

# IIROC NOTICE

## **Administrative General**

*Please distribute internally to:*  
Legal and Compliance  
Registration  
Senior Management  
Training

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## **Registration Reform – Implementation Issues**

The purpose of this notice is to provide additional guidance on the new requirements triggered by the upcoming amendments to IIROC's Dealer Member Rules that are related to the implementation of the Registration Reform Project. The IIROC Registration Reform Rule Amendments are proposed to be effective on the date that the Canadian Securities Administrators' National Instrument 31-103 *Registration Requirements and Exemptions* (NI 31-103) comes into force which is September 28, 2009.

This notice covers:

- (A) Approval of Ultimate Designated Persons (UDPs) and Chief Compliance Officers (CCOs).
- (B) The approval category of "Supervisor" and timelines for meeting the new approval requirements.
- (C) The new record-keeping requirements for Dealer Members, triggered by the IIROC rules changes relating to Registration Reform.



- (D) Changes to Business Types
- (E) Automatic Transfers
- (F) Approval Notices

For information regarding the substance of the IIROC Registration Reform Rule Amendments, we refer you to Notice #09-0213 *IIROC Dealer Member Rule Amendments to Implement the CSA's Registration Reform Project*. We have also published an additional notice which provides guidance on how IIROC will transition current Approved Persons from existing approval categories to the new approval categories under Registration Reform (See Notice #09-0190 *Registration Reform – Transition to new IIROC Approval Categories*)

### **(A) Ultimate Designated Persons (“UDP”) and Chief Compliance Officers (“CCO”)**

As discussed in Notice #09-0213, *IIROC Dealer Member Rule Amendments to Implement the CSA's Registration Reform Project*, IIROC has amended the definition of UDP and CCO to align with the requirements set out in NI 31-103. As a result of this change:

- (i) Each Dealer Member may have only one individual approved in the category of UDP as per new Rule 38.5. Generally, the Chief Executive Officer of a Dealer Member must be designated as the firm's UDP.
- (ii) Each Dealer Member may have only one individual approved in the category of CCO as per new Rule 38.7.

In addition, as set out in CSA Staff Notice 31-311, firms must add the new Registration category of “Ultimate Designated Person” and “Chief Compliance Officer” to the NRD record of their approved UDPs and CCOs by submitting a “Change or Surrender of Individual Categories” application through NRD, within three months of the implementation of NI 31-103.

During this three month period, firms must surrender the Approval of any additional UDPs or CCOs by filing a “Change or Surrender of Individual Categories” submission to remove the “UDP” or “CCO” category.

### **(B) Supervisors**

Under the IIROC rule amendments various supervisor categories have been merged into a new category of “Supervisor”. The new supervisor category includes individuals originally approved in the categories of:

- Assistant Branch Manager



- Assistant Branch Manager (Non-Retail)
- Branch Manager
- Branch Manager (Non Retail)
- Co-Branch Manager
- Co-Branch Manager (Non-Retail)
- Alternate Designated Person
- Designated Registered Options Principal (DROP)
- Alternate Registered Options Principal (AROP)
- Designated Registered Futures Options Principal
- Alternate Registered Futures Options Principal
- Futures Contract Options Supervisor
- Sales Manager

The proficiency requirements for Supervisors are set out in Rule 2900, Part I, A.1. The proficiency requirements set out in Rule 2900 have not been substantively changed from current requirements, with the exception of proficiencies for Supervisors of options trading (retail customers). Rule 2900 has been amended to require Supervisors of options trading (retail customers) (previously the DROP or AROP) to successfully complete the Derivatives Fundamentals Course, the Options Licensing Course and the Options Supervisors Course. The requirement to complete the Options Licensing Course and the Derivatives Fundamentals Course are new. Individuals who currently supervise such trading, however, have been grandfathered under the rules from having to complete these courses for as long as they remain approved in this capacity.

### ***Designated Supervisors***

Under the IROC rule amendments we have continued to require that specific persons be designated to perform specific functions, such as overall retail account supervision (Rule 1300.2 and Rule 1300.4). Under Rule 2900, these Supervisors would be expected to complete the proficiency requirements applicable to those Supervisors who supervise Registered Representatives or Investment Representatives as applicable.

We recognize that under existing IROC rules these supervisory functions can be carried out by a designated director, partner or officer or, in the case of a branch office, a branch manager reporting directly to the designated director, partner or officer who is responsible for the opening of new accounts and the supervision of account activity. Under the new rules such designated directors, partners or officers will be required to apply for approval in the new Supervisor category. To the extent individuals have been conducting such supervision on the basis of the Partners, Directors, and Senior Officers Course prior to the implementation of Registration Reform, the rule amendments will not require such individuals to complete the proficiency requirements set out in Rule 2900. Individuals engaged in these activities must



seek approval in the category of Supervisor within 4 months following the implementation of these rule changes by filing an application on the National Registration Database, as per Rule 40.<sup>1</sup> Such applications should identify under Item 10 (“Current Employment”) that these individuals have performed this supervisory function with the firm prior to the implementation of Registration Reform. It is our expectation going forward, however, that any new individuals who are applying in the Supervisor category must meet the required proficiencies.

We recognize that the Registration Reform related amendments have implications on previously issued guidance relating to the Role of the Compliance Officer. We will at a later date issue an updated notice on this topic, after consultation with members.

The IIROC rule amendments also require dealer members to have a Supervisor to:

- (a) supervise managed accounts (Rule 1300.15); and
- (b) pre-approve advertising, sales literature and correspondence, including research reports, under Rule 29.7(3) and Rule 3400, Guideline 7;
- (c) directly supervise the portfolio management activities of a Registered Representative who has not previously provided portfolio management to clients for at least two years (Rule 1300.15(c) (i)).

These designated Supervisors are also required to seek approval with IIROC and should do so within 4 months following the implementation of the IIROC rule changes on the National Registration Database, as per Rule 40. Such applications should identify under Item 10 (“Current Employment”) the nature of the individual’s supervisory responsibilities.

### ***NRD Filing requirement***

All applications for the Supervisor category should contain a description under “Current Employment” (Item 10 of Form 33-109F4) to identify the type of supervisory activity for which the individual is responsible. It is the firm’s responsibility to ensure that the individual has completed any applicable proficiencies mandated under Rule 2900.

## **(C) New Firm Recordkeeping Responsibilities**

### ***Approved Persons dealing with Mutual funds only***

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<sup>1</sup> It should be noted that existing Branch Managers will be automatically mapped into the new Supervisor category and an application for approval for these individuals is not necessary. See Notice #09-0190 *Registration Reform – Transition to new IIROC Approval Categories* for additional information on the mapping conversion process.



New Dealer Member Rule 18.7 limits the period in which an IR or RR can be restricted to mutual fund business, and sets out the following requirements:

- (i) Within 270 days of initial approval, an IR or RR restricted to mutual funds must complete the *Canadian Securities Course* and *Conduct and Practices Handbook Course* and submit a Proficiency Information update via NRD.
- (ii) Within 18 months of initial approval, this individual must complete the 30 or 90 training program required and submit a Proficiency Information update via NRD
- (iii) Within 18 months, the firm's AFR must file a notice of "Change or Surrender of Individual Categories" to change the individual's product type from "Mutual Fund only" to "Securities".

Dealer Members should implement internal tracking systems to ensure the above timelines are met. It should be noted, however, that any existing IR or RR who is currently approved to conduct mutual fund business only, is grandfathered from the requirement to upgrade to full IR or RR if they are currently registered only in a province or provinces in which they currently comply with the securities legislation, rules and policies for the restricted category (see new Dealer Member Rule 18.7(c)).

### ***Supervisors***

New Rule 38.1(v) requires Dealer Members to maintain an internal record of the names of all Supervisors, including the scope and time period of their responsibility. The records must also identify the Supervisor of any Approved Person at any given time. These records must be preserved by the Dealer Member for 7 years, of which the first year must be on-site.

This record keeping requirement applies to all Supervisors including those specified in Rule 1.1 which are:

- (1) the Supervisor designated to be responsible for the opening of new accounts and the supervision of account activity under Rule 1300.2
- (2) the Supervisor designated to be responsible for the supervision of discretionary accounts under Rule 1300.4
- (3) the Supervisor designated to be responsible for the supervision of managed accounts under Rule 1300.15
- (4) the Supervisor designated to be responsible for the supervision of futures contract accounts under Rule 1800.2(a)
- (5) the Supervisor designated to be responsible for the supervision of options accounts under Rule 1900.2(a)



- (6) the Supervisor or Supervisors designated to pre-approve advertising, sales literature and correspondence, including research reports, under Rule 29.7(3) and Rule 3400, Guideline 7.

### ***Portfolio Management***

Dealer Member Rule 1300.15(c) introduces a new supervision requirement in place of the existing Associate Portfolio Manager approval category. It will require that a person who has not previously provided portfolio management to clients for at least two years with a Dealer Member, a Provincially registered Advisor or a government-regulated institution must be directly supervised by another portfolio manager who is not under such supervision or by a Provincially registered Advisor under contract. Dealer Member's supervisory records should record the individuals who are responsible for such supervision and the individual they are supervising. It will be the firm's responsibility to ensure that supervision remains in place for the required period set out in the rules. Updates to NRD are not required when there is an expiry of the two year supervision period.

### **(D) Reporting Changes to Business Types**

As set out in new Rule 40.4(3) and (4), Dealer Members must notify IIROC when an Approved Person changes the type of business in which he or she is engaged. NRD has been amended to allow Dealer Members to submit a "Change or Surrender of Individual Categories" submission as a Notice, by checking a box on the submission.

Dealer members must ensure the required proficiency update has been submitted prior to submitting this notice and that an Approved Person has completed the courses specified in Rule 2900, Part I, within the timelines specified in Rule 2900, Part II, or that a formal exemption has been granted by the appropriate District Council. There will be no approval required by IIROC, only a check by IIROC Staff which may come after the fact, that the Dealer Member has disclosed the completion of the necessary proficiency requirements. Individuals who do not meet IIROC's proficiency standards for a business type will be required to cease dealing in the business type immediately, until the proficiencies are completed.

Please note that as a result of provincial securities legislation, individuals applying in Ontario and in Manitoba, for the business type of "Futures Contracts and Futures Contract Options" must file the submission as an application for Approval.

### **(E) Automatic Transfers**

Under new IIROC Rule 40.7 and National Instrument 33-109, individuals transferring between Dealer Members will be automatically approved and registered provided the Reinstatement



form (Form 33-109F7) is filed on NRD within 90 days following an individual's termination from their previous firm.

Dealer Members must implement due diligence procedures to ensure individuals filing for this automatic transfer meet the criteria of Rule 40.7 (3) which includes, but is not limited to, the requirement that the individual was not asked by his/her previous sponsoring firm to resign, nor was dismissed, following an allegation against the individual of any of the following: (i) criminal activity; (ii) a breach of securities laws; or (iii) a breach of IIROC's rules.

Firms must file an NRD "Reactivation of Registration" application to transfer individuals who do not meet the criteria for automatic reinstatement, and must wait for IIROC Approval before allowing the individuals to engage in registerable activity.

In Ontario, legislative changes have not been made to the Commodity Futures Act. Consequently individuals applying in Ontario for any category involving the business type of "Futures Contracts and Futures Contract Options" through the Reinstatement submission type will not be automatically approved under National Instrument 33-109 and firms must wait for registration approval to be granted to these individuals.

NRD will prevent a Reinstatement of Registration from being filed if an individual was terminated prior to the NRD freeze period which begins 5pm E.S.T. September 25, 2009. In this case, a Reactivation of Registration must be filed. As the Reactivation submission will automatically collect a fee, provisions will be made to refund or cancel these fees.

## **(F) Approval Notices**

Effective September 28, 2009, IIROC will no longer be issuing a notice when an application has been approved without terms or conditions. These Approval notices currently identify the date of approval, approved category, post-licensing requirements and continuing education requirements. Dealer Members may rely on the Submission Status Report available through NRD to identify the status of applications sent to IIROC.

Dealer Members may also utilize IIROC's Continuing Education Online Tracking System to identify the continuing education requirements for Approved Persons, but must report any discrepancies between the requirements set out in the Online Tracking System, and the actual requirements set out in Rule 2900, Part III. These discrepancies should be reported to [CEhelp@iiloc.ca](mailto:CEhelp@iiloc.ca).



## Timelines

The milestones referenced above are set out in the following table. The dates indicated in square brackets are based on the proposed implementation date of September 28, 2009:

<b>Timeline</b>	<b>Requirement</b>	<b>Dealer Member Rule Reference</b>
Upon Implementation [September 28, 2009]	Implement procedures to track proficiency and notification requirements for new IRs and RRs restricted to Mutual Funds.	18.7
Upon Implementation [September 28, 2009]	Implement procedures to maintain internal record of Supervisors.	38.1(v)
Upon Implementation [September 28, 2009]	Implement procedures to track 2 year supervision requirement for RRs engaged in Portfolio Management.	1300.15(c)
Upon Implementation [September 28, 2009]	Implement procedures to calculate proficiency validity for new business types.	Rule 40.4 (3) and (4)
Upon Implementation [September 28, 2009]	Implement due diligence procedures to ensure transferees meet the criteria for automatic reinstatement.	40.7
Three months [December 31, 2009]	Submit an application to add the new Registration Category of “Ultimate Designated Person” for the firm’s approved UDP and, if necessary, surrender approval of any additional UDPs.	CSA Staff Notice 31-311





Three months [December 31, 2009]	Submit an application to add the new Registration Category of “Chief Compliance Officer” for the firm’s approved CCO.	CSA Staff Notice 31-311
Within four months [January 31, 2010]	All Supervisors who have not been automatically mapped into the new Supervisor category must submit an application for approval in the Supervisor category via NRD.	