

# IIROC NOTICE

## **Rules Notice Notice of Approval/Implementation Dealer Member Rules**

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*Contacts:*

Richard J. Corner  
Vice President and Chief Policy Advisor, Member Regulation  
416.943.6908  
[rcorner@iiroc.ca](mailto:rcorner@iiroc.ca)

**15-0128  
June 11, 2015**

## **Client Relationship Model - Phase 2**

### **Housekeeping changes to Dealer Member Rule 200 and changes to effective dates for amendments to Dealer Member Rule 200 and to Dealer Member Form 1 relating to the implementation of CRM2**

#### **Background**

#### **Announcement of CSA approval and IIROC implementation of 2015 and 2016 IIROC CRM2 Amendments**

On January 19, 2015 IIROC announced through the issuance of IIROC Rules Notice 15-0013 that amendments to Dealer Member Rule 200 and to Dealer Member Form 1 that are scheduled to come into effect over the next couple of years (collectively the “IIROC 2015 and 2016 CRM2 Amendments”) had been approved by the Canadian Securities Administrators (“CSA”) and that these rules would be implemented in two stages on July 15, 2015 and on July 15, 2016.

The response to public comments published at the time also indicated that following commenter requests were still being considered by IIROC in consultation with the CSA:

- The request to extend the announced July 15, 2016 implementation date for the new performance and fee/charge reports by five-and-a-half months to January 1, 2017;
- The request to revise the “book cost” definition as it appears in the final IIROC and CSA requirements to accommodate individual income tax election adjustments requested by the client; and



- The request to allow a “receiving” Dealer Member to rely on “book cost” information provided to it by a “delivering” registered dealer in the case of transferred-in account or security position, where the “delivering” registered dealer is also subject to the new requirement to provide clients with individual position cost information.

### **CSA Chairs decisions**

On January 28, 2015, the Chair of the CSA issued a letter announcing certain decisions that had been made by the CSA (“CSA decisions”) with regard to the implementation of certain of the IIROC and CSA 2015 and 2016 CRM2 Amendments. The letter set out the following decisions:

- “1. The coming into force date of the requirement for registered dealers and registered advisers to deliver reports on charges to clients and on investment performance will remain July 15, 2016. However, firms that report for the calendar year 2016 will not be required to include comparative data from 2015 in their investment performance reports. They will be able to base their first investment performance reports on 2016 information alone.
2. The CRM2 Amendments applicable to registered dealers and registered advisers that are currently scheduled to come into force as of July 15, 2015 will instead come into force as of December 31, 2015.
3. The definition of “book cost” will not change. Registered firms that wish to provide tax-adjusted cost information to their clients can do so as supplementary information.”

### **Housekeeping rule amendments are necessary**

While in many cases IIROC could have adopted these “CSA decisions” by simply announcing changes to the implementation dates previously announced in IIROC Rules Notice 15-0013, there were some instances where housekeeping rule amendments were necessary to adopt these decisions. This is because:

- implementation dates are specifically referred to in some of the IIROC 2015 and 2016 CRM2 Amendments and these dates needed to be changed; and
- the IIROC 2015 and 2016 CRM2 Amendments currently require performance reports to expressly include comparative information that is prepared for a period beginning on or earlier than July 15, 2015.

### **Description of the housekeeping rule amendments**

As a result, the following specific IIROC housekeeping rule revisions have been made to ensure that all of the CSA decisions were adopted by IIROC:

- Amend Dealer Member Rule subsection 200.1(b) [*Definition of “cost”*] in four instances to refer to “December 31, 2015” rather than “July 15, 2015”

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- Amend Dealer Member Rule clause 200.2(f)(iv) [*Performance report*] to:
  - Allow that a performance report provided to clients that covers the 12-month period ending December 31, 2016 need not include any comparative information; and
  - Allow that subsequent performance reports provided to clients that cover the 12-month periods ending December 31, 2017 and each calendar year thereafter need not include pre-2016 data in the calculation of comparative information (both comparative dollars and percentages) included in the report
- Amend Dealer Member Rule subsection 200.3(a) [*Option of earlier date*] to refer to “December 31, 2015” rather than “July 15, 2015”

Other cosmetic wording changes have also been made to the following provisions to improve the clarity of the IIROC 2015 and 2016 CRM2 Amendments:

- Re-ordering and clarification of wording in Dealer Member Rule subsection 200.2(e)
- Clarification of wording in Dealer Member Rule subsection 200.3(b)
- Revision of rule cross-references in Dealer Member Rule subsections 200.3(c) and (d) resulting from amendments made to subsection 200.3(a)
- Revision of “Guide to interpretation of Section 200.2”, Items (e), (f) and (g) to make scope discussion within guidance consistent with scope mandated by the related requirements within Dealer Member Rule sections 200.2(e), 200.2(f) and 200.2(g).

Included as Attachments A and B are clean and black-line copies of the housekeeping changes to IIROC Dealer Member Rule 200 which were approved by the IIROC Board of Directors at its meeting of May 13, 2015.

### **Reasons for the “housekeeping” classification**

Collectively, the revisions that IIROC has made to codify the CSA decisions and to make clarification revisions (as discussed above) are not extensive. In assessing whether these revisions collectively should be classified as either “public interest” or “housekeeping” amendments, we considered:

- the significance of the amendments themselves,
- whether receiving public comment on the revisions would provide us with valuable additional information to enable us to further assess their appropriateness, and
- whether asking public commenters to spend time commenting on what were in essence final CSA decisions would inappropriately waste public commenter’s time commenting on rule implementation timeline-related rule revisions that will not be subject to further change.

After completing our assessments, we concluded the revisions we propose to make to the IIROC 2015 and 2016 CRM2 Amendments to reflect the CSA decisions and to make clarification revisions are “housekeeping” in nature as these revisions are “reasonably necessary to conform IIROC’s Rules



to applicable securities legislation, statutory or legal requirements”<sup>1</sup>. This conclusion was reached based on our understanding that the implementation dates for the IIROC 2015 and 2016 CRM2 Amendments must be the same as the implementation dates for the CSA 2015 and 2016 CRM2 Amendments.

The IIROC Board of Directors determined at its meeting of May 13, 2015 that these amendments are housekeeping in nature.

### Other changes necessary to adopt the CSA decisions

In addition to announcing that we’ve made the above housekeeping changes to Dealer Member Rule 200, this Rules Notice also announces that we are revising the effective dates for the 2015 and 2016 IIROC CRM2 Amendments. The following are the revised effective dates *[shown as a black-line comparison to the effective dates announced in IIROC Rules Notice 15-0013]*:

- IIROC 2015 CRM2 Amendments**

Amendment Item	Effective Date
<b>Client account statement</b>	
<ul style="list-style-type: none"> <li>• Sub-sections 200.1(a), 200.1(b) and 200.1(e) <i>[Definitions of “book cost”, “cost” and “original cost”]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015
<ul style="list-style-type: none"> <li>• Sub-section 200.1(c) <i>[Definition of “market value” for the purposes of client reporting]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015 <i>[Note: The amended “market value” definition must now be used for client position valuation and client account margining purposes from December 31, 2015 onwards.]</i>
<ul style="list-style-type: none"> <li>• Sub-clause 200.2(d)(i)(A) <i>[Inclusion of option for client to receive monthly statements]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015
<ul style="list-style-type: none"> <li>• Sub-clauses 200.2(d)(ii)(F) and 200.2(d)(ii)(H) and revised “Guide to Interpretation of Rule 200.2”, Item (d) <i>[Inclusion of position cost in quarterly client account statements]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015 <i>[Note: The new individual position cost disclosures must now be included in all Retail Customer account statements issued for the quarter ending December 31, 2015 and thereafter.]</i>
<ul style="list-style-type: none"> <li>• Clause 200.2(d)(iii) <i>[Inclusion of deferred sales charge notation in account statements]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015 <i>[Note: This new notation, where applicable, must now be included in all monthly and quarterly client account statements issued for periods ending December 31, 2015 and thereafter.]</i>
<ul style="list-style-type: none"> <li>• <del>Clauses</del><u>Clause</u> 200.3(a)(i) and <u>subsection</u> 200.3(<del>b</del>)(<u>c</u>) <i>[Option of earlier date for position cost information]</i></li> </ul>	<del>July 15,</del> <u>December 31,</u> 2015

<sup>1</sup> Item 2 b.(i)(F) of the Joint Rule Review Protocol for IIROC



Amendment Item	Effective Date
<b>Report on client positions held outside of the Dealer Member</b>	
<ul style="list-style-type: none"> <li>• Sub-sections 200.1(a), 200.1(b) and 200.1(e) [Definitions of “book cost”, “cost” and “original cost”]</li> <li>• Sub-section 200.1(c) [Definition of “market value” for the purposes of client reporting]</li> <li>• Sub-section 200.2(e) and “Guide to Interpretation of Rule 200.2” Item (e) [Report on client positions held outside of the Dealer Member]</li> <li>• <del>Clause</del> <u>Clause</u> 200.3(a)(ii) and <u>subsection</u> 200.3(<del>b</del>)(c) [Option of earlier date for position cost information]</li> </ul>	<p><del>July 15,</del> <u>December 31,</u> 2015</p> <p><del>July 15,</del> <u>December 31,</u> 2015 [<b>Note:</b> The amended “market value” definition must now be used for client position valuation and client account margining purposes from December 31, 2015 onwards.]</p> <p><del>July 15,</del> <u>December 31,</u> 2015 [<b>Note:</b> This new quarterly report, where applicable, must now be issued for quarterly periods ending December 31, 2015 and thereafter.]</p> <p><del>July 15,</del> <u>December 31,</u> 2015</p>
<b>Timing of sending statements / reports to clients - Part 1</b>	
<ul style="list-style-type: none"> <li>• Sub-sections 200.4(a) and 200.4(c) preamble and clause 200.4(c)(i) [Timing of sending documents to clients - report on client positions held outside of the Dealer Member to be sent within 10 days of sending account statement]</li> </ul>	<p><del>July 15,</del> <u>December 31,</u> 2015</p>
<b>Corollary amendment to Form 1</b>	
<ul style="list-style-type: none"> <li>• Definition (g), General Notes and Definitions to Form 1 [Definition of “market value” for the purposes of regulatory reporting to IIROC]</li> </ul>	<p><del>July 15,</del> <u>December 31,</u> 2015 [<b>Note:</b> The amended “market value” definition must now be used for capital adequacy assessment and regulatory reporting purposes from December 31, 2015 onwards.]</p>

• **IIROC 2016 CRM2 Amendments**

Amendment Item	Effective Date
<b>Performance report</b>	
<ul style="list-style-type: none"> <li>• Subsection 200.1(f) [Definition of “total percentage return”]</li> <li>• Subsection 200.2(f) and “Guide to Interpretation of Rule 200.2” Item (f) [Performance report]</li> </ul>	<p>July 15, 2016</p> <p>July 15, 2016 [<b>Note:</b> The effective date of this requirement remains the same - specifically, this new annual report must be issued for the year ending no later than July 14, 2017 and annually thereafter. <u>However</u>, in the case of Dealer Members wishing to provide calendar year reports to their clients:</p> <ul style="list-style-type: none"> <li>• the report sent to clients that is prepared for the 12-month period ending December 31, 2016 need not include any prior period comparative account activity or percentage return information; and</li> <li>• the reports sent to clients that are prepared for the</li> </ul>

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Amendment Item	Effective Date
<ul style="list-style-type: none"> <li>• <del>Paragraphs</del><u>Cluses</u> 200.3(a)(iii), <del>200.3(a)(iv)</del><u>b)(i)</u> and 200.3(b)(ii) <u>and subsection 200.3(d)</u> [Option of earlier date for performance report information]</li> </ul>	<p>12-month periods ending December 31, 2017 and each calendar year thereafter need not include pre-2016 data in the calculation of comparative account activity or percentage return information.] July 15, 2016</p>
<b>Fee / charge report</b>	
<ul style="list-style-type: none"> <li>• Subsections 200.1(d), 200.1(g) and 200.1(h) [Definitions of “operating charge”, “trailing commission” and “transaction charge”]</li> <li>• Subsection 200.2(g) and “Guide to Interpretation of Rule 200.2” Item (g) [Fee / charge report]</li> </ul>	<p>July 15, 2016</p> <p>July 15, 2016 <b>[Note:</b> This new annual report must be issued for the year ending no later than July 14, 2017 and annually thereafter. In the case of Dealer Members wishing to provide a calendar year reporting to their clients, a calendar year report must be issued for the year ending December 31, 2016 and annually thereafter.]</p>
<b>Trade confirmation requirement to disclose deferred charges</b>	
<ul style="list-style-type: none"> <li>• <del>Paragraph</del><u>Clause</u> 200.2(l)(v) [Trade confirmation disclosure of deferred charges]</li> </ul>	<p>July 15, 2016</p>
<b>Timing of sending statements / reports to clients - Part 2</b>	
<ul style="list-style-type: none"> <li>• Subsection 200.4(b) [Timing of sending documents to clients - performance report and fee / charge report to be sent together]</li> <li>• <del>Paragraph</del><u>Clause</u> 200.4(c)(ii) [Timing of sending documents to clients - performance report and fee/charge report to be sent within 10 days of sending account statement]</li> </ul>	<p>July 15, 2016</p> <p>July 15, 2016</p>

### Supporting documents

The following supporting documents for the housekeeping changes to the 2015 and 2016 IIROC CRM2 Amendments are attached:

[Attachment A](#) - Proposed housekeeping amendments

[Attachment B](#) - Black-line copy of the proposed housekeeping amendments