

# IIROC NOTICE

## Rules Notice Notice of Approval/Implementation IIROC Rules

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20-0239

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## Client Focused Reforms – Housekeeping Rule Changes

### Executive Summary

IIROC is amending its rules in the core areas of account appropriateness, know-your-client (**KYC**), suitability, conflicts of interest, and relationship disclosure information (**RDI**) and introducing new rules in the core areas of product due diligence and know-your-product (**KYP**) (collectively, the **Amendments**).<sup>1</sup> The Amendments are intended to make our requirements uniform in all material respects with the reforms to enhance the client-registrant relationship (**Client Focused Reforms** or **CFRs**) made to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) by the Canadian Securities Administrators (**CSA CFRs**)<sup>2</sup>.

<sup>1</sup> We are amending Rules 3100 – *Business Conduct*, 3200 – *Client Accounts* and 3400 – *Suitability* and introducing a new Rule 3300 – *Product Due Diligence and Know Your Product*. We are also amending Dealer Member Rule 42 – *Conflicts of Interest*. All references in this Notice are to the IIROC Rules unless otherwise specified. See [Notice 19-0144](#) and [Notice 20-0079](#) for more information on the IIROC Rules.

<sup>2</sup> See CSA Notice entitled “Notice of Amendments to NI 31-103 and Companion Policy 31-103CP: Reforms to Enhance the Client-Registrant Relationships (Client Focused Reforms)”, dated October 3, 2019 (the **CSA CFRs**).



The objectives of the Amendments are to:

- better align the interests of Dealer Members (**Dealers**) and Registered Individuals<sup>3</sup> with the interests of their clients,
- improve outcomes for clients, and
- make clearer to clients, the nature and the terms of their relationship with Dealers and Registered Individuals.

### **Types of Amendments**

The Amendments include both housekeeping rule changes (the **IIROC CFRs Housekeeping Amendments**) and public comment rule changes (the **IIROC CFRs Public Comment Amendments**). We are publishing the IIROC CFRs Housekeeping Amendments and the IIROC CFRs Public Comment Amendments in two separate notices on the same day. The IIROC CFRs Housekeeping Amendments are published in this Notice. The IIROC CFRs Public Comment Amendments are published in Notice [20-0238](#).

IIROC is permitted<sup>4</sup> to make rule changes characterized as housekeeping. These changes are not published for comment, and are in effect immediately upon implementation. Housekeeping rule changes have no material impact on investors, issuers, members, registrants or the capital markets in any province or territory of Canada and, among other things, are necessary to conform IIROC's rules to applicable securities legislation.

### **The IIROC CFRs Housekeeping Amendments**

The IIROC CFRs Housekeeping Amendments are necessary to conform our requirements to the corresponding CSA CFRs provisions that our Dealers are subject to under NI 31-103 (i.e. Dealers generally do not have an exemption in NI 31-103 from these provisions). The CSA CFRs provisions are material in nature and will apply to Dealers with or without the existence of equivalent IIROC rule provision. The IIROC CFRs Housekeeping Amendments are duplicative of the equivalent CSA rule provisions; they do not add further material requirements on our Dealers and for this reason have been classified as housekeeping. Dealers will want to evaluate the impact of the IIROC CFRs Housekeeping Amendments on their current practices (e.g., policies and procedures) to determine whether any changes are required to reflect such amendments.

The IIROC CFRs Housekeeping Amendments include two main parts:

- 1) changes to incorporate uniform language to the CSA CFRs, as appropriate, into the IIROC Rules (the **IIROC CFRs Core Housekeeping Amendments**) in the following areas:

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**Notice**) and the CSA Relief Orders extending the effective dates of the CSA CFRs relating to conflicts of interest and relationship disclosure provisions, dated April 16, 2020.

<sup>3</sup> In this Notice, the term "Registered Individual" refers collectively to individuals approved by IIROC as Registered Representatives, Portfolio Managers or Associate Portfolio Managers.

<sup>4</sup> Pursuant to the Joint Rule Review Protocol between IIROC and the CSA (**JRRP**).



- training,
  - conflicts of interest,
  - KYC,
  - relationship disclosure,
  - pre-trade disclosure of changes
  - product due diligence and KYP,
  - misleading communications,
  - general requirements to maintain records, and
- 2) changes of a consequential nature, such as updates to section references and language changes, to reflect the IIROC CFRs Housekeeping Amendments (the **Consequential Housekeeping Amendments**)

As part of this initiative, we are also introducing a few additional housekeeping changes that seek to ensure consistent use of terminology in the IIROC Rules, add clarity to the provisions, improve drafting and are reasonably necessary to conform IIROC's Rules to applicable securities legislation, statutory or legal requirements (the **Other Housekeeping Amendments**). We believe that these changes have no material impact on investors, issuers, members, registrants or the capital markets in any province or territory of Canada.

We discuss the IIROC CFRs Housekeeping Amendments and Other Housekeeping Amendments in more detail section 2 and 3 of this Notice.

### **The IIROC CFRs Public Comment Amendments**

The IIROC CFRs Public Comment Amendments include four parts:

- 1) changes to our account appropriateness requirement for consistency with the IIROC CFRs Suitability Amendments and the CSA CFRs (the **IIROC CFRs Account Appropriateness Amendments**),
- 2) enhancements to our suitability requirement that incorporate uniform language to the CSA CFRs suitability requirements (the **IIROC CFRs Suitability Amendments**),
- 3) exemptions from the core regulatory obligations of account appropriateness, KYC, suitability determination, product due diligence and KYP for certain account types, client types or service arrangements (the **IIROC CFRs Exemptions**), and
- 4) changes of a consequential nature, such as updates to section references and language changes, to reflect, among other things, the IIROC CFRs Account Appropriateness Amendments, IIROC CFRs Suitability Amendments and IIROC CFRs Exemptions (the **Consequential Public Comment Amendments**).

We discuss the IIROC CFRs Public Comment Amendments in more detail in Notice [20-0238](#).



## **Proposed Guidance**

In conjunction with the Amendments, we are also publishing for comment a proposed Product Due Diligence and Know-Your-Product guidance, (**Proposed Product Due Diligence and KYP Guidance**). This guidance is intended to assist our Dealers in understanding and complying with the product due diligence and KYP amendments and will replace [Notice 09-0087 \*Best practices for product due diligence\*](#) (**Notice 09-0087**), once implemented.

We discuss the Proposed Guidance further in Notice [20-0238](#).

We are not publishing revised guidance on conflicts of interest. IIROC Dealers are not exempt from the conflicts of interest requirements in section 13.4 and 13.4.1 of NI 31-103 so we refer Dealers to sections 13.4 and 13.4.1 of Companion Policy 31-103CP – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**CP 31-103**) for guidance on conflicts of interest requirements as it applies to them as well.



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## **1. Background**

### **1.1 Client Focused Reforms**

The Client Focused Reforms reflect the concept that in the client-Dealer relationship, the client's interest comes first. Under the Amendments and in conjunction with existing IIROC rules, Dealers will be required to:

- address material conflicts of interest in the best interest of the client,
- put the client's interest first when making a suitability determination, and
- do more to clarify for clients what they should expect from their Dealers.

IIROC participated, along with the Mutual Fund Dealers Association of Canada (**MFDA**), in the development of the CSA CFRs with the CSA. Details of the consultation and rule development process undertaken by the CSA for the CFRs are set out in the CSA CFRs Notice.

The IIROC CFRs Housekeeping Amendments are summarized below.

## **2. IIROC CFRs Housekeeping Amendments**

In this section, we provide a summary of the IIROC CFRs Housekeeping Amendments. In all instances, we are adopting language in the IIROC Rules (and, in the case of conflicts of interest, in the existing Dealer Member Rules (**DMRs**)) that is materially uniform to the corresponding CSA CFRs provisions. While some of these changes correspond to CSA CFRs provisions that impose new requirements, others codify best practices set out in our existing guidance. With the description of each change, we identify the corresponding CSA CFRs provisions, and we discuss what we anticipate the impact will be of that change or the corresponding CSA CFRs.

### **2.1 Classification of the IIROC CFRs Housekeeping Amendments**

The IIROC CFRs Housekeeping Amendments are classified as housekeeping rule changes because they are duplicative of the equivalent CSA CFRs that our Dealers are subject to under NI 31-103, or have no material impact on investors, issuers, members, registrants or the capital markets in any province or territory of Canada and are reasonably necessary to conform our rules to applicable securities legislation. The CSA CFRs provisions are material in nature and will apply to Dealers with or without the existence of equivalent IIROC rule provision. Generally, Dealers currently do not have an exemption from the corresponding CSA CFRs, which include the requirements for product due diligence and KYP, KYC and conflicts of interest. By making housekeeping rule changes so our rules are uniform in all material respects with the corresponding CSA CFRs provisions, we are generally not adding any net new material requirements on our Dealers. Where the corresponding CSA CFRs codifies existing best practices carried on by many Dealers, we generally expect the impact to be limited.



## 2.2 IIROC CFRs Core Housekeeping Amendments

### 2.2.1 Training (section 1407)<sup>5</sup>

We added a new section requiring Dealers to provide training to their Approved Persons on compliance with IIROC requirements, securities laws and applicable laws, including the KYC, KYP, account appropriateness, product due diligence, suitability determination and conflicts of interest requirements.

Dealers may have to review their training materials.

### 2.2.2 Conflicts of interest (DMR 42 and Part B of IIROC Rule 3100)<sup>6</sup>

As discussed in [Notice 20-0079](#) and section 4 of this Notice, the CSA's CFR conflict of interest amendments are being implemented prior to the implementation of the IIROC Rules. As such, we are amending our existing DMR 42 for consistency with the CSA's CFR conflict of interest amendments, to be effective June 30, 2021. Once the IIROC Rules come into force on December 31, 2021, the conflict of interest provisions in the IIROC Rules will replace the corresponding DMR. In this section we reference both the applicable DMR and IIROC Rule provisions (in brackets).

The housekeeping rule changes to our conflicts of interest rule are to align our existing requirements with the enhanced obligations of the CSA CFRs. They also are to address our concern that Dealers and Approved Persons are increasingly relying solely on disclosure to address conflicts of interest, as discussed in [Notice 17-0093 - Managing Conflicts in the Best Interest of the Client – Compensation-related Conflicts Review](#). Under the CFR amendments Dealers cannot rely solely on disclosure as a means of addressing conflicts of interest.

The CSA CFRs, among other things, introduce a requirement to manage conflicts of interest in the best interest of the client. While our current conflicts of interest rule<sup>7</sup> already includes a best interest standard, we made changes to this rule to align with the CSA CFRs. The amendments also introduce enhanced standards for the disclosure of conflicts of interest. The disclosure must include a description of the nature and extent of the conflict of interest, the potential impact on and risk that the conflict of interest could pose to the client, and how the conflict of interest has been, or will be, addressed. Dealers should review their existing conflicts of interest management practices to ensure they reflect the IIROC CFRs Core Housekeeping Amendments.

The IIROC CFRs Core Housekeeping Amendments include sentence structure and terminology changes in DMR sections 42.1 to 42.5 as set out in Appendix 3 [IIROC Rules sections 3110 to 3113 as set out in Appendix 1]. In addition, we made the following changes to make our requirements uniform in all material respects with the corresponding CSA CFRs provisions:

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<sup>5</sup> Corresponding CSA CFRs provision – NI 31-103 section 11.1(2).

<sup>6</sup> Corresponding CSA CFRs provisions – NI 31-103 sections 13.4,13.4.1,13.4.2.

<sup>7</sup> DMR 42 and Part B of Rule 3100.



**(a) Consistent Dealer Member and Approved Person obligations** (DMR subsections 42.2(1) and 42.3(1) and IROC Rules subsections 3111(1) and 3112(1))<sup>8</sup>

We changed the language to make Dealers' and Approved Persons' obligations consistent as they relate to addressing material conflicts of interest. Currently, Approved Persons must address material conflicts of interest "consistent with the best interests of client" and Dealers must address material conflicts of interest "considering the best interests of client". Approved Persons and Dealers must now address material conflicts of interest "in the best interest of the client".

**(b) Change in Approved Person obligations** (DMR subsection 42.2(1) and IROC Rules subsection 3111(1))<sup>9</sup>

We changed the language describing the Approved Person obligation from "consider the implications" to "address all material conflicts of interest in the best interest of the client".

**(c) Prohibition on Approved Person activity** (DMR subsection 42.2(3) and IROC Rules subsection 3111(3))<sup>10</sup>

We added language prohibiting Approved Persons from engaging in any trading or advising activity in connection with a material conflict of interest identified by that Approved Person unless they address the conflict of interest in the best interest of the client and their Dealer consents to them proceeding with the activity.

**(d) Change in timing of disclosure** (DMR subsection 42.4(c)(ii) and IROC Rules sub-clause 3113(2)(iii)(b))<sup>11</sup>

We changed the timing trigger to provide conflict of interest disclosure for existing clients, where the Dealer has not previously disclosed the conflict. Instead of disclosing the conflict "as the conflict of interest occurs" or "prior to entering into the transaction with a client", Dealers must now disclose the conflict "in a timely manner, upon identification of a conflict".

**(e) Additional disclosure obligations** (DMR subsections 42.4(1), (2) and (3) and IROC Rules subsections 3113(1), (2) and (3))<sup>12</sup>

We codified certain conflict disclosure obligations that were previously contained in guidance<sup>13</sup>. We

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<sup>8</sup> Corresponding CSA CFRs provisions – NI 31-103 sections 13.4, 13.4.1.

<sup>9</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.4(3).

<sup>10</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.4.1(5).

<sup>11</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.4(7).

<sup>12</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.4(8).

<sup>13</sup> See [Notice 12-0108](#) – Client Relationship Model – Guidance, [Notice 16-0068](#) – Managing Conflicts in the Best Interest of the Client, [Notice 16-0297](#) – Managing Conflicts in the Best Interest of the Client – Status Update, and [Notice 17-0093](#) – Managing Conflicts in the Best Interest of the Client – Compensation-related Conflicts Review.





added specific disclosure obligations. For example, DMR subsection 42.4(2) [IIROC Rules subsection 3113(2)] specifically requires that conflict disclosure include a description of the nature and extent of the conflict of interest, the potential impact on and risk that the conflict of interest may pose to the client, and how the conflict of interest has been, or will be, addressed. Additionally, we codified our current views by explicitly prohibiting sole reliance on disclosure to address, in the best interest of the client, material conflicts of interest.

### **2.2.3 Know-your-client (Part A of IIROC Rule 3200)<sup>14</sup>**

The changes to our KYC rules are required to align more closely, our language with the corresponding provisions in the CSA CFRs. These changes expand the KYC requirements to support the IIROC CFRs Suitability Amendments (discussed in Notice [20-0238](#)) by clarifying the content and scope of the KYC process.

We do not expect Dealers to conduct a complete repapering of all their clients' KYC information because of these changes prior to their implementation date, December 31, 2021. We would expect registrants to continue to schedule reassessments in accordance with current requirements up until then, and to schedule reassessments in accordance with the triggers in the Amendments after that date.

#### **(a) Expanded list of KYC factors (IIROC Rules clause 3202(1)(iii))<sup>15</sup>**

The list of KYC information that must be collected by Dealers and Registered Individuals to conduct a suitability determination is expanded. Dealers will now be required to collect information on a client's:

- personal and financial circumstances,
- investment needs and objectives,
- investment knowledge,
- risk profile (that includes both the client's risk tolerance and their risk capacity), and
- investment time horizon.

This list replaces the current list of KYC information required for a suitability determination under current subsection 3402(2) which includes all of the above, except:

- personal circumstances,
- investment needs (currently Dealers are only required to collect investment objectives), and
- risk profile (currently Dealers are only required to collect risk tolerance).

#### **(b) Client confirmation (IIROC Rules subsection 3202(3))<sup>16</sup>**

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<sup>14</sup> Corresponding CSA CFRs provision – NI 31-103 section 13.2.

<sup>15</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 13.2(2)(c).

<sup>16</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.2(3.1).



A new subsection is added requiring Dealers to take reasonable steps to obtain clients' confirmation of the accuracy of their KYC information. We consider this change an enhancement of our existing requirement in clause 3216(7)(ii) which we propose to remove in order to avoid duplicate requirements.

**(c) Updating client information (IIROC Rules subsection 3209(3))<sup>17</sup>**

We expanded our requirement to keep KYC information current by expressly requiring Dealers to update the client's information if they become aware of a significant change. We consider this change a clarification of our existing requirement in subsection 3202(3).

**(d) Minimum review intervals (IIROC Rules subsection 3209(4))<sup>18</sup>**

A new subsection is added specifying minimum intervals when a client's KYC information must be reviewed:

- 12 months for discretionary accounts and managed accounts, and
- 36 months for all other types of accounts.

We consider this change a codification of our best practices, as described in Notice 12-0109. However, Dealers should review their current practices to ensure their review of KYC information is consistent with these minimum intervals.

**2.2.4 Relationship disclosure (IIROC Rules section 3216)<sup>19</sup>**

We are making the following changes to our relationship disclosure requirements in section 3216 to be uniform with the language in the corresponding CSA CFRs provisions. We are also making these changes to implement the principle that a Dealer must deliver to its client all information that a reasonable investor would consider important about the client's relationship with the Dealer. Dealers will need to update their relationship disclosure document based on these changes.

Changes to our relationship disclosure rule include:

**(a) General Description of products and services (IIROC Rules sub-clause 3216(5)(ii)(a))<sup>20</sup>**

Our current requirement for a general description of the products and services the Dealer offers to the client is expanded to include:

- a description of the restrictions on the client's ability to liquidate or resell a security, and
- a statement of the investment fund management expense fees and other ongoing fees the client may incur.

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<sup>17</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.2(4).

<sup>18</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.2(4.1).

<sup>19</sup> Corresponding CSA CFRs provision – NI 31-103 section 14.2.

<sup>20</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 14.2(2)(b).



**(b) General description of limits on products or services (IIROC Rules sub-clause 3216(5)(ii)(b))<sup>21</sup>**

A requirement is added for Dealers to include a general description of any limits on the selection of the products or services the Dealer offers, including:

- whether the Dealer will primarily or exclusively provide proprietary products to the client's account, and
- whether there will be other limits on the availability of the products or services.

**(c) Suitability (IIROC Rules paragraph 3216(5)(ii)(d)(III))**

We updated the language in this paragraph for consistency with the language in proposed section 3402 relating to retail suitability determination requirements.

**(d) General description of benefits received (IIROC Rules sub-clause 3216(5)(ii)(g))<sup>22</sup>**

A requirement has been added to provide a general description of benefits received, or expected to be received, from a person or company other than client, in connection with the client's purchase or ownership of a security through the Dealer.

**(e) General explanation of potential impact of charges and fees (IIROC Rules sub-clause 3216(5)(ii)(j))<sup>23</sup>**

A requirement is added to provide a general explanation of the potential impact on the client's investment returns of the following:

- operating charges,
- transaction charges,
- investment fund management expense fees, and
- other ongoing fees the client may directly or indirectly incur.

**2.2.5 Pre-trade disclosure of charges (IIROC Rules section 3218)<sup>24</sup>**

Our pre-trade disclosure requirement is expanded to include investment fund management expense fees or other ongoing fees that the client may incur. Dealers may need to update their pre-trade disclosure based on this change.

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<sup>21</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 14.2(2)(b.1).

<sup>22</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 14.2(2)(h).

<sup>23</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 14.2(2)(o).

<sup>24</sup> Corresponding CSA CFRs provision – NI 31-103 paragraph 14.2.1(1)(d).



## 2.2.6 Product due diligence and know-your-product (IIROC Rule 3300)<sup>25</sup>

We have introduced product due diligence requirements for Dealers, and KYP requirements for Approved Persons in a new Rule 3300. Currently, the IIROC Rules do not include explicit product due diligence and KYP requirements. Instead, we have issued guidance on both these topics.<sup>26</sup> Rule 3300, codifies IIROC Staff's views on product due diligence and KYP set out in our existing guidance. We have published proposed new guidance on this matter in Notice [20-0238](#).

The new product due diligence and KYP requirements include:

### (a) Making securities available - Dealers (IIROC Rules subsection 3301(1))<sup>27</sup>

Dealers must now take reasonable steps to ensure that securities they make available to clients are:

- assessed with regard to their relevant aspects, including for their structure, features, risks, initial and ongoing costs, and the impact of those costs,
- approved to be made available to clients, and
- monitored for significant changes.

Dealers will be required to conduct these activities for all securities that they make available to clients. Dealers will have to conduct an initial review of securities currently on the Dealer's product shelf, as well as ongoing review of new securities.

### (b) Dealers must pre-approve securities (IIROC Rules, subsection 3301(2))<sup>28</sup>

Approved Persons can only purchase or recommend securities approved by their Dealer to be made available to clients. Dealers should review and amend their policies and procedures, as necessary, to reflect this requirement.

### (c) Understanding securities – Approved Persons (IIROC Rules, section 3302)<sup>29</sup>

Approved Persons must understand the securities they trade in or advise on for clients, including the impact of the costs associated with acquiring and holding the securities, to enable Approved Persons to meet their suitability obligations.

We expect Dealers will review and amend their policies and procedures as necessary to reflect this requirement. Approved Persons will need to ensure they have sufficient product knowledge to meet all of their suitability obligations.

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<sup>25</sup> Corresponding CSA CFRs provision – NI 31-103 section 13.2.1.

<sup>26</sup> Notice 09-0087 and Notice 12-0109.

<sup>27</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.2.1(1).

<sup>28</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.2.1(2).

<sup>29</sup> Corresponding CSA CFRs provision – NI 31-103 section 13.2.1.



### **2.2.7 Misleading communications (IIROC Rules, section 3640)<sup>30</sup>**

We added a new section 3640, which provides that:

#### **(a) General prohibition on misleading communications (IIROC Rules subsection 3640(1))<sup>31</sup>**

Dealers and Registered Individuals must not hold themselves out in any manner that could reasonably be expected to deceive or mislead any person or company as to:

- their proficiency, experience, qualifications or category of registration,
- the nature of the person's relationship, or potential relationship, with the Dealer or the Registered Individual, and
- the products or services provided, or to be provided by the Dealer or the Registered Individual.

We consider this change a clarification of our existing requirements in Part A of Rule 3600.

#### **(b) Use of titles (IIROC Rules subsection 3640(2))<sup>32</sup>**

A Registered Individual who interacts with clients must not use a:

- title, designation, award, or recognition that is based partly or entirely on that Registered Individual's sales activity or revenue generation,
- corporate officer title unless their Dealer has appointed that registrant to that corporate office pursuant to applicable corporate law, or
- title or designation unless their Dealer has approved its use.

This change may impact Registered Individuals who use these titles, and the Dealers they work for.

### **2.2.8 General requirements to maintain records (IIROC Rules section 3804)<sup>33</sup>**

We are making the following changes to our general requirements to maintain records to ensure our language is uniform in all material respects with the corresponding CSA CFRs provisions.

#### **(a) Record keeping (IIROC Rules clauses 3804(2)(xii) and 3804(2)(xv) through 3804(2)(xviii))<sup>34</sup>**

In addition to the existing recordkeeping requirements, Dealers must maintain current records that:

- demonstrate compliance with account appropriateness, product due diligence and KYP requirements,
- document training by the firm,
- demonstrate compliance with conflict of interest requirements,

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<sup>30</sup> Corresponding CSA CFRs provision – NI 31-103 section 13.18.

<sup>31</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.18(1).

<sup>32</sup> Corresponding CSA CFRs provision – NI 31-103 subsection 13.18(2).

<sup>33</sup> Corresponding CSA CFRs provision – NI 31-103 section 11.5.

<sup>34</sup> Corresponding CSA CFRs provision – NI 31-103 section 11.5.



- document the firm’s sales practices, compensation arrangements, incentive practices and other compensation arrangements and incentive practices which may benefit a Dealer or its Approved Persons, and
- demonstrate compliance with the misleading communications requirements.

### **2.3. Consequential Housekeeping Amendments**

We are implementing Consequential Housekeeping Amendments to harmonize our requirements with the IIROC CFR Core Housekeeping Amendments. These include updating section reference numbers where applicable, and other changes to our language and requirements.

While we do not anticipate that most Consequential Housekeeping Amendments themselves will have a significant impact on Dealer practices, the substantive changes they reflect may impact Dealer practices. For example, we updated the list of KYC factors in a number of sections. While we expect the new list of KYC factors introduced through the IIROC CFR Core Housekeeping Amendments to impact Dealer practices, we do not expect the Consequential Housekeeping Amendments arising out of that change to have a further material impact on Dealers.

We summarize all Consequential Housekeeping Amendments in Appendix 5 but some examples of these are:

#### **(a) Structural changes – Know-your-client (IIROC Rules section 3202 and 3209)**

Under the current IIROC Rules, our KYC requirements are in three separate places: section 3103, section 3202 and subsection 3402(2). We are moving all the KYC requirements into section 3202 and the new section 3209. We are also renaming section 3202 “Know-Your-Client”, renaming Part A of Rule 3200 “Know-Your-Client and Client Identification” and renaming Rule 3200 “Know-Your-Client and Client Accounts”. This is not a substantive change to our requirements.

#### **b) Business conduct (IIROC Rules subsection 3102(2))**

We are changing the phrase “use due diligence” to “take reasonable steps” for greater consistency with the language used in the Amendments. We do not intend for this change to result in any change to Dealer behaviour.

#### **(c) Managed account agreement (IIROC Rules clause 3278(1)(i))**

We are updating the language in this clause for consistency with the updated KYC factors in clause 3202(1)(iii). Because of this change, Dealers may need to update their managed account agreements with their clients.

### **3. Other Housekeeping Amendments**

In addition to the above changes, we are also introducing a few additional housekeeping changes that seek to ensure consistent use of terminology in the IIROC Rules, add clarity to the provisions, improve drafting and are reasonably necessary to conform IIROC’s Rules to applicable securities legislation,



statutory or legal requirements. We believe that these changes have no material impact on investors, issuers, members, registrants or the capital markets in any province or territory of Canada.

The nature of the Other Housekeeping Amendments can be described under the following categories:

- *Drafting improvements:*
  - minor changes to correct drafting and add clarity (e.g. subsections 1201(2), 2303(4), 2550(2) and 3201(1), clause 3213(2)(i) and (ii), subsections 3214(5) and (6), clause 3218(1), section 3240 and subsections 3403(1), 3403(2), 3403(3), 3955(2) and 3971(2)(i));
  - minor changes to adopt gender neutral terminology (various provisions along the IIROC Rules); and
  - structural changes such as repositioning a few provisions for better flow of information (e.g. moving the definitions of “trade name” (subsection 2281(1)) and “trading strategy” (subsection 3602(1)) to the definitions subsection 1201(2), and renumbering the corresponding provisions as a result).
- *Drafting changes*, that are reasonably necessary to conform IIROC’s Rules to applicable securities legislation, statutory or legal requirement (e.g. subsection 1201(2), subsection 1404(2) and section 3220)).

#### **4. Approval and implementation**

On September 23<sup>rd</sup>, 2020, the Board of Directors approved the IIROC CFR Housekeeping Amendments.

We are providing for a phased implementation period, consistent with that of the corresponding CSA CFRs provisions.

The Amendments relating to conflicts of interest will be introduced via proposed amendments to the current DMRs (see Appendix 3 and 4) and will be effective on June 30, 2021.

All remaining CFR (as set out in the IIROC CFR Housekeeping Amendments and the IIROC CFRs Public Comment Amendments) will be effective on December 31, 2021. Once the IIROC Rules come into effect on December 31, 2021, the conflict of interest amendments in the proposed IIROC Rules (see Appendix 1 and 2) will replace the corresponding DMRs that were implemented on June 30, 2021. Dealers will have to comply with the applicable Amendments after those dates.

The CSA has established an implementation committee to provide guidance, respond to questions and otherwise assist registrants to operationalize the CSA CFRs. We are participating in that implementation committee to ensure consistency in implementing the IIROC CFRs Housekeeping Amendments, which are uniform in all material respects with the corresponding CSA CFRs provisions.



## 5. Attachments

[Appendix 1](#) - Proposed Amendments to IIROC Rules (blacklined)

[Appendix 2](#) - Proposed Amendments to IIROC Rules (clean)

[Appendix 3](#) - Proposed Amendments to DMR (blacklined)

[Appendix 4](#) - Proposed Amendments to DMR (clean)

[Appendix 5](#) - Consequential Housekeeping Amendments Summary Chart