

# IIROC NOTICE

## **Rules Notice Request for Comments**

Dealer Member Rules

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**13-0042**  
**February 7, 2013**

## **IIROC Concept Proposal Restricted Dealer Member Proposal - Summary of Comments**

### **1. Introduction**

On July 12, 2012 the Investment Industry Regulatory Organization of Canada (“IIROC” or “we”) published for a 90-day comment period a proposal to introduce a new class of IIROC Member, called a “Restricted Dealer Member”, to the IIROC platform (See IIROC Notice 12-0217 *IIROC Concept Proposal – Restricted Dealer Member Proposal*). This notice summarizes the comments we received on the Restricted Dealer Member concept proposal and discusses our intention to not proceed with the proposal as a result of the comments received.

### **2. Background**

The Restricted Dealer Member concept proposal was developed in response to policy concerns relating to the scope of activities being undertaken by certain exempt market dealers (EMDs) as identified in CSA Staff Notice 31-327 *Broker-Dealer Registration in the Exempt Market Dealer Category*.



The proposed framework was intended to facilitate the migration to IIROC membership of these EMDs, all of which are FINRA<sup>1</sup> broker dealers currently carrying out brokerage activity on the CSA platform as EMDs, or in some cases, restricted dealers. Migration to the IIROC platform would have required these firms to surrender their EMD or restricted dealer registration, as the case may be, and apply for investment dealer registration under provincial securities law as well as seek IIROC membership.

The proposed new class of Restricted Dealer Member would have allowed a FINRA broker-dealer to directly seek cross-membership with IIROC. The class was intended to be limited to entities that are both FINRA and Securities Investor Protection Corporation (SIPC) members. It was proposed that a Restricted Dealer Member be exempt from a number of IIROC's financial operations requirements, including requirements governing financial reporting, minimum capital, minimum insurance coverage and margin, on the condition that the firm complied with comparable U.S./FINRA requirements. Among other conditions, a Restricted Dealer Member would not be allowed to be a participant in an IIROC regulated Canadian marketplace. In addition, a Restricted Dealer Member would only be able to deal with a prescribed type of retail and institutional customer and would be subject to a *de minimis* threshold of business activity. Further, the Restricted Dealer Member would also not be able to rely on the international dealer or international advisor exemption set forth in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103).

### **3. Summary of the feedback received on the Restricted Dealer Member concept proposal**

We received 14 comment letters on the Restricted Dealer Member concept proposal. Copies of these letters have been posted on IIROC's website ([www.iiroc.ca](http://www.iiroc.ca) under the heading "Policy" and sub-heading "Dealer Proposals/Comments"). A detailed summary of the comment letters received and the names of the commenters can be found in Appendix A to this Notice.

The Restricted Dealer Member concept proposal elicited comments from a number of IIROC Dealer Members, industry associations, and an investor representative group. We heard strong views on almost every aspect of the concept proposal, including the specific consultation questions included in the paper. We have considered all comments received and wish to thank all those who took the time to comment.

In general, the vast majority of commenters did not support the Restricted Dealer Member proposal. Several overarching themes emerged from these submissions that call into question the viability of the proposal. These comments resonated with us and as a result we will not be pursuing the Restricted Dealer Member proposal. A brief discussion of these overarching themes follows.

#### ***Unlevel playing field***

Many commenters acknowledged that, in general, competition is good for the capital markets and the investing public and appreciated the need to find a workable solution for those FINRA broker-dealers

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<sup>1</sup> FINRA is the Financial Industry Regulatory Authority.



currently carrying out brokerage activities through an EMD. These commenters expressed concern, however, that the proposal would create an un-level playing field, as between full IIROC members and the proposed Restricted Dealer members, in material respects and would entrench a structural advantage in favor of these FINRA firms. In particular many commenters noted that FINRA allows portfolio margining and imposes lower margin rates than IIROC, providing a structural advantage in retail and institutional prime brokerage activities. Ultimately, the commenters noted that the Canadian firms having to maintain capital levels in accordance with IIROC requirements would affect the underlying economics of their business activities and would put them at a competitive disadvantage relative to their Restricted Dealer member counterparts. Many also felt that because the Restricted Dealer Member category would be unavailable to Canadian dealers, this would exacerbate the FINRA members' competitive advantage.

### ***Comparability of Canadian (IIROC) and U.S. (FINRA) financial and operational rules***

The majority of commenters expressed concern that the respective IIROC and FINRA rules governing financial operations are not sufficiently comparable, and that in the specific case of margin rules, U.S. regulations are significantly less restrictive than those in Canada. In this context, one commenter expressed concern that if FINRA regulated firms are not required to comply with Canadian financial operational rules which are unique to the Canadian market, and not duplicative of existing US rules, existing IIROC Dealer Members may begin to question the legitimacy of such rules. If so, “pushback” on existing rules by Canadian dealers would be detrimental to the interests of Canadian investors and the efficiency of Canada’s capital markets.

### ***Insufficient information regarding the extent and scope of activities being conducted through EMDs***

Many commenters indicated that they did not have sufficient information regarding the scope of services and products that FINRA broker dealers were currently providing to Canadian investors through their EMD registration. In the absence of such information, the majority of commenters believed they could not properly assess the proposition that Restricted Dealer Members would be able to provide Canadian investors with greater access to a broader product base than full IIROC Dealer Members such that the accommodations included in the concept proposal could be justified. Some commenters went further and disagreed that Canadian clients do not have access to sufficient products.

### ***Lack of reciprocity***

While the majority of commenters appreciated that the proposed Restricted Dealer Member concept proposal was not predicated on a reciprocal arrangement with the United States, they believed it was important for both IIROC and the CSA to acknowledge that Canadian firms who are participating, even in a limited capacity, in the United States have not been afforded similar substituted compliance exemptions that would allow them to leverage off of a single trading platform, existing technology systems, human capital, supervisory and back-office systems. These commenters stressed that the costs to the Canadian industry, in terms of both time and money, should not be overlooked and that it



would be highly inequitable to broadly alter IIROC membership eligibility criteria and related rules as proposed in light of the additional compliance requirements faced by Canadian dealers in the U.S.

#### ***Scope of EMD registration category and reasonable transition period to full IIROC membership***

The majority of commenters agreed with the policy and capital market concerns articulated in the IIROC concept paper regarding the current scope of the EMD registration category. These commenters strongly recommended that NI 31-103 be amended in a timely manner to restrict the activities that can be carried out by an EMD to better reflect the category's original purpose, which appeared to be tied to capital-raising in the exempt market. In this context, commenters were generally supportive of providing firms impacted by a change to NI 31-103 with a reasonable transition period to seek investment dealer registration and full IIROC membership.

#### **4. Next Steps**

IIROC Staff have discussed the comment letters received on the Restricted Dealer Member concept proposal with CSA Staff and have shared our concerns that the proposal is not a viable path forward, given the comments that we received.

We continue to have serious concerns with the current scope of brokerage activities being conducted by certain firms through the EMD registration category and believe that firms must conduct brokerage activities through a full IIROC member firm. We understand that CSA Staff intend to propose amendments to NI 31-103 to address our shared policy concerns in this area. To this end CSA Staff have published a notice regarding their intentions in this regard. Please see CSA Staff Notice 31-333 *Follow-up to Broker Dealer Registration in the Exempt Market Dealer Category*. IIROC and CSA Staff will continue to work together on this issue.

## Appendix A

Issue	Summary of Comment	Commenter
<p><b>Creation of a new Restricted Dealer Member category of IIROC membership</b></p>	<p>The majority of commenters do not believe it is in the best interest of investor protection, IIROC, or IIROC membership to have “classes” of dealer members. The same regulatory requirements must apply to all firms that engage in brokerage activities and IIROC should regulate any firm conducting such activities. Commenters encourage CSA to implement changes to NI 31-103 in a timely manner to restrict EMD activities to their original purpose – capital raising in the exempt market. One commenter specifically agreed that trading securities on an exchange, entering into arrangements similar to introducing/ carrying broker relationships or the lending or providing of margin to clients are all “brokerage activities” and must be confined to investment dealers subject to supervision of IIROC.</p> <p>The following policy concerns and comments were also articulated by some of these commenters in connection with their overall non-support for the RDM proposal:</p> <ul style="list-style-type: none"> <li>• unfair to Canadian dealers and creates a structural cost disadvantage for Canadian firms who cannot utilize the RDM category;</li> <li>• disagree that Canadian clients do not have access to sufficient products and no evidence presented to suggest that the continued presence or exit of these firms from Canada would be beneficial or detrimental (as the case may be) to Canadian investors – similarly some of the commenters feel they have not been provided with sufficient information to allow them to clearly understand the extent and scope of the activities these EMDs are undertaking;</li> <li>• playing field under this proposal is not level in material respects (i.e., lower margin rates on inventory positions, higher lending margin rates for client accounts, ability to use portfolio margining in U.S. which ultimately means Canadian firms must have more capital to transact business which affects the economics of doing business) and provides a structural advantage in perpetuity for FINRA firms ;</li> <li>• IIROC should undertake and publish a detailed analysis of the rule differences between those where it is proposed to accept substituted compliance;</li> <li>• lack of reciprocity from the U.S.;</li> <li>• concerns about enforceability of enforcement sanctions and civil penalties potentially ordered in Canada against these firms – some commenters suggest FINRA should have rules and oversight ability to enforce Canadian fines on the parent of the Restricted Dealer if it folds up under the threat of an IIROC sanction;</li> </ul>	<p>Acumen Capital Partners            IIAC            Leede Financial Markets Inc.            ATB Investor Services            AltaCorp Capital Inc.            Paradigm Capital            Rogers Group Financial            Peters &amp; Co. Limited            Cormark Securities Inc.</p>



Issue	Summary of Comment	Commenter
	Some commenters would support, however, temporary RDM classification subject to requiring the applicable firms to transition within a certain period of time (with some suggesting no more than 2/3/5 years) to full IIROC members.	Paradigm Peters & Co. Cormark
	Some commenters appreciate the need to find a balanced solution to the current situation and feel RDM proposal could provide an effective path forward. Commenters agree that IIROC, as the primary regulator of brokerages in Canada, is best positioned to determine and enforce the appropriate minimum standards.	GMP Securities L.P. CIBC World Markets Inc.
	One commenter submits that the implementation of an RDM regime that allows for higher levels of substituted compliance than proposed in the Concept Paper and a more limited scope of activities than a Dealer Member, but that otherwise mirrors the scope of activities currently available to EMD registrants (i.e., access to “accredited investors”, no de minimis threshold and ability to rely on the international dealer and/or adviser exemptions), is an appropriate framework for the RDM category.	SIFMA
	One commenter submitted that these firms should be required to transition to full IIROC Dealer Member if permitted (or permitted to continue) to have retail clients who are “accredited investors”. If it is determined that these firms should be migrated to a new RDM category, they should only be allowed to deal with institutional investors who qualify as Permitted Clients.	FAIR
<b>Guiding principles underpinning the proposal</b>		
1. Globalized markets and increased cross border access offer many potential benefits to Canadian investors, including broader investment choices, lower transaction costs flowing from increased competition and savings derived from the use of global technology platforms, increased efficiency of transactions, improved integration of cross board trading and technology, greater opportunity for	<p>The RDM category is not being made available to Canadian dealers to utilize. This is unfair to Canadian dealers and creates a structural cost disadvantage for Canadian firms and undermines the purported lower cost benefits to Canadian investors.</p> <p>Competition is effective only if everyone is on a level playing field – this is not the case under the RDM proposal – prime brokerage margining is often cited as an example.</p> <p>Disagree that Canadian clients don’t have access to sufficient products.</p> <p>It has not been demonstrated if, and to what extent the FINRA/EMDs are important to the Canadian capital markets, or provide services beyond what Canadian dealers can provide. Some commenters request that the results of the CSA survey undertaken to better understand the scope of EMD activity in Canada be shared with the industry so that Canadian firms can</p>	Acumen AltaCorp IIAC Leede ATB Rogers Group Peters & Co. Cormark



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diversification and more access to information about foreign investment opportunities.	better understand the competitive landscape.	
	Commenter agrees that one of the potential advantages in creating the RDM category would be to provide Canadian investors with greater access to a broader product base, noting that the firm’s U.S. EMD affiliate provides its Canadian institutional clients with access to an extended market in high-yield and distressed debt instruments that they otherwise may not have access to. This provides these clients with increased product diversity, liquidity and lower costs all within the current low interest rate environment.	GMP Securities
2. Regulatory overlaps between U.S. and Canadian regulatory regimes can create impediments to cross border trading. Furthermore overlap can result in burdensome regulatory compliance requirements being placed on market participants without consideration of whether these additional compliance requirements are necessary for investor protection purposes.	Not allowing Canadian dealers to be eligible for the RDM category creates an unfair situation for Canadian dealers as they are unable to utilize the advantages that these FINRA EMD’s will have.	Acumen
3. Canada’s capital markets benefit from having U.S. firms participate alongside Canadian firms, therefore curtailing the existing allowable activities of these FINRA/EMD registrants without providing them with a financially viable alternative arrangement could result in these firms abandoning the Canadian capital markets. This scenario would be	There is no evidence provided to support this statement.	Acumen AltaCorp



Issue	Summary of Comment	Commenter
detrimental to many Canadian clients who relied on these firms to access global markets on an efficient and cost-effective basis.		
4. Competition amongst firms conducting the same scope of brokerage activities within Canada must be conducted on a level playing field. If we permit FINRA members to conduct brokerage activities on substituted compliance with FINRA rules, regulatory arbitrage opportunities may gain a material competitive advantage due to the application of disparate standards. Any exemptions contemplated in the proposed IIROC framework should balance legitimate competitive and level playing field considerations.	The playing field under the proposal is not level in material respects (for example, in the area of margin requirements) and provides structural advantage in perpetuity for the FINRA firms. A number of commenters request that IIROC publish a detailed analysis of the rule differences in those areas where IIROC is proposing exemptions based on substituted compliance. Some commenters also question whether IIROC staff has sufficient expertise and knowledge in relation to the detailed FINRA financial and operations rules to be able to assess compliance with FINRA rules. The lack of reciprocity with the U.S. is glaring and the U.S. appears to be moving in the opposite direction of tightening (rather than loosening) their regulatory regime.	Acumen AltaCorp
5. Institutional Customers and truly sophisticated and wealthy retail customers are capable of assessing the risks of doing business with a U.S. entity, subject to similar regulatory requirements.	While several commenters agree with this statement, they don't believe the compromises in the proposal result in an appropriate solution to the problem.	Acumen AltaCorp
<b>Specific elements of RDM proposal</b>		
Comparability of FINRA's regulatory framework	One commenter notes, based upon the firm's experience with both IIROC and FINRA, that while there are differences in the regulations and by-laws, IIROC and FINRA requirements are congruent in principal in almost all cases. The commenter also notes that they have seen increased cooperation between the two SROs over the last few years such that they believe joint oversight of Restricted Dealers coupled with IIROC's suggested exemptions	GMP Securities





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	will provide a cost effective regulatory framework	
	FINRA must have a clear and unambiguous obligation to advise IIROC of any issues identified at the firm in an expeditious manner (e.g. disciplinary issues, capital or early warning issues, etc.).	Acumen IIAC Leede ATB Rogers Group Peters & Co.
	Suggestion that agreements should be put in place with FINRA to allow IIROC sanctions to be imposed on the RDM for violations of IIROC rules including rules whereby FINRA has the ability to enforce IIROC fines and sanctions on the FINRA Member or its FINRA Member parent or affiliate	IIAC Leede ATB Rogers Group Paradigm
	One commenter encouraged IIROC to implement guidelines in connection with FINRA in respect of jurisdictional, oversight and enforcement issues that may arise in connection with the RDM category.	SIFMA
Restricted Dealer Member eligibility criteria	<p>One commenter suggested that the following disclosure requirements should be imposed (beyond those contained in the Concept Proposal):</p> <ul style="list-style-type: none"> <li>• provide written and oral disclosure to each client confirming the extent of the coverage provided to Canadian clients by SIPC and an explanation of how such coverage differs from what they would receive from CIPF;</li> <li>• provide a statement in plain language setting out the client’s options for redress, including litigation rights in the U.S. and Canada; and</li> <li>• advise of the ability to access OBSI (or not).</li> </ul>	FAIR
	One commenter submitted that the proposed RDM category should not be limited only to FINRA regulated broker dealers, but should instead be open to firms wishing to engage in dealer activity in the Canadian markets generally, in much the same way in which the EMD category remains open to any firm globally that is interested in engaging in activities permitted by an EMD registration.	SIFMA
Restricted Dealer Member category of IIROC membership cannot be used by Canadian investment dealers	Commenter agrees with this requirement.	GMP Securities
	Several Commenters see no reason why FINRA dealers owned by Canadian based entities should be excluded from this category.	IIAC Leede



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	The restriction puts Canadian owned dealers at a disadvantage not only to US firms, but other foreign FINRA registrants that could operate through the US regulatory framework. The restriction cannot be justified by any investor protection or market integrity rationale.	ATB Securities Rogers Group
	One commenter requested clarification on how non-Canadian ownership would be demonstrated where the parent company of an affiliated group is a public entity.	SIFMA
Scope of business activities carried out in Canada	Several commenters seek clarification as to whether an RDM can undertake underwriting activities under the proposal. These commenters don't believe that it is appropriate for an entity other than a full IIROC member to underwrite and sign a prospectus. The additional legal and operational risks of opening this privilege to others without the appropriate direct regulation of financial and operations activities are substantial.	Acumen AltaCorp IIAC Leede ATB Rogers Group Paradigm Peters & Co. Cormark
	The scope of an RDM's permitted business activities should be clearly detailed in a membership agreement rather than broadly allowing business that is "consistent with, and [does] not exceed, the scope of business activity approved by FINRA in the firm's membership agreement with FINRA.	Peters & Co.
	One commenter observed that the scope of business of many FINRA regulated firms (as per the membership agreements) extends to the level of IIROC regulated Dealer members, including full retail client base, underwriting ability, and active role on marketplaces.	SIFMA
Records of a Restricted Dealer Member		
Attornment/Appointment of Agent		
Cost Recovery		
Participating Organization restriction	Agree that a Restricted Dealer cannot be Participating Organization in Canadian marketplace, and also agree that UMIR should be imposed on Restricted Dealers who route orders to a Participant for execution on a Canadian marketplace.	GMP Securities IIAC Leede ATB Rogers Group Paradigm
	One commenter expressed concerns that there is no prohibition preventing a foreign owned affiliated of an RDM that was a full IIROC member from being a Participating Organization. The commenter believes that this would allow foreign dealers to parse their business to take advantage of regulatory arbitrage across	Cormark



Issue	Summary of Comment	Commenter
	business lines.	
Unavailability of the international dealer and adviser exemptions	<p>Three commenters agree with this restriction.</p> <p>One of the three commenters indicated, however, that participants who properly maintain their EMD status should be allowed to continue to utilize their existing international dealer exemption.</p>	<p>GMP Securities Paradigm Peters &amp; Co.</p> <p>GMP Securities</p>
	<p>Commenter does not support the removal of the international dealer/international adviser exemptions noting that neither exemption requires submissions to be made nor proficiency requirements met by any individual employees of firms relying on one or both exemptions. Preventing RDM firms from the ability to rely on either exemption will create a burdensome regulatory regime for those current EMD and RD firms that rely heavily on the flexibility of the exemption regime for certain activities in respect of securities of non-Canadian issuers.</p>	SIFMA
Financial requirements – exemptions based on substituted compliance with FINRA requirements – all other IIROC rules to apply	<p>Commenter agrees with the proposed exemptions in principle provided communication between FINRA and IIROC is proactive and timely.</p>	GMP Securities
	<p>The majority of commenters do not support substituted compliance based on FINRA’s margin requirements. The commenters generally believe that differences in margin requirements are material (i.e., U.S. regulations are significantly less restrictive), and as such, US dealers operating in Canada would be placed in a position of advantage over Canadian dealers, and leave Canadian investors exposed to a higher level of risk. Some fundamental and easily identifiable differences include FINRA’s regulations having lower margin rates on inventory positions, higher lending margin rates for client accounts, and the ability to use portfolio margining, resulting in even lower margin rates for both inventory and client accounts, as compared to IIROC rules.</p>	<p>Acumen IIAC Leede ATB AltaCorp Paradigm Rogers Group Peters &amp; Co. FAIR Cormark</p>
	<p>One commenter submits that the frequency of submission of Form X 17a-5 (FOCUS Repot) should be limited to an annual filing as per the current exemptive relief provided by the CSA. Also, if the proposed quarterly filing of an unconsolidated income statement is to allow IIROC to determine whether Canadian operations of an RDM are de minimis, an RDM should be permitted to submit a certification to this effect instead.</p>	SIFMA



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	One commenter submits that the RDM regime, in the form in which it is ultimately implemented, should clarify that, to the extent that IIROC rules will apply to firms registered in the RDM category, such IIROC rules will apply only to activities undertaken within Canada and with Canadian clients, and that FINRA rules will apply outside Canada. The commenter is of the view that, where there is overlap in FINRA and IIROC rules, the higher standard would apply in respect of the activities of the RDM.	SIFMA
Introducing/Carrying Broker Relationships	Several commenters don't understand why Canadian introducing firms cannot deal with US carriers. The proposed restriction may place Canadian firms at a competitive disadvantage, depending on the services offered by the FINRA carrying firm. One of these commenters, while not advocating a particular position, indicates that consideration should at least be given as to whether introducers should be allowed to be carried by an RDM in an effort to afford broader choice, lower transaction costs and global technology platforms as per one of the guiding principles in the IIROC Concept Paper.	IIAC Leede ATB Rogers Group Cormark
Participation Rights		
Transition to IIROC Membership – proficiency exemptions for existing partners, directors, officers, employees and agents with the exception of client facing representatives who would be given a one year transition period to complete the required proficiencies	Several commenters do not support any grandfathering of proficiency requirements, but some would support giving the individuals a period of time (1 year) to obtain the necessary proficiencies. Some commenters further suggest that registration categories for the Canadian activities oversight should be held by senior employees at the FINRA member with the requirement for these individuals to obtain appropriate Canadian proficiencies.	Acumen AltaCorp IIAC Leede ATB Rogers Group Paradigm Peters & Co. FAIR
<b>Specific consultation questions</b>		
1. Implement as a grandfathering proposal versus permanent category	Commenter believes RDM category should be used to migrate existing FINRA/EMDs and be available to future entrants to the Canadian marketplace.	GMP Securities
	Commenter does not believe any further exemptions should be granted for any EMDs – all brokerage activities should be overseen by IIROC with all members subject to the same rules.	Acumen AltaCorp
	Commenters do not support the RDM proposal, but if implemented it should only be permitted for those who are currently undertaking brokerage activities in the Canadian market, and for a specified transition period, and not available to new entrants.	IIAC Leede ATB Rogers Group Cormark



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	<p>One commenter noted that limiting the RDM category to existing EMD and RD firms would create a de facto unlevel playing field in the Canadian markets, as such a limitation would prevent broker dealers of the same profile in the U.S. as currently registered EMDs and RDs with interest in the Canadian markets from availing themselves of a registration category limited to their peers. The commenter believes that such a limiting strategy would create a negative view of the Canadian marketplace leading to arbitrary competitive advantages and disadvantages based solely on when an application for registration was submitted or processed by a CSA member.</p>	SIFMA
<p>2. Include a de minimis threshold and if so, what type of threshold</p>	<p>Supportive of a de minimus threshold. Threshold should be premised on a prescribed percentage of the aggregate consolidated gross revenue of the Restricted Dealer member, and any of its affiliates operating in Canada, derived from the investment dealer activities of the Restricted Dealer member and its affiliates in Canada, as calculated at the end of the firm’s most recently completed financial year. Commenter believes this threshold is the simplest to measure and calculate, and therefore least prone to manipulation and abuse.</p>	GMP Securities
	<p>Several commenters believe it is inappropriate to consider a de minimus threshold in relation to the current FINRA member’s size. Any de minimus threshold based on the FINRA member’s size is likely to exceed the size of a substantial portion of IIROC’s current members. One of these commenters suggest that a possible alternative solution is to implement a lesser of a flat revenue threshold (e.g. \$1 million given this would exceed the size of approximately 1/5 of the current IIROC membership) or a de minimus threshold in relation to the FINRA member’s size. Two of these commenters also suggested that if a de minimus threshold were implemented the risk based review system utilized by FINRA would likely mean that FINRA would not review the firm’s activities in-depth.</p>	<p>Acumen AltaCorp IIAC Leede ATB Rogers Group Peters &amp; Co.</p>
	<p>The RDM category should not be subject to a de minimis threshold. If a de minimis threshold is implemented, the commenter is of the view that using a prescribed number of Canadian clients is an impractical limiting mechanism given the potentially extremely large differences in client profiles and revenue derived therefrom. Additionally the proposed concept of aggregating the revenue of all affiliates operating in Canada does not recognize the independent business operations of separate affiliated entities.</p>	SIFMA
<p>3. Restrictions with respect to retail clients – should a restriction exist and, if so, what threshold?</p>	<p>Commenters believe the proper threshold for Restricted Dealer clients is Permitted Clients as defined in NI 31-103. One of these commenters specifically notes that the presumptions underlying the accredited investor exemption are flawed and the accredited</p>	<p>GMP Securities FAIR</p>



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	investor test is particularly unsuited to the demands and challenges of an increasingly complex and sophisticated securities market.	
	Commenter believes accredited investor and the permitted client thresholds are too low. Some of these commenters go on to specify that should the proposal go forward, the \$10 million asset threshold from IIROC’s Institutional Customer definition should be used.	Acumen AltaCorp Paradigm
	One commenter who supports the concept of introducing the RDM category for the existing 22 firms, but only for a specified and limited time period as they transition to full IIROC membership, suggests that during the transition period, these dealers should be restricted to dealing with Canadian institutional “permitted clients” (i.e., no Canadian retail at all)	Peters & Co.
	Commenter believes a retail restriction should be applied to RDMs. While the commenter does not believe that simply “being rich” (by whatever dollar amount threshold) implies sophistication or that sophistication can be inferred by earning a prescribed annual income, the commenter is comfortable with an “accredited investor” threshold given the enhanced regulatory oversight and requirements applicable to IIROC investment dealers.	Canadian Advocacy Council for Canadian CFA Institute Societies
	One commenter is of the view that if compliance obligations are to be modeled upon those to which currently registered EMD firms are now subject, RDM firms should be able to transact with “accredited investors”. Were compliance obligations to ultimately become more burdensome (i.e., reach the level of the compliance obligations required of Dealer Member firms, as the Proposal states) than those to which EMD or RD firms are now subject, RDM firms should have access to the same suite of potential investors to which fully registered Dealer Members currently have access.	SIFMA
	While the commenter does not support the RDM proposal, consideration should be given to the class of investors set out in SEC rule 15-a-6 (i.e., no retail, but major institutional investors with investible assets of \$100MM).	Cormark
Other	Several commenters seek clarification as to whether Restricted Dealers would be subject to the same procedures relating to client complaints as full IIROC members – e.g. COMSET reporting, OBSI membership requirements, IIROC arbitration program – and whether complaints would be handled through IIROC or FINRA	IIAC Leede ATB Rogers Group Paradigm FAIR
	One commenter submitted that given that a RDM would be subject to most of IIROC’s rules, it would be beneficial to emphasize in the proposed member class that registrants should	Canadian Advocacy Council for Canadian CFA Institutes Societies



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	conduct themselves in a manner consistent with a fiduciary obligation to act in the best interest of their clients.	
	One commenter believes more work should be done to recognize and protect the value of the CDS Credit Ring by increasing capital requirements for non-clearing members of CDS providing Direct Market Access (DMA) in Canada. Increasing capital requirements for non-clearing DMA providers is necessary to mitigate the risk of an under-capitalized entity potentially defaulting and stressing the CDS credit ring with systemic risk implications for Canada.	CIBC World Markets
	Commenter believes it will be a considerable period of time before this issue is resolved, and recommends that in the interim these firms should be obligated to provide notice to their retail clients about any lesser protections that they are afforded in the event of wrongdoing, an unresolved complaint or insolvency than customers of IIROC dealer members (e.g. lack of CIPF coverage, access to OBSI, and enforceability of legal rights through Canadian courts in the event of wrongdoing given lack of physical presence in Canada, place of incorporation of the firm, and lack of attornment to Canadian courts)	FAIR
	One commenter is concerned of the growing perception that Canada is becoming a considerably more difficult jurisdiction to do business in for international securities firms. At the CSA level the regulatory burden for international securities firms and their activities in Canada has increased and there has been considerable confusion in the market because of non-harmonized rules.	SIFMA
	Commenter suggests that CSA/IIROC further study SEC rule 15-a-6 as a potential regime	Cormark