

# IIROC NOTICE

## **Rules Notice Request for Comment**

Dealer Member Rules

*Please distribute internally to:*

Legal and Compliance

Operations

Senior Management

Retail

*Contact:*

Angie F. Foggia

Policy Counsel, Member Regulation Policy

416 646-7203

[afoggia@iiroc.ca](mailto:afoggia@iiroc.ca)

**Notice 11-0344**

**December 2, 2011**

## **Requirement to Disclose Membership in IIROC as Dealer Member**

### **Summary of nature and purpose of Proposals**

On September 14, 2011, the Board of Directors (“Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of proposed amendments to Dealer Member Rule 700 (“Rule 700”), as well as a proposed new IIROC membership disclosure policy (“IIROC Membership Disclosure Policy”) (collectively, the “Proposals”) setting out a Dealer Member’s requirement to disclose their membership in IIROC.

The primary objectives of the Proposals are to promote and raise public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors assess the regulatory status of member firms and/or individual registrants.

### **Issues and Specific Proposals**

#### ***Relevant History***

In light of recent market events, IIROC recognizes the importance of providing information to investors about who it regulates. Toward that end, IIROC has taken steps to provide the investing public with relevant information.



In July 2009, IIROC produced the brochure called “*Why IIROC Matters to You, the Investor*” which describes the benefits of working with an IIROC-regulated firm and approved advisor. The brochure explains how IIROC sets and enforces rules regarding the proficiency, business and financial conduct of IIROC-regulated firms and their registered employees. It provides information on IIROC rules that firms must comply with to minimize the possibility of financial failure and protect client assets if a firm becomes insolvent, and explains how IIROC requires firms to have procedures to supervise client accounts and ensure that advice and transactions reflect clients’ needs and instructions.

In August 2010 IIROC introduced an easily accessible on-line report called *AdvisorReport*. *AdvisorReport* allows investors to quickly obtain relevant information on IIROC-regulated investment advisors. This service allows investors to immediately access current information on an advisor’s educational background, what functions and roles the advisor has received IIROC approval to perform as well as their disciplinary history, if any.

In addition to these resources, Dealer Member Rule 29.14 (“Rule 29.14”) requires Dealer Members to disclose membership in the Canadian Investor Protection Fund (“CIPF”) through the use of the CIPF membership symbol, brochure, decal and explanatory statement in certain circumstances, in order to increase awareness of the added security and protection when investing with an IIROC-regulated firm and advisor.

In furtherance of IIROC’s objectives, IIROC believes that it is appropriate to require Dealer Members to disclose their membership in IIROC to promote public awareness of the advantages of working with an IIROC-regulated firm, as well as to assist investors in their assessment of potential Dealer Members and/or individual IIROC registrants.

### **Current Rules**

The current rules allow for the optional use of the IIROC name and logo (“IIROC Official Name and Logo”), provided that they are used in a way that complies with Rule 700. To ensure that the IIROC Official Name and Logo are being used properly, Dealer Members may be required to provide samples of materials bearing the IIROC Official Name and Logo upon IIROC’s request, and under certain circumstances, where improper IIROC Official Name and Logo use is identified, cease using the IIROC Official Name and Logo.

### **Proposed Rules**

#### Proposals

As a result of the changes flowing from the Proposals, the IIROC Rule Book will no longer contain rules setting out the IIROC membership disclosure requirements applicable to Dealer Members. Instead, Dealer Members will be required to comply with the IIROC Membership Disclosure Policy which will be posted on the IIROC website and updated from time to time, as required. As part of the



amendments being made to Rule 700, updates to Dealer Member Rule 22, *Use of Name or Logo: Liabilities: and Claims* (“Rule 22”), are also being made. The regulatory requirements set out in Rule 22 are covered in Article 15 of General By-Law No.1. Therefore, Rule 22 will be repealed.

A copy of the amendments to Rules 22 and 700 are included as Attachment A.

#### IIROC Membership Disclosure Policy

The IIROC Membership Disclosure Policy will set out the Dealer Member’s obligation to disclose membership in IIROC as a Dealer Member, as well as other relevant information, including logo specifications, proper use of the IIROC acronym (“IIROC Official Acronym”), and instructions on how to order the IIROC decal and brochure (“IIROC Official Decal and Brochure”). More specifically, the IIROC Membership Disclosure Policy will require Dealer Members to:

- display the IIROC Official Decal at each Dealer Member business location to which clients have access;
- display the IIROC Official Logo on their website, if they have one;
- include the IIROC Official Logo on the front of each trade confirmation and account statement sent to a client; and
- distribute the current version of the IIROC Official Brochure to:
  - new clients at time of account opening; and
  - existing clients, upon request.

To assist IIROC staff in determining whether there is proper use of the IIROC Official Name, Acronym, Decal, Logo and Brochure in situations where their use is still optional, specifically in advertising materials, the policy also requires Dealer Members to produce samples of such materials that use or make reference to the IIROC Official Name, Acronym, Decal, Logo and Brochure, upon IIROC’s request.

In addition, Dealer Members will be prohibited from using the IIROC Official Name, Acronym, Logo, Decal and Brochure in the following circumstances:

1. if IIROC decides that its use is detrimental to the public’s interests or the interests of IIROC or its Dealer Members;
2. where use of the IIROC Official Name, Acronym, Logo, Decal or Brochure gives the impression that IIROC approves, endorses or guarantees a Dealer Member service or an investment product or is otherwise false or misleading;
3. in connection with a subject matter or activity that is not regulated by IIROC; or
4. upon the termination or suspension of its membership.

A copy of the IIROC Membership Disclosure Policy is attached as Attachment B.



### IIROC Official Brochure

Similar to CIPF, the Proposals introduce the concept of an IIROC Official Brochure. The IIROC Official Brochure refers to any brochure or publication identified as such by IIROC for use by Dealer Members. The Proposals designate the current IIROC brochure entitled “*Why IIROC Matters to You, the Investor*” as the IIROC Official Brochure at this time.

### Format of the IIROC Official Logo

The IIROC Official Logo has been designed taking into consideration the space limitations that exist on client trade confirmations and client account statements. The IIROC Official Logo differs from the IIROC corporate logo as it:

- includes the text “Regulated by” in order to inform the client of IIROC’s function; and
- is not bilingual in order to tailor the logo to the client’s preferred official language and, from a practical standpoint, not take up too much space.

The IIROC Official Logo must be used at a height of not less than 0.25 inches (as shown below), and must include a surrounding blank area equivalent to the height of the letter ‘I’ in IIROC. The IIROC Official Logo will be available in colour, as well as black and white and will appear as follows:



### **Comparison with Similar Regulatory Requirements**

The Proposals are similar to the requirement to disclose membership in CIPF set out in current Rule 29.14. Specifically, Rule 29.14 requires Dealer Members to do the following:

1. display the CIPF symbol at certain business locations;
2. include the CIPF symbol on the front, and the CIPF explanatory statement either on the front or back, of each client trade confirmation and client account statement;
3. make the CIPF brochure available to its clients upon request; and
4. include the CIPF symbol on specific advertising materials, except in circumstances where use is optional.

In addition, Rule 29.14 requires Dealer Members to immediately cease identifying themselves as a member of CIPF in the event IIROC membership is terminated or suspended. The CIPF requirements are also set out in a disclosure policy (“CIPF Disclosure Policy”) which is posted on the CIPF website. A revised CIPF Disclosure Policy will become effective upon the approval of the Proposals. A copy of the



revised CIPF Disclosure Policy can be found on the CIPF website at <http://www.cipf.ca/Private/Members/Policies/CIPFDisclosurePolicyPendingImplementation.aspx>.

### ***Corollary Amendments to Rule 29.14***

Currently, CIPF relies on IIROC to enforce the CIPF membership disclosure requirements through Rule 29.14. These disclosure requirements are determined solely by CIPF and subject to change pursuant to CIPF's request. As per CIPF's request, Rule 29.14 will be deleted, and in turn, new Dealer Member Rule 29.28 will refer Dealer Members to the CIPF Disclosure Policy, for detailed information regarding compliance with their CIPF membership disclosure requirements. A copy of the amendments to Rules 29.14 and new Dealer Member Rule 29.28 is included in Attachment A.

### ***Rulebook Re-write***

The Proposals will also be reflected in the plain language rewrite of the Dealer Member Rule Book. Upon final CSA and Board approval of the Proposals, the proposed plain language rules 2355, 2356 and 2357 ("Rules 2355, 2356 and 2357") will be revised to reflect the Proposals. A blackline of the amendments to plain language Rules 2355, 2356 and 2357 is included as Attachment C.

### ***Issues and alternatives considered***

IIROC staff considered the possibility of maintaining the existing requirements; however, IIROC rejected this alternative as staff is committed to promoting and raising public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors determine the regulatory status of firms and individuals. IIROC staff also considered providing an exemption from the Proposals for ATs. IIROC staff concluded, however, that the application of the Proposals 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 by requiring all Dealer Members to disclose IIROC membership investors are better able to make informed decisions regarding the selection of an advisor and Dealer Member, which in turn enhances investor protection and strengthens market integrity.

The Proposals were developed in consultation with IIROC advisory committees and CIPF, and have been drafted to address concerns relating to adequate transition periods and limited space on trade confirmations and account statements. IIROC's commitment to set high quality regulatory and investment industry standards, protect investors and strengthen market integrity dictates that IIROC rules incorporate mandatory IIROC membership disclosure requirements for Dealer Members.



## **Proposals Classification**

Statements have been made elsewhere as to the nature and effects of the Proposals, as well as analysis. The purpose of the Proposals is to:

- Promote the education and protection of investors.

Due to the extent and substantive nature of the Proposals, they have been classified as Public Comment Rule proposals.

## **Effects of the Proposals on market structure, Dealer Members, non-Dealer Members, competition and costs of compliance**

The effects of the Proposals will be to promote and raise public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors determine the regulatory status of firms and individuals. The Proposals will not have any significant effects on Dealer Members or non-Dealer Members, market structure or competition. Furthermore, it is not expected that there will be any significant increased costs of compliance as a result of the Proposals.

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

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

## **Technological implications and implementation plan**

The most significant implications associated with the Proposals are related to the changes Dealer Members must make to account statements and confirmations. As such, the Proposals will be made effective on a date to be determined by IIROC staff after receiving notification of approval by the requisite provincial securities commissions, and subject to the following transition periods.

The Proposals will be subject to a 6 month transition periods, except with respect to account statements and confirmations in which case Dealer Members will be given 18 months to make any system changes before the Proposals become effective.

## **Request for public comment**

Comments are sought on the Proposals. 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 F. Foggia  
Policy Counsel, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
Suite 1600, 121 King Street West  
Toronto, Ontario, M5H 3T9

The second copy should be addressed to the attention of:

Manager of Market Regulations  
Ontario Securities Commission  
19<sup>th</sup> 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](http://www.iiroc.ca)**) under the heading “IIROC Rule Book – Dealer Member Rules – Policy Proposals and Comment Letters Received”.

Questions may be referred to:

Angie F. Foggia  
Policy Counsel, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
416.646.7203  
[afoggia@iiroc.ca](mailto:afoggia@iiroc.ca)

### **Attachments**

- [Attachment A](#) - Board Resolution and Proposed Amendments to Rules 700, 22, 29.14 and 29.28
- [Attachment B](#) - IIROC Membership Disclosure Policy
- [Attachment C](#) - Blackline copies of Plain Language Rules 2355, 2356 and 2357