information be required to have occurred prior to future trades in the account, with allowance for automated trades to continue.</p> <p>[IFIC]</p>	<p>We do not believe it is necessary to specify this in the rules. We would expect Member firms' policies and procedures to deal with such matters together with the mechanics of how such a policy would be implemented.</p>
<p>Rule 2700 – Minimum Standards for Institutional Account Opening, Operation and Supervision</p> <p>Section 2700 I (4)</p>	<p>Two commenters questioned why the Permitted Client exemption is not available for retail clients under the IIROC rule proposals. The commenters noted that if NI 31-103 is implemented as proposed, those operating as an IC/PM outside of the IIROC structure would be able to deal with individual Permitted Clients without complying with suitability obligations if a waiver is received. The differences between the CSA and IIROC rule proposals will create the possibility for regulatory arbitrage if the rule proposals are not aligned.</p> <p>[IIAC and IFIC]</p>	<p>We continue to believe for investor protection reasons that there should be a suitability requirement for permitted clients that are individuals. We are not prepared from a policy perspective to provide a suitability exemption in favour of IIROC regulated firms for high net worth individuals. We note that such individuals can ultimately open an order execution only account where there would be no suitability obligation imposed on the IIROC regulated firm.</p>
<p>Rule 2900 Proficiency</p>	<p>One commenter questioned whether IIROC will accept courses from education providers other than CSI.</p> <p>[BMO Nesbitt Burns]</p>	<p>CSI Global Education (CSI) is currently the exclusive course provider to IIROC for the entrance level proficiency requirements specified under Rule 2900. IIROC and CSI work closely together to ensure that CSI's course offerings</p>



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		<p>meet the proficiency and accreditation requirements of IIROC and fulfill IIROC's public interest mandate. IIROC pre-reviews all material changes to these core courses. CSI and IIROC have also agreed to specified quality and service standards which CSI is required to adhere to. In this context, CSI is required to annually submit to IIROC a self-assessment that reports on CSI's compliance with these standards. We do not currently intend to change our exclusive arrangement with CSI as it provides us with a desired and manageable level of control over the content and quality of core IIROC proficiency requirements. We note, however, that continuing education requirements under Rule 2900 Part III are more general and can be met by the courses of many providers.</p>
<p>Rule 2900 – Proficiency and Education (Part 1)  Section A.1</p>	<p>One commenter notes that IIROC does not allow for a registration for non-trading Supervisors. The rule, as currently proposed, contemplates supervisor proficiency for purposes of dealing with retail customers and institutional accounts. An individual hired with the sole purpose of approving marketing materials and supervising advertising activities as a compliance function does not need to meet these requirements. The commenter recommends that each Dealer Member establish, maintain, and enforce written policies and procedures that are reasonably designed to supervise the review and subsequent approval of certain types of advertisements, sales literature or correspondence prior to publication. The commenter suggests that there be no mandated/required prerequisite proficiency in this regard, and urges IIROC to adopt a principles based approach.</p> <p>[IFIC]</p>	<p>The rules do allow for approval for non-trading Supervisors. We note, however, that the rules specify proficiency requirements for only certain types of Supervisors versus mandating proficiency requirements for all Supervisors. We agree with the commenter that an individual hired with the sole purpose of approving marketing materials would not have a specific proficiency requirement under IIROC rules. We would expect, however, that such an individual would have knowledge of IIROC rules governing marketing materials.</p>
<p>Supervisor proficiency - Options</p>	<p>One commenter notes that the rule appears to require designated supervisors of retail options accounts to have additional proficiencies than those of institutional accounts. The commenter questions why an institutional supervisor would not require the Options Supervisors course, but rather the Branch Manager's course, which is specific to retail account supervision.</p> <p>[BMO Nesbitt Burns]</p>	<p>Under proposed rule 2900.I.A.1(b)(ii) a supervisor of institutional business has to have "the proficiency requirements necessary to conduct or supervise any trading activity carried on by Approved Persons he or she supervises". This is the same requirement currently in place for non-retail branch managers. For options this means that the person has to have either the proficiencies required to trade in options (Derivatives Fundamentals and Options Licensing Course) or to supervise options (the Options Supervisors Course). The firm can determine which of the alternatives it is prepared to accept.</p>
	<p>Three commenters made several general observations about IIROC's proposed proficiency requirements. Two of these commenters noted that the IIROC rule proposals do not generally include a</p>	<p>In response to the comments received and feedback from the Education and Proficiency Committee we have amended Rule 2900 to require Supervisors supervising RRs dealings with retail customers and IRs to have</p>

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	<p>requirement for all supervisors to meet the same proficiency level of those they supervise [Edward Jones; CSI]. Two of these commenters also noted an inconsistency in the approach taken in the rules between supervisors of approved persons dealing with retail customers and supervisors of approved persons dealing with institutional clients, with the latter appearing to require proficiency requirements necessary to conduct any trading activity carried on by approved persons he/she supervises [Edward Jones; BMO Nesbitt Burns]</p>	<p>successfully completed the Canadian Securities Course and the Conduct and Practices Handbook Course. The change ensures that Supervisors of retail RRs and IRs will have the same core proficiencies of an RR or IR.</p> <p>We have also amended Rule 2900 to require Supervisors of approved persons dealing in options with retail customers to have successfully completed The Derivatives Fundamental Course and The Options Licensing Course (in addition to The Options Supervisor Course). This change was also discussed with the Education and Proficiency Committee who were supportive of the amendment. We have built in a transition period for 24 months for existing Supervisors who do not currently have these proficiencies.</p>
<p>Rule 2900 – Proficiency and Education (Part I) I.A.3.(a)(i)(C)1</p>	<p>One commenter notes that registration as an RR cannot be granted until the 91<sup>st</sup> day after completion of the CSC, and therefore suggests that the rule be specific and refer to a 90 day training program and not a three month training program.</p> <p>[Edward Jones]</p>	<p>We agree with the commenter and have made the change.</p>
<p>Rule 2900 – Proficiency and Education (Part I) Section A.4</p>	<p>One commenter recommended a number of editorial changes to this section to reflect the CSI 2007 purchase of The Institute of Canadian Bankers.</p> <p>[CSI]</p>	<p>We agree with the commenter and have made the changes.</p>
<p>2900.5 Traders</p>	<p>One commenter notes that this section is specific only to the TSX and Bourse de Montréal. Given the increasing number of exchanges and alternative trading systems that are now in operation, the commenter suggests drafting this section to be more general in nature.</p> <p>[BMO Nesbitt Burns]</p>	<p>The TSX, TSX Venture Exchange and Bourse are the only exchanges that have proficiency requirements. Newer exchanges and ATs have not as of yet shown an inclination to impose course requirements on their participants. If one does, we will amend our rules accordingly.</p>
<p>Rule 2900 – Proficiency and Education (Part I) Section A.6</p>	<p>Commenter recommends that the rule proposals permit individuals who are registered under Canadian securities legislation as IC/PMs and who act only as portfolio managers do not need to meet the licensing requirements of a RR.</p> <p>[RBC Dominion Securities]</p>	<p>We continue to believe that it is important that RRs providing discretionary portfolio management for managed accounts be required to complete the Conduct and Practices Handbook Course. IIROC Staff consulted further with the Education and Proficiency Committee in response to this comment and the committee also felt strongly that the CPH is a core proficiency requirement that all RRs should meet.</p>
<p>Rule 2900 – Proficiency and Education (Part I) Section A.6.1</p>	<p>One commenter recommends that the proficiency requirements for registered representatives providing discretionary portfolio management for managed accounts that do not trade in futures contracts be further aligned</p>	<p>We agree with the commenter and have amended Rule 2900 A.6.1 to include a requirement that such RRs must have the Canadian Investment Manager (CIM) designation. We note that there are currently two</p>

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	<p>with NI 31-103 where the holding of a CFA designation or completion of the elements in the CIM program plus relevant experience is the proposed requirement.</p> <p>[CSI]</p>	<p>ways to earn the CIM designation. Stream 1 involves completion of the Canadian Securities Course (CSC), the Investment Management Techniques Course (IMT) and Portfolio Management Techniques Course (PMT). Stream 2 involves completion of the CSC, the Wealth Management Essentials Course (WME), the WME-Investment Management Supplement and the PMT. The change therefore includes the course requirements previously contemplated in the first publication of these rules amendments (i.e., the PMT and the IMT) but results in greater harmonization with proposed CSA proficiency requirements for advising representatives of a portfolio manager.</p>
<p>Rule 2900 - Proficiency and Education (Part II)</p> <p>Section A.2</p>	<p>Commenter recommends that applicants who have never been approved should be required to rewrite a required examination or course if it was completed more than three years before the date of application versus the current two years. The commenter believes that the move to three years would be consistent with IIROC's current administrative practices.</p> <p>[RBC Dominion Securities]</p>	<p>IIROC does not have such an administrative practice as the commenter has suggested and we continue to believe that the two year timeline is appropriate.</p>
	<p>One commenter suggests that A.2 contradicts A.3(a)(ii). The commenter asks whether the CSC and the New Entrants Course will continue to be valid for three years as indicated under A.3(a)(ii). If so, the commenter recommends that A.2 be amended to specify that it applies to all courses except the CSC and the New Entrants Course.</p> <p>[Edward Jones]</p>	<p>We agree with the commenter and will make the change with respect to the CSC. We don't believe a drafting change is necessary for the New Entrance Course.</p>
<p>Rule 2900 – Proficiency and Education (Part II)</p> <p>A.3.(a)(i) – A.3.(b) and A.7</p>	<p>The commenter notes that the Wealth Management Essentials Course (WME) or the Managing High Net Worth have not been included in Section A.3.(a)(i) or A.3.(b) or A.7.</p> <p>[Edward Jones]</p>	<p>We agree with the commenter that the Wealth Management Essential Course should be included in the section and have amended the rule accordingly. We disagree, however, that the Managing High Net Worth course should be included as the course has never been recognized for these purposes.</p>
<p>Rule 2900 – Proficiency and Education (Part II)</p> <p>Section A.4</p>	<p>Commenter recommends that IIROC consider providing an automatic exemption from re-writing the Partners, Directors, and Senior Officers Course for those applicants who have been working closely with the CEO or an approved Supervisor similar to the exemption afforded under current rules from re-writing the CFO exam.</p> <p>[RBC Dominion Securities]</p>	<p>We believe that providing such an exemption for applicants who have been working closely with the CEO and approved Supervisor would be too broad and do not believe from a policy perspective that such an exemption is warranted. We believe that the exemption afforded from re-writing the CFO exam is distinguishable given the specialized nature of the function.</p>
	<p>Commenter is concerned with the repercussions of transferring an individual who is the subject of an IIROC investigation or</p>	<p>A critical part of the hiring process in the securities industry is the background investigation of prospective personnel. For</p>

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	<p>pending disciplinary action. Specifically, the commenter requests guidance on what a firm should do when there is a negative outcome to an IIROC investigation or disciplinary action imposed with respect to an individual the firm has hired.</p> <p>[RBC Dominion Securities]</p>	<p>instance, background investigations can help member firms determine whether a prospective employee is subject to an IIROC rule or statutory disqualification or whether he or she may present a regulatory risk for the firm and its clients. In addition to reviewing and discussing with an applicant his/her 33-109F4, hiring firms should proactively ask applicants about the existence of and nature of any pending proceedings or regulatory investigations. Firms must carefully consider and scrutinize prospective personnel before hiring decisions are made.</p>
<p>Rule 2900 – Proficiency and Education (Part II)</p> <p>Sections A.8 and A.9</p>	<p>One commenter believes the reference in A.8 should be changed to Part 1, Section 3(a)(i)(C)2 and the reference in A.9 should be changed to Part 1, Section 3(a)(i)(C)1.</p> <p>[Edward Jones]</p>	<p>We agree with the commenter and will make the necessary changes.</p>
<p>Rule 2900 – Proficiency and Education (Part III – Continuing Education Program)</p>	<p>Commenter notes that current Part III of Rule 2900 was not included in the proposed amendments and would like to know if IIROC will be revising this section and publishing for comment at a later date.</p> <p>[RBC Dominion Securities]</p>	<p>We acknowledge the oversight. We do not believe that the changes made to Part III are material and have been included in this final rule package. The changes made are consequential in nature and simply reflect the changes made to IIROC’s approval category structure.</p>
<p><b>Other comments</b></p>		
<p>Definitions of Investment Representative and Registered Representative</p>	<p>Commenter notes that the broadened definition of “Investment Representative” and “Registered Representative” includes individuals who trade in or advise on products that were previously exempt. This implies that individuals who previously traded or advised in exempt products must meet the new proficiency requirements. The commenter recommends, in order to be consistent with NI 31-103 that IIROC allow for a transition period of twelve months as provided for in NI 31-103.</p> <p>[RBC Dominion Securities]</p>	<p>We agree with the commenter that immediate implementation of the changes to the definitions would not be practicable. The changes to the definitions are proposed to come into effect with the changes to the definition of “securities related business”. We believe that this should provide an adequate transition period for an RR or IR who does not currently meet existing proficiency requirements, although we would expect that most would have completed the required courses.</p>
<p>Officer registration</p>	<p>Commenter notes that the elimination of the registration requirements for officers will have considerable impact on firms with respect to a firm’s continued obligation to review and/or approve specific documents, such as registration forms and outside business activities requests. Commenter asks that IIROC clarify whether an officer appointment under corporate law provides sufficient authority to perform to review and/or approve documents as required by IIROC’s rules.</p> <p>[RBC Dominion Securities]</p>	<p>We have reinserted the definition of “officer” back into Rule 1 in response to the firm’s comment.</p>

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	<p>Commenter requests guidance on the process that firms are to follow for the de-registration of officers. For example:</p> <ul style="list-style-type: none"> <li>• Will there be a bulk termination submission or a staggered submission schedule;</li> <li>• Will the usual Notice of Termination questions need to be answered;</li> <li>• Will IIROC waive the fees for the filing of Termination Notices?</li> <li>• Will there be mapping to the NRD for registrants currently approved as Trading Officers in some jurisdictions, and Non-Trading Officers in others?</li> </ul> <p>[RBC Dominion Securities]</p>	<p>Active individuals will be converted to the new IIROC approval categories under Registration Reform through a bulk category change process. As a result of the new bulk category change process there will be minimal work effort required on behalf of firms.</p> <p>All individuals currently approved by IIROC as partners and officers will be mapped onto the new “Executive” approval category. All officers that no longer fall within the definition of “Executive” will be required to submit a change or surrender of individual category submission for those individuals remaining approved or registered in some other capacity (e.g. Registered Representative) or a notice of termination for those individuals who no longer require approval. There will be no fees associated with the filing of termination notices. There will also be no transitional requirement imposed upon firms to remove this category, although we expect most firms will seek to do so before the end of December 2009 to avoid the imposition of annual NRD user fees. IIROC will be publishing a notice which will provide more detail regarding the bulk category change process.</p>
	<p>Commenter notes that the proposed amendments do not set out a transition period for the new requirements. Commenter recommends extended time frames to allow individuals to satisfy the proficiency requirements for their applicable category of registration.</p> <p>[RBC Dominion Securities]</p>	<p>We have amended our rules to include transition periods for changes made to IIROC’s proficiency requirements where applicable.</p>