

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

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Client Relationship Model – Phase 2

Performance Reporting and Fee / Charge Disclosure

Amendments to Dealer Member Rules 29, 200 and 3500 and

to Dealer Member Form 1

Background and history of the Client Relationship Model project and the “Phase 2” amendments

Client Relationship Model project

The Client Relationship Model project is essentially a continuation of a previous project of the Ontario Securities Commission Fair Dealing Model Committee, which released the Fair Dealing Model Concept Paper in January, 2004. This concept paper envisioned extensive changes to the regulatory requirements applicable to retail client accounts, from the negotiation and documentation of the relationship at account opening to the transactional information and account reporting to be provided to clients on an ongoing basis.

In September 2004, the Fair Dealing Model initiative was brought under the umbrella of the broader CSA Registration Reform Project (“RRP”). The aim of the RRP was to streamline and harmonize the registration regime and develop rules in certain key areas to apply to all registrants on a national basis. Under the RRP, the Fair Dealing Model initiative was re-branded as the Client Relationship Model and its focus was narrowed to the following areas:

- account opening documentation;
- conflicts of interest management;
- costs and compensation transparency; and
- performance reporting.



IIROC CRM1 Amendments

In May 2005, the Investment Dealers Association of Canada (“IDA”) and the Mutual Fund Dealers Association (“MFDA”) were asked by the CSA to develop rule proposals to address these three areas. To facilitate this rulemaking work, a joint rulemaking committee of the IDA and the MFDA drafted rule proposals in consultation with staff of the securities commissions. The resultant draft rule proposals relating to account relationship disclosure, conflict of interest management, retail client suitability assessment and annual account performance reporting (collectively the “IIROC CRM1 Amendments”) were then subjected by the IDA (and subsequently IIROC) to extensive advisory committee and retail advisor review, as well as several rounds of public comment. Specifically, three drafts of the IIROC CRM1 Amendments were published for public comment on:

- February 29, 2008;
- April 24, 2009 [IIROC Rules Notice 09-0120]; and
- January 7, 2011 [IIROC Rules Notice 11-0005].

In response to the comments received on these drafts, IIROC staff revised the IIROC CRM1 Amendments to focus more closely on the core CRM objectives and to factor in potential implementation issues.

On March 23, 2012, the IIROC CRM1 Amendments were approved by IIROC’s recognizing regulators on the condition that implementation of the annual account performance reporting elements of the IIROC rule amendments be suspended. The effect of this suspension was that although the IIROC performance reporting rule amendments had been approved, IIROC could not implement its annual performance reporting rule amendments until the CSA performance reporting rule amendments were finalized and IIROC amended its annual performance reporting requirements to harmonize with those of the CSA.

CSA CRM2 Amendments

On March 28, 2013, the CSA announced that amendments to National Instrument 31-103 relating to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting (collectively the “CSA CRM2 Amendments”) would come into force on July 15, 2013. In addition to a number of additional requirements introduced in the CSA CRM2 Amendments, different requirements from those recently implemented by IIROC or proposed by IIROC as part of its IIROC CRM1 Amendments were introduced by the CSA as follows:

- Disclosure of compensation taken on debt security trade confirmations; and
- Annual account performance reporting



Disclosure of compensation taken on debt security trade confirmations

Effective September 4, 2012¹, IIROC introduced requirements to: (1) disclose yield to maturity on debt security purchase trade confirmations issued to all clients; and (2) provide the following compensation-related text disclosure on all debt security trade confirmations issued to all Retail Customers:

“The investment dealer’s remuneration on this transaction has been added to the price in the case of a purchase or deducted from the price in the case of a sale.”

As part of the CSA CRM2 Amendments, the CSA has introduced requirements to: (1) disclose yield to maturity on debt security purchase trade confirmations issued to all clients, (2) disclose either total compensation or gross commission² on all debt security trade confirmations issued to all clients and (3) where gross commission is disclosed, to provide the following compensation-related text disclosure on all debt security trade confirmations issued to all clients:

“Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”

Annual account performance reporting

The annual performance reporting elements of the IIROC CRM1 Amendments previously approved by the CSA on March 23, 2012 included requirements to provide on an annual basis: (1) position cost information, using either original cost or tax cost; (2) annual and “since account inception” account activity information; and (3) account percentage return information, determined using either an acceptable time-weighted or money-weighted calculation methodology.

As part of the CSA CRM2 Amendments, the CSA has introduced requirements to provide: (1) position cost information, using either original cost or tax cost, on a quarterly basis; (2) annual and “since account inception” account activity information, on an annual basis; and (3) account percentage return information, determined using an acceptable money-weighted calculation methodology, on an annual basis.

¹ Changes to the debt security trade confirmation requirements were part of the amendments relating to the “Over-the-counter securities fair pricing rule and confirmation disclosure requirements” that were announced on September 1, 2011 through the issuance of IIROC Rules Notice 11-0256 and were implemented effective September 4, 2012.

² “Total compensation” is the total amount of any mark-up or mark-down, commission or other services charges the Dealer Member charges on the debt security trade. “Gross commission” is the commission the Dealer Member charges on the debt security trade (as compared to “net commission which is the Registered Representative’s portion of the commission charged on the trade).



IIFOC CRM2 Amendments

Summary of the nature and purpose of the proposed rules and amendments

Enclosed are proposed amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1 (collectively the “IIFOC CRM2 Amendments”) to address the following second (and final) set of regulatory objectives identified under the Client Relationship Model project:

- Annual account performance reporting;
- Pre-trade and trade confirmation compensation disclosures; and
- Annual account fee / charge reporting.

The IIFOC CRM2 Amendments are being published for public consideration at this time in order to adopt IIFOC rule requirements that are substantially the same as the CSA CRM2 Amendments. If the CSA determines that the IIFOC CRM2 Amendments are materially harmonized with the CSA CRM2 Amendments, the CSA will exempt IIFOC Dealer Members from some or all of the CSA CRM2 Amendments.

The IIFOC CRM2 Amendments contain the following components:

- (i) Proposed amendments to the existing IIFOC rule requirements for fee /charge disclosure prior to a trade and on trade confirmations;
- (ii) A revised version of a previously published (and CSA approved) IIFOC rule proposal³ to require annual account performance reporting; and
- (iii) Proposed new IIFOC rules to require annual account fee / charge reporting.

The IIFOC proposals will be published for public comment for:

- 60 days in the case of proposals that are scheduled to become effective either immediately upon announcement of implementation or on July 15, 2014; and
- 120 days in the case of proposals that are scheduled to become effective on either July 15, 2015 or July 15, 2016.

A complete list of the public comment periods and proposed implementation dates for the IIFOC CRM2 Amendments is set out later on in this notice.

³ A number of IIFOC (and IDA) proposals to adopt requirements relating to: (1) account relationship disclosure, (2) management and disclosure of conflicts of interest, (3) account suitability, and (4) account performance reporting were published for public comment. The most recent proposal was:

- Considered by the Board and approved for re-publication and implementation on June 24, 2010;
- Published for public comment on January 7, 2011, through the issuance of IIFOC Rules Notice 11-0005;
- Approved by the CSA for implementation on March 22, 2012, provided IIFOC suspended implementation of the account performance reporting elements of its proposals; and
- Implemented by IIFOC (with the exception of the account performance reporting elements) on March 26, 2012.



Objective of the proposed IIROC CRM2 Amendments

The objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as the CSA CRM2 Amendments. If the CSA determines that the IIROC CRM2 Amendments are materially harmonized with the CSA CRM2 Amendments, the CSA will exempt IIROC Dealer Members from some or all of the CSA CRM2 Amendments.

An alternative to the proposed IIROC CRM2 Amendments is to not propose any IIROC rule amendments. Under this alternative, IIROC Dealer Members would be subject to the client disclosure and reporting requirements for fees, charges and performance under both the IIROC Dealer Member Rules and under the applicable provisions of National Instrument 31-103. This alternative was seen as being more burdensome to IIROC Dealer Members with no incremental client benefit as IIROC Dealer Members would be required to comply with two sets of client reporting and disclosure requirements instead of one.

In recognition of the fact that the amendments that comprise the IIROC CRM2 Amendments are collectively a significant set of amendments that will have a material impact on the operations of Dealer Members and other stakeholders, we considered publishing for public comment the IIROC CRM2 Amendments as two separate sets of amendments as follows:

- Immediately publish the amendments that are scheduled to come into effect upon announcement of implementation, as well as those that are scheduled to come into effect on July 15, 2014; and
- Publish at a later date the amendments that are scheduled to come into effect on July 15, 2015 and July 15, 2016.

This alternative was not chosen as it was felt that by publishing all of the proposed amendments at the same time, commenters would get a better sense as to how the proposed amendments will work with each other. However, because the amendments are collectively a significant, we have allowed for more time to provide public comments on the amendments scheduled to come into effect on July 15, 2015 and July 15, 2016 (120 days).

Detailed description of proposed IIROC CRM2 Amendments

Pre-trade disclosure of charges [proposed new section 29.9]

Included in the proposed IIROC CRM2 Amendments is a proposal to establish a formal requirement that a Retail Customer is informed of all fees / charges associated with a client instruction to purchase or sell a security in an account before the purchase or sale takes place. This is in essence a proposed codification of a long-standing industry best practice that is currently discussed in IIROC's



Client Relationship Model guidance⁴ and is consistent with the equivalent requirement introduced in section 14.2.1 of the CSA CRM2 Amendments.

Trade confirmation disclosure requirements

The proposed IIROC CRM2 Amendments also include enhancements to the existing trade confirmation disclosure requirements for trades involving securities with deferred charges and for trades involving debt securities as follows:

(i) *Disclosure of deferred charges* [proposed amended subsection 200.2(l), preamble]

Pursuant to the revised preamble language in subsection 200.2(l), an additional disclosure would be required on all trade confirmations issued for trades involving securities with deferred charges. Consistent with proposed section 29.9 relating to pre-trade disclosures, the new trade confirmation disclosure requirement could be met by disclosing a range of deferred charges that might apply on any subsequent sale of the security purchased. This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments.

(ii) *Disclosure of debt security compensation* [proposed new subparagraph 200.2(l)(v)(C)] preamble]

Pursuant to the language in new subparagraph 200.2(l)(v)(C), the existing IIROC requirement to provide compensation-related information on debt security trade confirmations issued to Retail Customers will be revised to require the following:

- Disclosure of either the total compensation or gross commission⁵ taken on the trade, and
- Where gross commission is disclosed, the provision of the following text disclosure:

“Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”

This change has been made in response to a CSA request that, where the SROs retain/introduce their own rules relating to debt security fee/charge disclosure, disclosure of either the total compensation or gross commission taken on the trade must be made mandatory.

⁴ Refer to IIROC Rules Notice 12-0108, “Client Relationship Model – Guidance”, issued on March 26, 2012.

⁵ “Total compensation” is the total amount of any mark-up or mark-down, commission or other services charges the Dealer Member charges on the debt security trade. “Gross commission” is the commission the Dealer Member charges on the debt security trade (as compared to “net commission which is the Registered Representative’s portion of the commission charged on the trade).



This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments, with the exception that the IIROC requirement will only apply to Retail Customer trades. See the “difference” section below for further discussion of this proposed difference.

Client account statement [proposed revised subsection 200.2(d)]

Two changes are being introduced to the existing client account statement requirements set out subsection 200.2(d) [as renumbered], as follows:

- A revision to the approach used to determine the “market value” of account security positions by inserting a “market value” definition in subsection 200.1(c); and
- A requirement to provide cost information for each account security position.

These proposed requirements are consistent with the equivalent requirements introduced in section 1.1, 14.11.1, and 14.14 of the CSA CRM2 Amendments, with the exception that there are differences in how IIROC has defined the terms “book cost”, “market value” and “original cost”. See the “difference” section below for further discussion.

Report on client positions held outside of the Dealer Member [proposed new subsection 200.2(e)]

A new report requirement is being introduced in proposed subsection 200.2(e) requiring separate reporting on Retail Customer security positions held outside of a Dealer Member client account on which the Dealer Member continues to receive compensation. The report will require the disclosure of the same information required to be disclosed for account positions in the account statement – specifically name and quantity of each security position, as well as market value and cost information for each security position and aggregate market value and cost information for all security positions. These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1, 14.11.1, and 14.14.1 of the CSA CRM2 Amendments, with the following exceptions:

- there are differences in how IIROC has defined the terms “book cost”, “market value” and “original cost”; and
- the IIROC proposals do not contemplate reporting on cash balances held outside of the Dealer Member by the client.

See the “difference” section below for further discussion.

Performance report [proposed new subsection 200.2(f)]

A further new report requirement is being introduced in proposed subsection 200.2(f) to require annual performance reporting to Retail Customers. The information to be included in the new report, for the periods from account inception to report date and for the last 12 months, is as follows:

- total combined market value of cash and securities at the beginning of the period;

IIROC Notice 13-0300– Rules Notice – Request for Comments - Dealer Member Rules – Client Relationship Model – Phase 2; Performance Reporting and Fee / Charge Disclosure; Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1



- total combined market value of all deposits and transfers in of cash and security positions;
- total combined market value of all withdrawals and transfers out of cash and security positions;
- total combined market value of cash and securities at the end of the period; and
- total combined change in market value for the period of all cash and security positions.

In addition, percentage return information for the most recent 1, 3, 5 and 10 years periods and for the period from account inception will also have to be included in the performance report as the information becomes available (i.e. the percentage return information requirements will be implemented prospectively).

The revised proposed annual performance reporting requirements differ from those previously published for public comment by IIROC in the following way:

- The annualized percentage returns provided to clients in the performance report must be calculated using a money-weighted percentage return calculation methodology (the previous IIROC proposal allowed Dealer Member choice between using a money-weighted percentage return calculation methodology and a time-weighted percentage return calculation methodology)

This change has been made in response to a CSA request that, where the SROs retain/introduce their own rules relating to performance reporting, the provision of annualized percentage returns calculated using a money-weighted percentage return calculation methodology must be made mandatory and that choice between using a money-weighted percentage return calculation methodology and a time-weighted percentage return calculation methodology must not be permitted.

These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1, 14.11.1, 14.18 and 14.19 of the CSA CRM2 Amendments, with the following exceptions:

- there are differences in how IIROC has defined the term “market value”; and
- the IIROC proposals require the preparation of a consolidated performance report that covers the same accounts as any consolidated fee / charge report that is prepared for the client.

See the “difference” section below for further discussion.

Relationship disclosure - discussion of investment performance benchmarks [proposed new subparagraph 3500.5(2)(c)(j)]

A related initiative to the introduction of the performance report is the introduction of a proposed new relationship disclosure requirement in subparagraph 3500.5(2)(c)(j) to provide a general explanation of what investment performance benchmarks are, how they can be used to help the client assess the performance of their investments and to discuss any investment performance benchmark options that the Dealer Member might make available to the client.



This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.2(2)(m) of the CSA CRM2 Amendments, with the following exception:

- IIROC intends to implement this new requirement on July 15, 2016⁶, the same date the related IIROC performance reporting requirements come into effect.

See the “difference” section below for further discussion.

Fee / charge report [proposed new subsection 200.2(g)]

Finally, there is a new report requirement being introduced in proposed subsection 200.2(g) that requires annual fee / charge reporting to Retail Customers. The information to be included for the 12 months covered by the report is as follows:

- a discussion of the operating charges which might be applicable to the client’s account;
- total amount of each type of operating charge;
- aggregate total amount of all operating charges;
- aggregate total amount of all transaction charges;
- aggregate total amount of all charges; and
- specific disclosures relating to debt security trade compensation taken, trailing commissions earned and other third party compensation earned during the year.

These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1 and 14.17 of the CSA CRM2 Amendments, with the following exceptions:

- the IIROC proposals do not require that an annual fee / charge report be sent to the client if no fees or charges were paid by the client, either directly or indirectly, during the year; and
- the IIROC proposals require the preparation of a consolidated performance report that covers the same accounts as any consolidated fee / charge report that is prepared for the client.

See the “difference” section below for further discussion.

Differences between proposed IIROC CRM2 Amendments and CSA CRM2 Amendments

As noted above, certain aspects of the proposed CRM2 Amendments differ from the CSA CRM2 Amendments. The following highlights these differences and explains the reasons for the proposed differences:

- **Disclosure of debt security compensation** [*Dealer Member Rule subparagraph 200.2(l)(v)(C) versus paragraph 14.12(1)(c.1) of NI 31-103*] - As part of the CSA CRM2 Amendments revisions were made to introduce:
 - Pre-trade disclosure of charge requirements, including for debt security trades, for clients other than non-individual permitted clients [*Section 14.2.1 of NI 31-103*];
 - Compensation disclosure requirements for debt security trade confirmations issued to all clients [*Paragraph 14.12(1)(c.1) of NI 31-103*]; and

⁶ Paragraph 14.2(2)(m) of the CSA CRM2 Amendments is to come into effect on July 15, 2014.



- Annual fee / charge reporting requirements, including specific reporting requirements for debt securities purchased or sold during the year, for clients other than non-individual permitted clients [Section 14.17 of NI 31-103].

The result is that the CSA requirements for pre-trade, trade confirmation and annual disclosure of debt security compensation amounts are inconsistent, as two of the three requirements are focused on retail clients and the third, the trade confirmation requirements, apply to all clients. To address this inconsistency, all three of the proposed IIROC CRM2 Amendments relating to pre-trade, trade confirmation and annual disclosure of debt security compensation amounts only apply to trades involving, and accounts held by, Retail Customers.

- **“Market value” definition** - [Dealer Member Rule subsection 200.1(c) and Definition (g) to the General Notes and Definitions to Form 1 versus subsection 14.11.1(1) of NI 31-103] - Both the proposed IIROC CRM2 Amendments and CSA CRM2 Amendments contain a similar definition of “market value” to be used for the purposes of client reporting. The main difference between these two definitions is that the IIROC definition contains additional provisions that assist in the valuation of different types of investment products. IIROC staff does not consider these differences to be material.

The CSA CRM2 Amendments contain no similar definition of “market value” to be used for the purposes of registrant financial solvency reporting. Rather, CSA registrants are to use the International Financial Reporting Standard (“IFRS”) “fair value” approach to value securities for solvency reporting purposes. It is IIROC staff’s view that the comingling of valuation standards will not produce a desirable result. For example, if the approach required of CSA registrants was adopted by IIROC:

- For the purposes of client statement and performance reporting to clients, client account security positions would be valued in accordance with a “market value” definition; while
- For the purposes of Dealer Member solvency reporting to IIROC:
 - The capital to be provided for under-margined client accounts would be determined by valuing client account security positions using the IFRS “fair value” approach; and
 - Dealer Member proprietary inventory positions would be valued using the IFRS “fair value” approach.

Rather than comingling these two standards, which could lead to different values being reported for the same security position held at the same time in an inventory and a client account, the IIROC CRM2 Amendments propose to introduce a revised “market value” definition for Dealer Member solvency reporting purposes that is consistent with the “market value” definition to be used for client reporting purposes.

- **“Book cost” and “original cost” definitions** - [Dealer Member Rule subsections 200.1(a) and 200.1(e) versus section 1.1 of NI 31-103] – The definitions of the terms “book cost” and “original

IIROC Notice 13-0300– Rules Notice – Request for Comments - Dealer Member Rules – Client Relationship Model – Phase 2; Performance Reporting and Fee / Charge Disclosure; Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1



cost” set out in the CSA CRM2 Amendments assume that all client security positions are long positions. As this is not the case, the equivalent definitions in the IIROC CRM2 Amendments have been revised to set out how book cost and original cost amounts are to be determined for both long and short positions.

- **Inclusion of cash balances in “Report on client positions held outside of the Dealer Member”** - [Dealer Member Rule subsections 200.2(e) versus subsection 14.11.1(1) of NI 31-103] – The CSA CRM2 Amendments assume that cash balances will or may be reported as part of any report covering security positions held outside of the Dealer Member on which the Dealer Member continues to receive compensation. Since all cash balances for which the Dealer Member would be responsible would be held within a client account and Dealer Members never receive compensation on cash balances they do not hold or control, we do not believe it would ever be appropriate to include cash balances as part of the “Report on client positions held outside of the Dealer Member” and have therefore excluded cash balances from the proposed IIROC requirements.
- **Discussion of performance benchmarks within the relationship disclosure information to be provided to clients** [Dealer Member Rule subparagraph 3500.5(2)(c)(j) versus paragraph 14.2(1)(m) NI 31-103] - As part of the CSA CRM2 Amendments, the relationship disclosure requirement to provide clients with information about investment performance benchmarks will come into effect on July 15, 2014. The timing of this effective date is of concern to IIROC staff because, as at July 15, 2014:
 - IIROC will have just completed the implementation of its relationship disclosure requirements (the implementation completion date is March 26, 2014) and to implement this additional relationship disclosure requirement shortly thereafter would impose an undue burden on Dealer Members, by requiring them to provide clients with additional information a few months after initial delivery of the currently mandated minimum relationship disclosure information; and
 - Providing clients with information about investment performance benchmarks by July 15, 2014 will be, in staff’s opinion, of limited value to clients who won’t start receiving an annual performance report until July 15, 2016.

To address this concern, IIROC staff plan to implement this new relationship disclosure requirement on July 15, 2016, the same date the annual performance reporting requirements come into effect. It is believed that this later effective date will both alleviate the burden on Dealer Members that would otherwise occur and result in client communications about the use of investment performance benchmarks that are closely-timed to the delivery to clients of the first annual performance reports.

- **Consolidated report consistency** [Dealer Member Rule paragraphs 200.2(f)(viii) and 200.2(g)(vi)] - As part of the CSA CRM2 Amendments, firm registrants are given the option of



providing both consolidated annual performance reports and consolidated annual fee charge reports to clients, provided:

- The client consents to receiving the consolidated information; and
- The report specifies the accounts and securities for which the consolidated information is being provided.

IIROC staff also believe it is important that, where both a consolidated annual performance report and a consolidated annual fee charge report are provided to a client, the accounts and securities covered by each consolidated report should be the same. Without this additional requirement, clients will lose the ability to directly compare the information set out in the two consolidated reports - an ability they would have if consolidated reports were not prepared. To address this issue, the proposed IIROC CRM2 Amendments include this additional requirement in proposed paragraphs 200.2(f)(viii) and 200.2(g)(vi).

- **When a fee / charge report must be sent to a client** [*Dealer Member Rule paragraph 200.2(g)(i) versus paragraph 14.17(1) of NI 31-103*] - As part of the CSA CRM2 Amendments, each client must be provided with an annual fee / charge report, even if the client has paid no fees or charges during the past 12 months. IIROC staff do not believe it is necessary to send a “nil” fee / charge report to a client. To address this issue, the equivalent proposed IIROC CRM2 Amendments include an additional requirement in proposed subparagraph 200.2(g)(i)(C) that, for an annual fee / charge report to be required to be sent to the client, the client must have “Paid a fee, charge or other payment, either directly or indirectly, to the Dealer Member or any of its registered individuals during the period covered by the report.”

The proposed IIROC CRM2 Amendments were approved by the IIROC Board of Directors on November 27, 2013. The text of the proposed IIROC CRM2 Amendments is set out in Attachment A. A summary comparison of the major elements of the IIROC CRM2 Amendments to the major elements of the CSA CRM2 Amendments is also included as Attachment B.

Issues and alternatives considered

No other alternatives to developing IIROC proposals that are materially harmonized to the CSA CRM2 proposals were considered. The issues that were identified during the development of the IIROC CRM2 Amendments and IIROC’s proposed resolution to these issues are discussed in the “difference” section above.

Comparison with similar provisions

As the primary objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as rule requirements recently adopted by the CSA with respect to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting and we separately discussed the differences between the

IIROC Notice 13-0300– Rules Notice – Request for Comments - Dealer Member Rules – Client Relationship Model – Phase 2; Performance Reporting and Fee / Charge Disclosure; Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1



IIROC CRM2 Amendments and the CSA CRM2 Amendments, a comparison with similar provisions in other jurisdictions is unnecessary.

Effects of proposed IIROC CRM2 Amendments on market structure, Dealer Members, non-members, competition and costs of compliance

As previously stated, the primary objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as rule requirements recently adopted by the CSA with respect to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting. As such, implementation of IIROC CRM2 Amendments should result in no greater impacts on IIROC Dealer Members than if the CSA CRM2 Amendments alone were implemented. Further, because implementation of the IIROC CRM2 Amendments will result in IIROC Dealer Members having to comply with one set of client reporting and disclosure requirements, it is hoped that the implementation of these amendments will result in some modest burden reduction due to IIROC Dealer Members not having to comply with two sets of requirements.

The effect of the proposed IIROC CRM2 Amendments will be to improve the quality of information that clients are provided regarding the performance of their investments and the fees and charges they are paying.

It is expected that the systems and cost impacts will be significant for both the annual performance reporting and the annual fee / charge reporting requirements. The extent of the systems and cost impact for these reports will be influenced by:

1. *Report data requirements* –
 - (a) *Data collection* - Dealer Members will be required to collect more data elements to produce the reports (i.e. account-level trailing commission information)
 - (b) *Data retention* - Dealer Members will be required to store greater volumes of historical data to produce the reports (i.e. multi-year data sets will need to be readily available to calculate annualized percentage return information)
2. *Report line-item categorization requirements* - Dealer Members will be required to categorize existing data to produce the reports (i.e. categorization of operating charges and transaction charges by type)
3. *Report calculation requirements* - Costs will likely increase where a greater number of calculations must be performed to generate the report.

The costs incurred may also differ between Dealer Members, as many firms already furnish at least a portion of the information required under the new requirements. The effect on a particular Dealer Member can only be precisely determined by performing a firm specific assessment, but may include costs associated with the production of documents (including printing and mailing) and the



imposition of new compliance and supervisory requirements. As detailed below, appropriately long transition periods are being proposed to allow Dealer Members time to make necessary systems changes.

Public interest determination

The proposed IIROC CRM2 Amendments impose costs and restrictions on the activities of market participants that are proportionate to the goals of the regulatory objectives sought to be realized and the enhanced transparency and standards of dealing with clients that will result. The IIROC Board has determined that the proposed IIROC CRM2 Amendments are not contrary to the public interest.

Public comment periods and proposed implementation dates

The public comment periods and proposed implementation dates for the IIROC CRM2 Amendments are as follows:

Public comment periods	Proposed implementation dates
<p>60 days expiring on February 10, 2014</p>	<ul style="list-style-type: none"> • Immediate upon announcement of implementation, the following provisions which were amended to clarify existing language and/or were existing Dealer Member Rule requirements which were renumbered: <ul style="list-style-type: none"> ○ Subsections 200.2(a) through 200.2(c) and related guidance in “Guide to Interpretation of Rule 200.2” ○ Subsection 200.2(d) and existing “Guide to Interpretation of Rule 200.2” Item (d) [<i>client account statements</i>] with the exception of: <ul style="list-style-type: none"> ▪ Subparagraphs 200.2(d)(ii)(F) and 200.2(d)(ii)(H) [<i>position cost</i>]; and ▪ Paragraph 200.2(d)(iii) [<i>deferred sales charge notation</i>] ○ Subsections 200.2(h) through 200.2(k) and related guidance in “Guide to Interpretation of Rule 200.2” ○ Subsection 200.2(l) and existing “Guide to Interpretation of Rule 200.2” Item (l) [<i>trade confirmations</i>] with the exception of: <ul style="list-style-type: none"> ▪ Revision to preamble to subsection 200.2(l) [<i>trade confirmation disclosure of deferred charges</i>] ▪ Subparagraph 200.2(l)(v)(C) [<i>trade confirmation disclosure of debt security compensation</i>] ○ Subsections 200.2(m) through 200.2(r) and related guidance in “Guide to Interpretation of Rule 200.2”



Public comment periods	Proposed implementation dates
<p>60 days expiring on February 10, 2014</p>	<ul style="list-style-type: none"> • July 15, 2014: <ul style="list-style-type: none"> ○ Section 29.9 [pre-trade disclosure of charges] ○ Subparagraph 200.2(l)(v)(C) [trade confirmation disclosure of debt security compensation]
<p>120 days expiring on April 10, 2014</p>	<ul style="list-style-type: none"> • July 15, 2015: <ul style="list-style-type: none"> ○ Subsections 200.1(a), 200.1(b) and 200.1(e) [definitions of “book cost”, “cost” and “original cost”] ○ Subsection 200.1(c) [definition of “market value” for the purposes of client reporting] ○ Definition (g) of the General Notes and Definitions to Form 1 [definition of “market value” for the purposes of regulatory reporting to IIROC] ○ Subparagraphs 200.2(d)(ii)(F) and 200.2(d)(ii)(H) and revised “Guide to Interpretation of Rule 200.2” Item (d) [Inclusion of position cost in quarterly client account statements] ○ Paragraph 200.2(d)(iii) [Inclusion of deferred sales charge notation in account statements] ○ Subsection 200.2(e) and “Guide to Interpretation of Rule 200.2” Item (e) [Report on client positions held outside of the Dealer Member] ○ Subsection 200.3(a), 200.3(b) preamble and paragraph 200.3(b)(l) [timing of sending documents to clients - report on client positions held outside of the Dealer Member]
<p>120 days expiring on April 10, 2014</p>	<ul style="list-style-type: none"> • July 15, 2016: <ul style="list-style-type: none"> ○ Subsections 200.1(d), 200.1(g) and 200.1(h) [definitions of “operating charge”, “trailing commission” and “transaction charge”] ○ Subsection 200.1(f) [definition of “total percentage return”] ○ Subsection 200.2(f) and “Guide to Interpretation of Rule 200.2” Item (f) [performance report] ○ Subsection 200.2(g) and “Guide to Interpretation of Rule 200.2” Item (g) [fee / charge report] ○ Subsection 200.2(l), preamble [trade confirmation disclosure of deferred charges] ○ Paragraphs 200.3(b)(II) and 200.3(b)(III) [timing of sending documents to clients - performance report and fee / charge report] ○ Subparagraph 3500.5(2)(c)(j) [relationship disclosure relating to



Public comment periods	Proposed implementation dates
	<i>investment performance benchmarks]</i>

These proposed implementation dates are the same as the implementation dates for the equivalent CSA CRM2 Amendments, with the exception of:

- Subparagraph 3500.5(2)(c)(j) [*relationship disclosure relating to investment performance benchmarks*], which is to be implemented on July 15, 2016.

See the “difference” section above for further discussion.

Classification of Rules and amendments and filing in other jurisdictions

IIROC has determined that the proposed IIROC CRM2 Amendments are Public Comment Rules and they will therefore be published for comment.

The proposed IIROC CRM2 Amendments will be filed with each of IIROC’s Recognizing Regulators, in accordance with s.3 of the Joint Rule Review Protocol contained in the IIROC Recognition Order.

Request for public comment

Comments should be made in writing. One copy of each comment letter should be delivered within the applicable public comment period set out in this notice, addressed to the attention of:

Richard J. Corner
Vice President, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario
M5H 3T9

A second copy should be addressed to the attention of:

Manager of Market Regulation
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario, M5H 3S8
marketregulation@osc.gov.on.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website (www.iiroc.ca under the heading “IIROC Rulebook - Dealer Member Rules – Proposed Policy”).



Attachments

[Attachment A](#) - Proposed amendments to Dealer Member Rules 29, 200 and 3500 and Dealer Member Form 1; and

[Attachment B](#) - Comparison of equivalent IIROC CRM2 Amendment and CSA CRM2 Amendment provisions.