

IIROC NOTICE

Rules Notice Request for Comments

IIROC Rules

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21-0103

June 10, 2021

Proposed Amendments to Form 1 and corollary amendments to the IIROC Rules

Executive summary

On March 24th, 2021, the Board of Directors (the **Board**) of the Investment Industry Regulatory Organization of Canada (IIROC) approved the publication for comment of proposed amendments to Form 1 and corollary amendments to the IIROC Rules¹ (**Proposed Amendments**).

The Proposed Amendments seek to improve the overall consistency of the IIROC requirements by providing greater clarity and conciseness of certain defined terms and incorporating plain language writing conventions within Form 1. The Proposed Amendments are expected to be implemented on December 31, 2021 which is the same implementation date as that for the IIROC Rules.

¹ See IIROC Notices [19-0144](#) and [20-0079](#) for more information on the IIROC Rules.



How to Submit Comments

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **July 12, 2021** to:

Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
e-mail: memberpolicymailbox@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

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



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1. Relevant background

On April 29th, 2021, we published the housekeeping amendments to Form 1² with the objective to make the language and structure of Form 1 more clear, concise and organized. In addition to these housekeeping amendments, we also identified that material amendments are required to ensure the terms that are used in Form 1 and the IIROC Rules continue to be consistent.

In February 2018, we introduced new defined terms³ to replace the term “recognized exchange”. The new terms were:

- “applicable exchange” and “applicable association” to be used in determining dealers in other jurisdictions that qualify as a “regulated entity”, and
- “acceptable exchange” to be used in determining exchange listed products that are eligible for margin or preferred margin treatment.

The purpose of eliminating the use of the “recognized exchange” was to remove term confusion as the Canadian Securities Administrators (CSA) use the same defined term with a different meaning within their rules.

These new defined terms, however, have inadvertently created inconsistencies with IIROC Rules regarding which securities listings are:

- eligible for margin or preferred margin treatment, and
- not eligible for margin or preferred margin treatment.

2. Discussion on Proposed Amendments

2.1 Amendments to the terms “applicable exchange”, “applicable association”, and “acceptable exchange” in Form 1

To facilitate greater consistency in the margin treatment of listed securities and rule clarity overall, we are proposing to:

- eliminate use of the terms “applicable exchange” and “applicable association” given that the criteria listed in those terms are best suited within the definition of “regulated entity”, and
- revise the definition of the term “acceptable exchange” to:
 - focus on matters that are most relevant to margin eligibility / preferred margin treatment such as having adequate initial and ongoing listing requirements and trading rules, and

² IIROC Notice [21-0084](#)

³ IIROC Notices [18-0043](#) and [19-0146](#)



- remove any requirement for the exchange to regulate the activities of its dealer participants, as this is not relevant to determining margin eligibility / preferred margin treatment.

We have also revised references to “applicable exchange” and “applicable association” in Form 1 to reflect these changes.

2.2 Amendment to the term “valuation” in Form 1

Currently, the term “valuation” within Form 1 does not explicitly describe a departure from IFRS. Instead, it provides a reference to the implementation of Phase 2 of the Client Relationship Model⁴ project where a “market value” definition is included. We have re-written this IFRS departure to differentiate IIROC’s “market value” definition from the IFRS “fair value” definition.

Enclosed as Attachment A is a blackline comparison of the Proposed Amendments to the amended Form 1 in IIROC Notice 21-0084. These amendments affect the following Form 1 documents:

- general notes and definitions, and
- the notes and instructions to Schedule 11 and 11A.

2.3 Corollary amendments to the IIROC Rules

We also made corollary amendments to the IIROC Rules reflecting the changes described in section 2.1. We used the term “acceptable exchange” exclusively when determining margin eligibility / margin treatment and the generic term “exchange” where the requirement is intended to include stock exchanges generally. Also, where the IIROC requirements relating to the exchange that a futures contract or a futures contract option is listed, we harmonized the terms “commodity futures exchange”, “applicable exchange” and “acceptable exchange” by replacing them with the more general term “futures exchange”.

We have provided a blackline showing the proposed corollary amendments to the IIROC Rules in Attachment B.

3. Analysis

3.1 Issues and alternatives considered

We considered the possibility of maintaining a status quo, however, this alternative was not chosen because these defined terms currently create ambiguity and confusion. It is necessary to amend these

⁴ IIROC Notice [15-0013](#) - Client Relationship Model - Phase 2 Performance Reporting and Fee / Charge Disclosure amendments to Dealer Member Rule 200 and to Dealer Member Form 1



terms in order to provide clarity of its intended purpose and to ensure they remain consistent with the IIROC Rules.

3.2 Comparison with similar provisions

We did not compare the Proposed Amendments with similar provisions from other jurisdictions because we do not believe it would be relevant given the unique nature of the amendments to Form 1.

4. Impact of Proposed Amendments

We believe that the Proposed Amendments will have no material impact to investors, the capital market structure, competition generally, the cost of compliance and conformity with other rules.

The Proposed Amendments do not permit unfair discrimination among customers, issuers, brokers, Dealers or others.

4.1 Economic impact assessment

We considered and determined that an economic impact assessment of the anticipated costs and benefits of the Proposed Amendments was not necessary as the changes are to clarify the meaning of current terms and ensure its consistency when used in Form 1 and the IIROC Rules.

5. Policy development process

IIROC's Board determined the Proposed Amendments to be in the public interest and on March 24th, 2021 approved them for publication for public comment.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend that revisions be made to the applicable Proposed Amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the Proposed Amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, the proposed amendments including any revisions will be submitted to the Board for approval for republication or implementation as applicable.

6. Implementation

After we receive approval from our Recognizing Regulators, we intend to publish an implementation notice within 90 days. We will indicate in the notice that the Proposed Amendments will be effective at the same time as the IIROC Rules (currently, December 31, 2021).



7. Attachments

[Attachment A](#) - Blackline comparison of the Proposed Amendments to amended Form 1 in IIROC Notice 21-0084

[Attachment B](#) - Blackline comparison of corollary amendments to IIROC Rules

[Attachment C](#) - Clean copy of the general notes and definitions and the notes and instructions to Schedules 11 and 11A of Form 1

[Attachment D](#) - Clean copy of corollary amendments to IIROC Rules