

IIROC NOTICE

Rules Notice Notice of Approval/Implementation

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 of IIROC's Client Relationship Model - Phase 2 amendments

On December 12, 2013 IIROC published for public comment proposed amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1 (collectively the "IIROC 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 IIROC CRM2 Amendments were published for public consideration at that time with the objective of adopting IIROC rule requirements that were substantially the same as the amendments adopted by the Canadian Securities Administrators (CSA) 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") which came into force on July 15, 2013.



Announcement of CSA approval and IROC implementation of the IROC CRM2 Amendments that are scheduled to come into effect no later than July 15, 2014

This Rules Notice announces approval by the applicable securities regulatory authorities and implementation by IROC of the IROC CRM2 Amendments that are scheduled to come into effect no later than July 15, 2014 (2014 IROC CRM2 Amendments). Listed below are the components and effective dates of the 2014 IROC CRM2 Amendments:

2014 IROC CRM2 Amendment Item	Effective Date
<p>The following provisions which were amended to clarify existing requirement language and/or were existing Dealer Member Rule requirements which were renumbered:</p> <ul style="list-style-type: none"> o Subsections 200.2(a) through 200.2(c) and related guidance in “Guide to Interpretation of Rule 200.2” o 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>] o Subsections 200.2(h) through 200.2(k) and related guidance in “Guide to Interpretation of Rule 200.2” o 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>] o Subsections 200.2(m) through 200.2(r) and related guidance in “Guide to Interpretation of Rule 200.2” 	<p>Immediate</p> <p>Immediate</p> <p>Immediate</p> <p>Immediate</p> <p>Immediate</p>
<p>The following new provisions:</p> <ul style="list-style-type: none"> o Section 29.9 [<i>pre-trade disclosure of charges</i>] o Subparagraph 200.2(l)(v)(C) [<i>trade confirmation disclosure of debt security compensation</i>] o Subparagraph 3500.5(2)(j) [<i>relationship disclosure relating to investment performance benchmarks</i>] 	<p>July 15, 2014</p> <p>July 15, 2014</p> <p>July 15, 2014</p>

The remainder of this Rules Notice provides a summary of the nature and the purpose of the new provisions included in the 2014 IROC CRM2 Amendments for which implementation has been announced.



Summary of the nature and purpose of the amendments

Pre-trade disclosure of charges -

[New section 29.9]

Included in the 2014 IROC CRM2 Amendments is a formal requirement that a Retail Customer be 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 a codification of a long-standing industry best practice that was previously discussed in IROC's Client Relationship Model guidance¹ and is consistent with the equivalent requirement introduced in section 14.2.1 of the CSA CRM2 Amendments.

Trade confirmation disclosure of debt security compensation -

[New sub-clause 200.2(l)(v)(C), preamble]

Pursuant to the language in new sub-clause 200.2(l)(v)(C), the prior IROC 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 commission² 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 revised requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments, with the exception that the revised IROC requirement will only apply to Retail Customer trades.

Relationship disclosure relating to investment performance benchmarks -

[New clause 3500.5(2)(j)]

A related initiative to the future introduction of the performance report is the introduction of a proposed new relationship disclosure requirement in clause 3500.5(2)(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.

¹ Refer to IROC Rules Notice 12-0108, “Client Relationship Model – Guidance”, issued on March 26, 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).



This new requirement is consistent with the equivalent requirement introduced in paragraph 14.2(2)(m) of the CSA CRM2 Amendments.

Date of IIROC Board of Directors approval

These amendments were approved for implementation by the IIROC Board of Directors on November 27, 2013. The text of the amendments is set out in Attachment A.

Response to public comments received

These amendments were published for comment with the issuance of IIROC Rules Notice 13-0300 on December 12, 2013. IIROC staff has considered all of the comments received and thank all of the commenters. A summary of the comments received and IIROC staff's response is enclosed as Attachment B.

Summary of revisions

These amendments reflect revisions made to address CSA and public comments received. There were no material revisions made to the previously published proposed rules. Minor clarification changes have also been made throughout the amendments, none of which represent changes in substance to the previously published proposals that were scheduled to come into effect no later than July 15, 2014. A black-lined copy of the revisions made since the publication for comment of the proposed amendments on December 12, 2013 is enclosed as Attachment C.

Attachments

- [Attachment A](#) - 2014 IIROC CRM2 Amendments
- [Attachment B](#) - Response to public comments received
- [Attachment C](#) - Black-line to proposed 2014 IIROC CRM2 Amendments published on December 12, 2013