

IIROC NOTICE

Rules Notice Request for Comment

Dealer Member Rules

Please distribute internally to:

Legal and Compliance

Operations

Senior Management

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14-0265

November 13, 2014

Revised Requirement to Disclose Membership in IIROC as a Dealer Member

Summary of nature and purpose of amendments

On May 15, 2013, the Board of Directors (the “Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the republication for comment of certain previously proposed amendments to the Dealer Member Rules relating to the requirements to disclose membership in IIROC as a Dealer Member, as revised.

Objectives of the amendments

The proposed amendments are intended to promote and raise public awareness of IIROC’s regulatory oversight of IIROC-regulated firms and advisors, thereby helping clients assess the regulatory status of these firms and advisors.

Relevant proposal history

The previously proposed amendments were published for public comment with the issuance of IIROC Rules Notice 11-0344 on December 2, 2011. Over the 60-day comment period, six public comment



letters were received. In addition, IIROC received comments from staff of the Canadian Securities Administrators (“CSA Staff”). In response to the comments received from the public and CSA Staff, IIROC staff has made material and non-material changes to the previously proposed rule amendments to provide further clarification of the intent and scope of the amendments. A copy of IIROC’s responses to public comments is included as Attachment G.

Reason for republication

At this time, IIROC is proposing revisions to the previously published proposed rule amendments to accomplish the following:

- (a) the removal of the requirement to include the IIROC Logo, as defined in IIROC’s membership disclosure policy (“IIROC Membership Disclosure Policy”), on client account statements and client trade confirmations; and
- (b) the incorporation of the Canadian Investor Protection Fund’s (“CIPF”) proposed revised CIPF disclosure policy (“CIPF Disclosure Policy”) for public comment, as set out in proposed new Dealer Member Rule 29.28.

As these revisions constitute material changes to the previously proposed rule amendments, the amendments are being re-published for a further comment period of 60 days.

Current rules

IIROC’s current disclosure rules, which are set out in Dealer Member Rule 700 (*Use of Name or Logo of the Corporation*), give Dealer Members the option to disclose their membership in IIROC if they wish, provided that the disclosure is compliant with Dealer Member Rule 700. To ensure that Dealer Members use the IIROC name and logo properly, Dealer Members may be required to provide samples of materials bearing the IIROC name and logo upon IIROC’s request, and under certain circumstances, where improper use is identified, cease using the IIROC name and logo.

Proposed amendments

Material change to the proposed IIROC Membership Disclosure Policy

As part of the current proposal (as was the case in the original proposal), Dealer Member Rule 700 is being amended to provide that Dealer Members must comply with the disclosure requirements set forth in the new IIROC Membership Disclosure Policy. This amendment is appropriate to ensure that clients of an IIROC Dealer Member are aware that their firm is regulated by IIROC.

A previous version of the IIROC Membership Disclosure Policy, which was published in December 2011, required Dealer Members to:

- (a) display the IIROC Decal, as defined in the IIROC Membership Disclosure Policy, at each place of business location to which the public has access;

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- (b) include the IIROC Logo on client trade confirmations, account statements, and websites; and
- (c) distribute the IIROC Official Brochure, as defined in the IIROC Membership Disclosure Policy, to new clients at the time of account opening and make it available to existing clients upon request.

In response to public and CSA Staff comments, a material change has been made to remove the previously proposed requirement to include the IIROC Logo on client account statements and client trade confirmations. This material change is being proposed because IIROC staff believes that clients will be adequately informed of IIROC's regulatory oversight of Dealer Members through:

- (a) the display of the IIROC Decal at each business location of a Dealer Member to which the public has access;
- (b) the inclusion of the IIROC Logo on the homepage of a Dealer Member's website or, where the Dealer Member's website or internet presence is part of a combined financial institution group website, on the main page for the Dealer Member, and
- (c) the distribution of the IIROC Official Brochure to new clients at the time of account opening and its availability to existing clients upon request.

Furthermore, IIROC staff believes that the additional costs incurred by Dealer Members to display the IIROC Logo on client account statements and client trade confirmations are not warranted. At this time, IIROC staff seeks to republish the amendments for comment in light of this material revision. A clean copy of the revised proposed IIROC Membership Disclosure Policy is included as Attachment B, and a blackline (to the previously published version) is included as Attachment C.

Corollary amendments

In addition to amendments made to Dealer Member Rule 700, the following corollary amendments were also proposed in December 2011:

1. Dealer Member Rule 22: the requirements set out in Dealer Member Rule 22, detailing the conditions under which a Dealer Member may use IIROC's name and logo, are covered in Article 15 of General By-Law No.1; therefore, Dealer Member Rule 22 is redundant and will be repealed in its entirety.
2. Dealer Member Rule 29.14: the CIPF membership disclosure requirements set out in Dealer Member Rule 29.14 are repealed in their entirety. New Dealer Member Rule 29.28, in a manner similar to the IIROC membership disclosure requirements, will refer Dealer Members to the CIPF Disclosure Policy for compliance with their CIPF disclosure requirements.
3. Proposed Plain Language Rule sections 2355, 2356, and 2357: these provisions, which were originally published for public comment in February 2011 in connection with the Plain Language

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Rewrite project (see IIROC Rules Notice 11-0061), were revised to reflect the December 2011 amendments to the existing rules, as described above.

As noted above, proposed new Dealer Member Rule 29.28 states that Dealer Members must comply with the disclosure requirements set out in the CIPF Disclosure Policy. Attached to this Notice (as Attachment E) is a copy of the proposed revised CIPF Disclosure Policy. The changes, set out in the CIPF Disclosure Policy, are as follows:

- (a) The CIPF Official Brochure, as defined in the CIPF Disclosure Policy, must be distributed to new clients, either in electronic or hard copy form, at the time of account opening;
- (b) The CIPF Membership Symbol, as defined in the CIPF Disclosure Policy, must be displayed on the homepage of a Member's website or, where the Member's website or internet presence is part of a combined financial institution group website, on the main page for the Member;
- (c) Members are prohibited from making any reference about its CIPF risk classification to third parties;
- (d) The CIPF Membership Symbol is optional on written, visual and audio advertising materials;
- (e) Members must obtain advance approval to broadly distribute to clients any materials relating to CIPF and the protection provided to clients;
- (f) An alternate CIPF Explanatory Statement which includes the CIPF website address (note: the existing CIPF Explanatory Statement continues to be acceptable) is available; and
- (g) Members must take reasonable efforts to ensure that all communication referring to CIPF complies with the general principles set out in the CIPF Disclosure Policy.

Additional guidance, including acceptable practices for complying with the CIPF Disclosure Policy and the ordering of electronic and hard copy brochures can be found in the updated CIPF Supplemental Guide to the CIPF Disclosure Policy, included as Attachment F. Members can also refer to CIPF's website at www.cipf.ca for information relating to the proposed amendments. Any comments received by IIROC regarding Attachments E and F will be addressed by CIPF.

The amendments proposed in December 2011 with regard to Dealer Member Rules 700, 22, 29.14, and new Dealer Member Rule 29.28 are being carried forward as part of this republication notice. Moreover, other than a minor typographical change that has been made to Dealer Member Rule 700 (namely, the addition of the article "the" before the word "requirements"), no further amendments have been proposed to the aforementioned rules since the original publication for comment in December 2011. In light of this fact, a blacklined copy of the proposed amendments to these rules has been omitted. A clean copy of the proposed amendments to Dealer Member Rules 700, 22, 29.14 and new Dealer Member Rule 29.28, however, has been included as Attachment A.



Summary of non-material revisions

Certain non-material revisions have also been made to the previously published proposed amendments to further clarify the intent and scope of the amendments. Among the comments received, both the public and CSA Staff requested further clarification on the permitted uses of:

- (a) the IIROC corporate name and logo; and
- (b) the specially designed logo which indicates that the Dealer Member is regulated by IIROC (referred to as the “IIROC Logo” in the proposed IIROC Membership Disclosure Policy).

Currently, the IIROC Dealer Member Rules refer to the use of the IIROC name and logo in those instances where a Dealer Member elects to disclose their membership in IIROC. However, we have replaced this rule, which allows for a Dealer Member’s optional use of the IIROC name and logo, with a rule requiring Dealer Members to use the specially designed IIROC Logo under certain defined circumstances. IIROC believes it is appropriate to mandate the use of the IIROC Logo in these defined circumstances, as use of the IIROC Logo serves to inform investors that the investment firm with which they are dealing is subject to the regulatory oversight of IIROC. Therefore, in response to public and CSA Staff concerns, we have revised the IIROC Membership Disclosure Policy to clarify that Dealer Members can only use the IIROC Logo to satisfy their mandatory IIROC membership disclosure requirements. In all other circumstances, and unless otherwise prohibited under section 5 (previously section 6) of the IIROC Membership Disclosure Policy, the IIROC Logo is optional and available for general use by Dealer Members. Wording has been added to the IIROC Membership Disclosure Policy to provide further clarification to this effect.

Other noteworthy non-material changes are as follows:

IIROC Membership Disclosure Policy

- Defined terms and sections unrelated to a Dealer Member’s membership disclosure requirements have been deleted;
- Wording was added to provide additional guidance relating to the colour, size and surrounding space of the IIROC Logo;
- Wording was added to clarify that the required IIROC Logo must appear on the homepage of a Dealer Member’s website or, where the Dealer Member’s website or internet presence is part of a combined financial institution group website, on the main page for the Dealer Member;
- Wording was added to clarify that Dealer Members are permitted to provide new and existing clients with an electronic PDF version of the IIROC Official Brochure;
- Wording was added to clarify that Dealer Members are responsible for the cost of providing a hard copy of the IIROC Official Brochure to clients; and



- Wording was added to clarify that a hard copy of the IIROC Official Brochure can only be obtained from the IIROC-designated printer, as set out in the IIROC Membership Disclosure Policy.

A clean and blacklined copy of the changes made to the IIROC Membership Disclosure Policy is included as Attachments B and C, respectively.

Proposed Plain Language Rule sections 2355, 2356 and 2357

- Proposed Plain Language Rule sections 2355, 2356 and 2357 have been updated to reflect the revisions being made as part of the amendments described in further detail above.

A copy of Plain Language Rule sections 2355, 2356 and 2357, blacklined to the version published for public comment in February 2011 in connection with the Plain Language Rewrite project, is included as Attachment D.

Alternatives considered

IIROC staff considered the possibility of maintaining the status quo, which is the optional disclosure of membership in IIROC. However, IIROC rejected this alternative as staff is committed to ensuring that clients are made aware of the dealers that are regulated by IIROC. IIROC staff also considered providing an exemption from the amendments for alternative trading systems (“ATs”); however, IIROC staff concluded that the application of the amendments imposes no undue regulatory burden on ATs, given that the only requirement that will apply to them will be the obligation to disclose their membership in IIROC on their websites. IIROC staff believes that, with a requirement for all Dealer Members to disclose their IIROC membership, clients are better informed as to these firms’ regulatory status, which in turn enhances investor protection and strengthens market integrity.

Proposal Classification

Statements have been made and analysis provided elsewhere as to the nature and effects of the amendments. The purpose of the amendments is to promote the education and protection of investors.

The IIROC Board has determined that the amendments are not contrary to the public interest.

Due to the extent and substantive nature of the proposal, it has been classified as a Public Comment Rule proposal.

Effects of the proposal on market structure, Dealer Members, non-Dealer Members, competition and costs of compliance

The most significant costs associated with the amendments will be related to the distribution of the IIROC Official Brochure to new and existing clients. However, Dealer Members are permitted to (a)



provide new clients with either an electronic PDF version or a hard copy of the IIROC Official Brochure at the time of account opening, and (b) make it available to existing clients (either on their website or by other means) upon request. In order to facilitate the electronic distribution of the brochure, IIROC has included English and French electronic PDF versions of the IIROC Official Brochure on the IIROC website. By providing new or existing clients with an electronic copy of the IIROC Official Brochure, Dealer Members will be able to significantly reduce the cost associated with this requirement. Furthermore, to keep the costs associated with providing paper copies of the IIROC Official Brochure to a minimum, we have ensured that Dealer Members are able to benefit from substantial savings thanks to the requirement to order hard copies of the brochure from IIROC's designated printer, as set out in the IIROC Membership Disclosure Policy.

The amendments do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives. Further, the amendments do not impose costs or restrictions on the activities of market participants (including Dealer Members and non-Dealer Members) that are disproportionate to the benefits of the regulatory objectives sought to be realized.

Technological implications and implementation plan

The amendments will be subject to a 6-month transition period made effective on a date to be determined by IIROC staff after receiving notification of approval by the Recognizing Regulators.

Request for public comment

Comments are sought on the amendments. Comments should be made in writing. Two copies of each comment letter should be delivered within 60 days from the publication date of this notice. One copy should be addressed to the attention of:

Angie Foggia
Policy Counsel, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario, M5H 3T9
afoggia@iiroc.ca

The 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 3T9
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 “Notices – Dealer Rules - All – Request for Comments – Proposed Policy”.

Questions may be referred to:

Angie Foggia
Policy Counsel, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
416-646-7203
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Attachments

- [Attachment A](#) - Amendments to Dealer Member Rules 700, 22, 29.14 and 29.28 (clean)
- [Attachment B](#) - IIROC Membership Disclosure Policy (clean)
- [Attachment C](#) - IIROC Membership Disclosure Policy, blacklined to the previously published version
- [Attachment D](#) - Plain Language Rule sections 2355, 2356 and 2357, blacklined to the version published for public comment in February 2011
- [Attachment E](#) - CIPF Disclosure Policy
- [Attachment F](#) - CIPF Supplemental Guide to the CIPF Disclosure Policy
- [Attachment G](#) - Summary of public comments received and IIROC staff responses to comments on the previously published amendments