

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
IIROC Rules

Please distribute internally to:

Institutional
Legal and Compliance
Operations
Retail
Senior Management

Implementation: December 31, 2021

Contact:

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21-0148
August 26, 2021

Client Focused Reforms – IIROC Rule Amendments

Executive Summary

The Canadian Securities Administrators (**CSA**) have approved amendments to the IIROC Dealer Member Plain Language Rule Book (**IIROC Rules**)¹ in the areas of account appropriateness, know-your-client (**KYC**), know-your-product (**KYP**), product due diligence, relationship disclosure and suitability determination (the **Amendments**). The Amendments are part of our initiative to make IIROC requirements uniform in all material respects with corresponding CSA Client Focused Reforms (**CFRs**) requirements². We include these Amendments in **Appendices 1 and 2**.

We are also publishing the Product Due Diligence and Know-Your-Product guidance (the **PDD and KYP Guidance**). We include this guidance in **Appendix 3**.

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

² Canadian Securities Administrators, *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.



1. Background

On November 19, 2020, we published two sets of rule amendments:

- public comment amendments in [Notice 20-0238](#),³ and
- housekeeping rule changes for implementation in [Notice 20-0239](#).⁴

In Notice 20-0238, we also published for public comment the PDD and KYP Guidance. This guidance is intended to assist our Dealers understand and comply with the product due diligence and know your product amendments which were introduced via both Notice 20-0238 and Notice 20-0239.

The current notice implements the public comment amendments in Notice 20-0238 along with additional non-material changes discussed below.

2. Comments received

We received [nine comments letters](#) in response to Notice 20-0238. We provide a summary of these comments and our response in **Appendix 4**.

3. The Amendments

The Amendments consist of the following:

- changes to our account appropriateness requirement for consistency with our suitability amendments and the CSA CFRs,
- enhancements to our suitability requirement that incorporate uniform language to the CSA CFRs suitability requirements,
- 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, and
- changes of a consequential nature, such as updates to section references and language changes, to reflect, among other things, the account appropriateness amendments, suitability amendments and the exemptions from the core regulatory obligations.

³ In Notice 20-0238 and Notice 20-0239 we refer to these changes as IIROC CFRs Public Comment Amendments.

⁴ In Notice 20-0238 and Notice 20-0239 we refer to these changes as IIROC CFRs Housekeeping Amendments.



3.1. Additional non-material changes

In response to the comments received and our consultation with the CSA, we made additional non-material revisions to the following provisions in the Amendments:

- Account Appropriateness – clause 3211(1)(i): we clarified that the Dealer must determine, on a reasonable basis and putting the person’s interest first, that the action of opening the account is appropriate for that person,
- Retail client suitability determination requirements:
 - Clause 3402(3)(i): we clarified that the Dealer must determine, on a reasonable basis and putting the client’s interest first, that it is suitable for the client to continue having an account with the Dealer,
 - Subsection 3402(4): we replaced ‘*retail client’s investment portfolio*’ with ‘*retail client’s account portfolio of investments*’ to clarify that Dealers are required to assess the suitability of the client’s portfolio of investments in the client’s account, rather than across multiple accounts, except when otherwise specified in the IROC Rules and related guidance,
 - Paragraph 3216(5)(ii)(d)(III): we removed the words ‘investment portfolio’ to avoid any conflicting interpretations between the Dealer’s suitability determination obligation under section 3402 and its disclosure to clients under paragraph 3216(5)(ii)(d)(III),⁵ and
- Institutional client suitability determination requirements – clause 3403(4)(i): we clarified that the Dealer must determine, on a reasonable basis and putting the client’s interest first, that it is suitable for the client to continue having an account with the Dealer.

We include a blackline of the additional non-material rule changes in **Appendix 5**.

4. The PDD and KYP Guidance

In response to the comments received and consultations with the CSA, we revised the following sections in the PDD and KYP Guidance:

- Section 1.1 What is product due diligence?: we clarified that Dealers may limit access to securities with complex or unique features to a certain class or subset of retail clients rather than the entire category of retail clients,

⁵ The French version of paragraph 3216(5)(ii)(d)(III) does not refer to the investment portfolio per se, so this change does not apply to the French version.



- Section 1.1.3 Is the product due diligence responsibility the same for all types of business models?: we further clarified that as part of their PDD obligation, Dealers providing order execution only (**OEO**) accounts are expected to perform a baseline assessment regarding whether certain products may be inappropriate for any class of client with an OEO account and that this does not entail a suitability obligation for individual clients, and
- Section 1.1.5 - What product due diligence is required for transfers-in and client directed trades?: we further aligned our guidance on Dealers' PDD obligation and Approved Persons' KYP obligation concerning these trades with that in the CSA CFRs.⁶

We include a blackline of these revisions to the PDD and KYP Guidance in **Appendix 6**.

The PDD and KYP Guidance will replace Notice 09-0087 *Best practices for product due diligence*, once it enters into effect.

5. Implementation

The Amendments and the PDD and KYP Guidance will enter into effect on December 31, 2021.

6. Appendices

[Appendix 1](#) - Amendments to the IIROC Rules (clean)

[Appendix 2](#) - Amendments to the IIROC Rules (blackline to the existing IIROC Rules)

[Appendix 3](#) - GN-3300-21-001, Product Due Diligence and Know-Your-Product guidance

[Appendix 4](#) - IIROC Response to Public Comments

[Appendix 5](#) - Additional non-material changes (blackline to publication in Notice 20-0238)

[Appendix 6](#) - Revisions to the PDD and KYP Guidance (blackline to publication in Notice 20-0238)

⁶ Section 13.2.1 of 31-103CP