



IIROC NOTICE

Rules Notice Notice of Approval/Implementation Dealer Member Rules

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Disclosure to clients of Dealer Members' financial position

Summary

The applicable securities regulatory authorities have approved the amendments to Dealer Member Rule 1400 (Disclosure to clients of Members' financial condition and other information) (the "Amendments"), which were published for comment in Rules Notice [14-0157](#). The Amendments reflect revisions made to the previously published proposed amendments and address comments received. The revisions made are non-substantive in



nature and therefore, the Amendments are not being republished for further public comments. The Amendments are set out in Attachment A and are effective on November 2, 2015.

The primary objective of the Amendments is to provide a cost effective and practical solution to address the independent auditors' concerns, namely that they are no longer able to provide the required auditor's report to clients of a Dealer Member under Dealer Member Rule 1400 (IIROC Rule 1400) without expanding the scope of their audit work beyond an IIROC Form 1 audit. IIROC staff believe that expanded audit work will give rise to significant costs for many Dealer Members and the regulatory benefits would be limited. In response to this issue, IIROC staff developed the Amendments. The Amendments allow a Dealer Member to satisfy a client's request for a copy of the Dealer Member's summary statement of financial position under IIROC Rule 1400 without having to obtain an auditor's report for that summary statement. The Amendments will instead allow that a new standard summary statement of financial position, and accompanying note disclosures, be provided to clients on an unaudited basis. The new standard summary statement will be generated by the Dealer Member, using the Securities Industry Regulatory Financial Filings system (SIRFF) and certified by the Dealer Member's Chief Financial Officer. The financial information included in the summary statement of financial position will be taken from the Dealer Member's most recently audited, IIROC Form 1 regulatory financial statements.

IIROC staff believe it is important for clients of a Dealer Member to be able to obtain a summary statement of the Dealer Member's financial position and that the clients receive comfort that the summary statement of financial position that is based on either a Dealer Member's audited statutory financial statements or audited regulatory financial statements.

Issues and specific amendments

Relevant background

In 2009 Canada adopted new Canadian Auditing Standards (CASs) for the audits of financial statements and other historical financial information, for periods ending on or after December 14, 2010. The CASs are now effective in Canada and are a part of Canadian generally accepted auditing standards. In 2011, IIROC adopted the new Canadian generally accepted accounting standards (except for prescribed departures), International Financial Reporting Standards (IFRS), for IIROC Form 1.

In relation to IIROC Rule 1400, the independent auditors identified a potential issue. This issue flows from the fact that in order for them to remain compliant with the new Canadian auditing and accounting standards, and continue to meet the requirement in IIROC Rule 1400 to provide an independent auditor's report to clients of a Dealer Member, the independent auditors would need to expand their audit beyond an IIROC Form 1 audit, because an IIROC Form 1 audit is a special purpose audit that is intended solely for the Dealer Member, IIROC and CIPF as opposed to a statutory audit, which is intended for the public (including clients).



Consequently, the independent auditors are no longer able to provide the required independent auditor's report to clients of a Dealer Member—stating that the statement of the financial condition to the client fairly summarizes the financial position of the Dealer Member—in situations where their audit is based solely on an IIROC Form 1 audit.

Current rule

IIROC Rule 1400, Disclosure to clients of Members' financial condition and other information, requires each Dealer Member to provide its clients, on request, a statement of its financial condition as of the close of its latest financial year and based on its latest annual audited financial statements. For most Dealer Members, their latest annual audited financial statements make up their audited IIROC Form 1. Publicly listed Dealer Members also have audited statutory financial statements. Under IIROC Rule 1400, a Dealer Member's statement of its financial condition is a summary statement of financial position that must contain the following information and be presented in an understandable format:

- Current Assets - Cash, Receivables from brokers and dealers, Receivables from customers, and Inventory of securities, at the lower of cost or market value or at market value (with the basis of valuation stated);
- Miscellaneous Accounts Receivable;
- Other Assets (with the basis of valuation stated) - Investment in subsidiary and affiliated companies, and Fixed assets;
- Current Liabilities - Call loans and bank overdrafts, Payable to brokers and dealers, Payable to customers, Accounts payable, accrued expenses and income taxes, and Securities sold short at the higher of cost or market value or at market value (with the basis of valuation stated);
- Capital in the Business - Shareholders' equity (including subordinated loans and retained earnings), and Partners' equity.

In addition, a Dealer Member must include with the summary statement of its financial position, an independent auditor's report that states that the summary statement of its financial position fairly summarizes the financial position of the Dealer Member.

Amendments

In general, the Amendments will continue to require each Dealer Member to provide its clients, on request, with a summary statement of its financial position. The Amendments will, however, eliminate the requirement for an independent auditor's report to accompany it and allow the summary information to be provided on either an audited or unaudited basis. IIROC staff believe it is important for clients of a Dealer Member to be able to obtain a summary statement of the Dealer Member's financial position and that the clients receive comfort that the summary statement of financial position is based on either audited statutory financial statements or audited regulatory financial statements.



In order to achieve those results, the Amendments allow that either an audited or unaudited summary statement of financial position be provided to clients provided that, in the case of unaudited information, the summary statement of financial position and accompanying minimum note disclosures be based on:

- (i) the Dealer Member's last audited IROC Form 1;
- (ii) that the summary statement be generated and printed by the Dealer Member from the Securities Industry Regulatory Financial Filings system (SIRFF); and
- (iii) that the summary statement is signed by the Dealer Member's chief financial officer, to certify the accuracy of the summary statement.

Specifically, the Amendments:

1. *Rename the title of IROC Rule 1400*

The amendments rename the title of IROC Rule 1400 from "DISCLOSURE TO CLIENTS OF MEMBERS' FINANCIAL CONDITION AND OTHER INFORMATION" to "DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION AND OTHER INFORMATION". The purpose of renaming the title is to make the words used consistent throughout the rule.

2. *Rename the term "statement of financial condition"*

The amendments rename the term "statement of financial condition" with the term "summary statement of financial position". The purpose of renaming that term is to make it clearer that the information being provided is a summary of the Dealer Member's IROC Form 1 "statement of financial position".

3. *Replace the rule requirements relating to the content and format of the summary statement of financial position and introduce a new template for a summary statement of financial position*

The amendments:

- replace the rule requiring the inclusion of specific material information and headings in the summary statement of financial position with a more general rule requiring the inclusion of material information; and
- allow that either an audited or unaudited summary statement of financial position information be provided to clients.

In the case of the unaudited summary information, this information must be generated from the Securities Industry Regulatory Financial system (SIRFF). SIRFF is administered by the Canadian Investor Protection Fund (CIPF) and is the electronic filing system that each Dealer Member must use to electronically file their annual audited IROC Form 1 with IROC and CIPF. The material information that would populate a Dealer Member's summary statement of financial position will be taken from the Dealer Member's statement of financial position from its latest audited IROC Form 1.



As another unaudited information accuracy safeguard, a Dealer Member's chief financial officer (CFO) must certify that the summary statement of financial position is based on and printed from the Dealer Member's last IIROC Form 1 filing to IIROC and CIPF on SIRFF, by signing the certification section of the summary statement of financial position.

A copy of the new template for the unaudited summary statement of financial position and accompanying minimum note disclosures that would be generated from SIRFF is provided as Attachment D.

4. *Replace the old approval categories "directors" and "senior officers"*

The amendments replace the old approval categories "directors" and "senior officers" with the current approval categories "Directors" and "Executives". The purpose of the amendments is to update the old approval categories to the current approval categories, which were inadvertently missed when IIROC's registration reform amendments were implemented in 2009.

The Amendments and a black-line copy of them that compares the Amendments to the current Dealer Member Rule 1400 are provided in Attachment A and Attachment B, respectively.

Summary of revisions made to the previously published proposed amendments

The Amendments reflect revisions made to the previously published proposed amendments to address comments received. None of the revisions made are substantive in nature, and therefore, the revisions were not republished for a further comment period.

The revisions will retain the disclosure requirement in current Dealer Member Rule 1400.4 regarding the publication of consolidated financial statements by a holding company or affiliate of a Dealer Member, which were set out to be repealed in the previously published proposed amendments. Specifically, the Amendments will retain the current requirement: for a holding company or affiliate of a Dealer Member to disclose that their published consolidated financial statements are not the financial statements of the Dealer Member; or for a Dealer Member, at the same time as such publication of the consolidated financial statements by its holding company or affiliate, to send to each of its clients the unconsolidated statement of financial condition of the Dealer Member together with a letter explaining why such statement is being sent.

A black-line copy of the Amendments that compares the Amendments to the previously published proposed amendments is provided in Attachment C.

Attachments

Attachment A – A clean copy the Amendments to Dealer Member Rule 1400 regarding the disclosure to clients of a Dealer Member's financial position and other information



- Attachment B – Black-line copy of the Amendments to Dealer Member Rule 1400 that compares the Amendments to the current Dealer Member Rule 1400
- Attachment C – Black-line copy of the Amendments to Dealer Member Rule 1400 that compares the Amendments to the previously published proposed amendments
- Attachment D – A template of the summary statement of financial position and accompanying note disclosures.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION - AMENDMENTS TO DEALER
MEMBER RULE 1400
CLEAN COPY OF THE AMENDMENTS

RULE 1400

DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION AND OTHER
INFORMATION

- 1400.1. Each Dealer Member shall make available to its clients, on request, a summary statement of its financial position as of the close of its latest financial year and based on the latest annual audited financial statements, provided that in order to prepare such statement, the Dealer Member shall have 75 days from the close of such financial year. The term "client", as used in this Rule 1400, shall mean any person who executed had a transaction with a Dealer Member within one year of the day on which a request for a summary statement of financial position is made.
- 1400.2. Any summary statement of financial position published in a newspaper or other medium in Canada or provided to any other party shall be in the same form and of the same substance as the statement made available to clients.
- 1400.3. The summary statement of financial position of the Dealer Member and shall contain material information including assets, liabilities and financial statement capital, and be generated using the Securities Industry Regulatory Financial Filings system (SIRFF).
- 1400.4. The summary statement of financial position shall either be:
- (a) audited and accompanied by:
 - (i) a report prepared by the Dealer Member's auditor stating that it fairly summarizes the financial position of the Dealer Member; and
 - (ii) notes disclosures specified by the Dealer Member's auditor.

or

 - (b) unaudited and:
 - (i) generated from within the Securities Industry Regulatory Financial Filings system (SIRFF) using information from the most recent audited year-end regulatory financial report (Form 1) of the Dealer Member;
 - (ii) certified by the Dealer Member's Chief Financial Officer; and
 - (iii) accompanied by note disclosures that at a minimum describe management's responsibility for the summary statement of financial

position and the basis of accounting and restriction on the use of the summary statement of financial position.

- 1400.5. Where the accounts of a Dealer Member are included in the consolidated financial statements of any holding company or affiliate of the Dealer Member which are published in a newspaper or other medium in Canada and the holding company, related company or affiliate has a name similar to that of the Dealer Member, either
- (a) The consolidated financial statement shall be accompanied by a note indicating that the entity to which the consolidated statements relate is neither a Dealer Member of the Corporation nor of any other recognized self-regulatory organization and that, while the statements include the accounts of the Dealer Member, the consolidated statements are not the financial statements of the Dealer Member; or
 - (b) The Dealer Member shall, contemporaneously with the publication, send to each of its clients the unconsolidated summary statement of financial position of the Dealer Member together with a letter explaining why such statement is being sent.
- 1400.6. Each Dealer Member shall make available to its clients, on request, a current list of the names of its partners, Directors and Executives made up as of a recent date.
- 1400.7. Each Dealer Member shall indicate to its clients on each statement of account or in such other manner as may be approved by the Corporation that the summary statement of financial position and list of partners, Directors and Executives are available upon request.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION - AMENDMENTS TO DEALER MEMBER
RULE 1400

BLACK-LINE COPY OF THE AMENDMENTS THAT COMPARES THE AMENDMENTS TO THE CURRENT DEALER
MEMBER RULE 1400

RULE 1400

DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL ~~CONDITION~~POSITION AND
OTHER INFORMATION

- 1400.1. Each Dealer Member shall make available to its clients, on request, a summary statement of its financial ~~condition~~position as of the close of its latest financial year and based on the latest annual audited financial statements, provided that in order to prepare such statement, the Dealer Member shall have 75 days from the close of such financial year. The term "client", as used in this Rule 1400, shall mean any person who ~~has executed~~ had a transaction with a Dealer Member within one year of the day on which a request for a summary statement of financial ~~condition~~position is made.
- 1400.2. Any summary statement of financial ~~condition~~position published in a newspaper or other medium in Canada or provided to any other party shall be in the same form and of the same substance as the statement made available to clients.
- 1400.3. The summary statement of financial ~~condition shall contain information such as the following or similar headings for items which are material:~~position of the Dealer Member and shall contain material information including assets, liabilities and financial statement capital, and be generated using the Securities Industry Regulatory Financial Filings system (SIRFF).

~~Current Assets~~

~~Cash~~

~~Receivables from brokers and dealers~~

~~Receivables from customers~~

~~Inventory of securities at the lower of cost or market value or at market value (state basis of valuation)~~

~~Miscellaneous Accounts Receivable~~

~~Other Assets (state basis of valuation)~~

~~Investment in subsidiary and affiliated companies~~

~~Fixed assets~~

~~Current Liabilities~~

~~Call loans and bank overdrafts~~

~~Payable to brokers and dealers~~

~~Payable to customers~~

~~Accounts payable, accrued expenses and income taxes~~

~~Securities sold short at the higher of cost or market value or at market value (state basis of valuation)~~

~~Capital in the Business~~

~~Shareholders' equity (including subordinated loans and retained earnings)~~

~~Partners' equity~~

1400.4. The summary statement of financial position shall either be:

(a) audited and accompanied by:

(i) a report prepared by the Dealer Member's auditor stating that it fairly summarizes the financial position of the Dealer Member; and

(ii) notes disclosures specified by the Dealer Member's auditor.

or

(b) unaudited and:

(i) generated from within the Securities Industry Regulatory Financial Filings system (SIRFF) using information from the most recent audited year-end regulatory financial report (Form 1) of the Dealer Member;

(ii) certified by the Dealer Member's Chief Financial Officer; and

(iii) accompanied by note disclosures that at a minimum describe management's responsibility for the summary statement of financial position and the basis of accounting and restriction on the use of the summary statement of financial position.

1400.5. Where the accounts of a Dealer Member are included in the consolidated financial statements of any holding company or affiliate of the Dealer Member which are published in a newspaper or other medium in Canada and the holding company, related company or affiliate has a name similar to that of the Dealer Member, either

(a) The consolidated financial statement shall be accompanied by a note indicating that the entity to which the consolidated statements relate is neither a Dealer Member of the Corporation nor of any other recognized self-regulatory

organization and that, while the statements include the accounts of the Dealer Member, the consolidated statements are not the financial statements of the Dealer Member; or

- (b) The Dealer Member shall, contemporaneously with the publication, send to each of its clients the unconsolidated summary statement of financial ~~condition~~position of the Dealer Member together with a letter explaining why such statement is being sent.

~~1400.5. The statement of financial condition shall be accompanied by a report by the Dealer Member's auditor stating that it fairly summarizes the financial position of the Dealer Member.~~

1400.6. Each Dealer Member shall make available to its clients, on request, a current list of the names of its partners ~~or its directors~~, Directors and ~~senior officers~~Executives made up as of a recent date.

1400.7. Each Dealer Member shall indicate to its clients on each statement of account or in such other manner as may be approved by the Corporation that the summary statement of financial ~~condition~~position and list of partners, ~~directors~~Directors and ~~senior officers~~Executives are available upon request.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION - AMENDMENTS TO DEALER MEMBER
RULE 1400

BLACK-LINE COPY OF THE AMENDMENTS THAT COMPARES THE AMENDMENTS TO THE PREVIOUSLY
PROPOSED AMENDMENTS

RULE 1400

DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION AND OTHER
INFORMATION

- 1400.1. Each Dealer Member shall make available to its clients, on request, a summary statement of its financial position as of the close of its latest financial year and based on the latest annual audited financial statements, provided that in order to prepare such statement, the Dealer Member shall have 75 days from the close of such financial year. The term "client", as used in this Rule 1400, shall mean any person who executed had a transaction with a Dealer Member within one year of the day on which a request for a summary statement of financial position is made.
- 1400.2. Any summary statement of financial position published in a newspaper or other medium in Canada or provided to any other party shall be in the same form and of the same substance as the statement made available to clients.
- 1400.3. The summary statement of financial position of the Dealer Member and shall contain material information including assets, liabilities and financial statement capital, and be generated using the Securities Industry Regulatory Financial Filings system (SIRFF).
- 1400.4. The summary statement of financial position shall either be:
- (a) audited and accompanied by:
 - (i) a report prepared by the Dealer Member's auditor stating that it fairly summarizes the financial position of the Dealer Member; and
 - (ii) notes disclosures specified by the Dealer Member's auditor.

or

 - (b) unaudited and:
 - (i) generated from within the Securities Industry Regulatory Financial Filings system (SIRFF) using information from the most recent audited year-end regulatory financial report (Form 1) of the Dealer Member;
 - (ii) certified by the Dealer Member's Chief Financial Officer; and

- (iii) accompanied by note disclosures that at a minimum describe management's responsibility for the summary statement of financial position and the basis of accounting and restriction on the use of the summary statement of financial position.

1400.5. Where the accounts of a Dealer Member are included in the consolidated financial statements of any holding company or affiliate of the Dealer Member which are published in a newspaper or other medium in Canada and the holding company, related company or affiliate has a name similar to that of the Dealer Member, either

(a) The consolidated financial statement shall be accompanied by a note indicating that the entity to which the consolidated statements relate is neither a Dealer Member of the Corporation nor of any other recognized self-regulatory organization and that, while the statements include the accounts of the Dealer Member, the consolidated statements are not the financial statements of the Dealer Member; or

(b) The Dealer Member shall, contemporaneously with the publication, send to each of its clients the unconsolidated summary statement of financial position of the Dealer Member together with a letter explaining why such statement is being sent.

1400.6. Each Dealer Member shall make available to its clients, on request, a current list of the names of its partners, Directors and Executives made up as of a recent date.

~~1400.6.~~1400.7. Each Dealer Member shall indicate to its clients on each statement of account or in such other manner as may be approved by the Corporation that the summary statement of financial position and list of partners, Directors and Executives are available upon request.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

DISCLOSURE TO CLIENTS OF DEALER MEMBERS' FINANCIAL POSITION - AMENDMENTS TO DEALER MEMBER
RULE 1400

TEMPLATE OF A SUMMARY STATEMENT OF FINANCIAL POSITION AND ACCOMPANYING NOTE DISCLOSURES

SUMMARY STATEMENT OF FINANCIAL POSITION

[Firm Name or Firm Names (where consolidated regulatory filings and summary consolidated statement of financial position are prepared for wholly owned and "related" Dealer Members)]

As at [Date]

REPORT ON SUMMARY STATEMENT OF FINANCIAL POSITION

Management's Responsibility for the Summary Statement of Financial Position

Management is responsible for the preparation of the summary statement of financial position to clients of the Dealer Member in accordance with Dealer Member Rule 1400 (Rule 1400) of the Investment Industry Regulatory Organization of Canada (IIROC).

Excerpt from Rule 1400

"1400.1. Each *Dealer Member* shall make available to its clients, on request, a summary statement of its financial position as of the close of its latest financial year and based on the latest annual audited financial statements, provided that in order to prepare such statement, the *Dealer Member* shall have 75 days from the close of such financial year. The term "client", as used in this Rule 1400, shall mean any person who has executed a transaction with a *Dealer Member* within one year of the day on which a request for a summary statement of financial position is made."

Basis of Accounting and Restriction on Use

The summary statement of financial position of the Dealer Member is based on financial information from the latest annual IIROC Form 1 of the Dealer Member. IIROC Form 1 is a special purpose report that includes non-consolidated (or consolidated, as indicated by the wholly owned and "related" firm names on the cover page) financial statements and schedules, and is prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by IIROC in the General Notes and Definitions to IIROC Form 1. IIROC Form 1 of the Dealer Member is prepared by the Dealer Member and filed with IIROC and the Canadian Investor Protection Fund (CIPF) on the Securities Industry Regulatory Financial Filing System (SIRFF) in order to assist the Dealer Member in demonstrating its solvency to IIROC and CIPF.

The summary statement of financial position is intended solely for the clients of the Dealer Member for the purposes of Rule 1400 and should not be used by parties other than the clients of the Dealer Member for any other purpose. The summary statement of financial position fairly summarizes the non-consolidated (or consolidated, as indicated by the wholly owned and

“related” firm names on the cover page) financial position of the Dealer Member as at the date of its last IROC Form 1.

[Firm Name or Firm Names (where consolidated regulatory filings and summary consolidated statement of financial position are prepared)]

SUMMARY STATEMENT OF FINANCIAL POSITION

[stated in thousands of Canadian dollars]

[Year-End Date]

ASSETS

Liquid assets*

Cash	1 ¹
Funds deposited in trust	2 and 3
Loans receivable, securities borrowed and resales	6
Securities owned	7 and 8
Due from clients	9
Due from brokers and dealers	10
Other liquid assets	4, 5 and 11
Total liquid assets	12

Other assets

Investments in and advances to subsidiaries and affiliates	26 and 27
Other assets	13 through 17, 19 through 25, 28 and 30
Total other assets	18, 29 and 30

Total Assets 31

LIABILITIES AND FINANCIAL STATEMENT CAPITAL

Current liabilities

Overdrafts, loans, securities loaned and repurchases	51
Securities sold short	52
Due to clients	53
Due to brokers and dealers	54
Other liabilities	55 through 60
Total current liabilities	61

Non-current liabilities

Subordinated loans**	67
Other non-current liabilities	62 through 66

¹ The numbers represent the line numbers of the IIROC Form 1 statement of financial position where the figures will be taken from.

Total non-current liabilities	68
Total liabilities	69
Financial statement capital	
Issued capital, reserves and retained earnings**	70, 71 and 72
Total financial statement capital	73
Total liabilities and financial statement capital	74

* Liquid assets is a regulatory asset category specific to IIROC and assets under this category are considered to be most liquid for regulatory purposes

** Subordinated loans, issued capital, reserves and retained earnings are treated as regulatory capital invested in the business

Chief Financial Officer's Certification of the Summary Statement

I certify that this summary statement of financial position of **[Firm Name or Firm Names]** is based on and printed from the Dealer Member's sourced last IIROC Form 1 filing to IIROC and CIPF on SIRFF.

(Chief Financial Officer)

(date)