

IIROC NOTICE

Rules Notice
Request for Comment

Dealer Member Rules

Please distribute internally to:

Legal and Compliance

Regulatory Accounting

Senior Management

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15-0085

April 16, 2015

Requirement to Pay IIROC Membership Fees

Summary of nature and purpose of Proposed Amendments

On March 31, 2015, the Board of Directors (the “Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of proposed amendments to Dealer Member Rule 8.7 (“Proposed Amendments”) setting the IIROC Dealer Regulation fees that are payable by a Dealer Member that resigns, is suspended, is terminated or surrenders its membership.



The primary objective of the Proposed Amendments is to promote a fair and equitable regulatory environment which recognizes that a Dealer Member's share of fees should be based on its usage or consumption of IIROC's regulatory services.

Issues and Specific Proposed Amendments

Relevant history

When establishing the annual membership fees payable by Dealer Members for a particular fiscal year (April 1 to March 31), IIROC determines what its net annual costs attributable to Dealer Member regulation are expected to be for such year. Such net annual costs are equal to IIROC's budgeted costs for that year less projected underwriting levies, proceeds from registration fee sharing arrangements with various securities regulatory authorities, interest and other income. The annual fee is then payable in quarterly installments by the Dealer Member in each year.

When a Dealer Member resigns or surrenders its membership, an external auditor performs a final audit, following which the Dealer Member must discharge certain obligations and IIROC must receive any outstanding membership fees owing before the firm ceases to be an IIROC Dealer Member. In certain circumstances, such as in the case of outstanding client complaints or litigation, an unqualified audit is not possible and therefore a Dealer Member is prevented from ceasing operations before annual membership fees are calculated. As a result, the Dealer Member is required to pay annual membership fees for the full year, irrespective of the fact that little or no regulatory effort is required by IIROC during this time.

IIROC believes that a Dealer Member's membership fees should bear relation to a Dealer Member's usage or consumption of IIROC's regulatory resources to the extent possible. Accordingly, where a Dealer Member resigns, is suspended or its membership is terminated during the course of a fiscal year, IIROC believes that membership fees should be payable only until the end of the quarter in which certain conditions have been met.

Current rules

The current rules require a resigning Dealer Member, which includes a surrendering Dealer Member, to make full payment of its annual fees for the fiscal year in which the effective date of the resignation or surrender occurs. The only way for a Dealer Member to surrender its membership is by amalgamating with another Dealer Member. If a Dealer Member resigns or surrenders its membership with an effective date during the first three months of the fiscal year, it may be entitled to a monthly pro-rata refund. Otherwise, no portion of annual fees will be refunded.



The current rules do not provide any fee relief for Dealer Members that are suspended or terminated during the fiscal year.

Proposed Amendments

The Proposed Amendments would result in the repeal of Dealer Member Rule 8.7 and in turn, replace it with a requirement that will require a resigning, suspended, terminated and surrendering Dealer Member to make full payment of its annual fees for the entire fiscal year in which its resignation, suspension, termination or surrender becomes effective, subject to a reduction in the fee payable by resigning, suspended and terminated Dealer Members. There would be no reduction for a Dealer Member that surrenders its membership.

In the case of a resigning, suspended and terminated Dealer Member, it will only be required to pay membership fees until the end of the fiscal quarter in which all of the following conditions have been met:

- (a) the Dealer Member has transferred all customer accounts to another Dealer Member;
- (b) the Dealer Member has no remaining approved persons other than shareholders, the Ultimate Designated Person, the Chief Compliance Officer and the Chief Financial Officer; and
- (c) in the case of a resigning Dealer Member, the Dealer Member has provided written notice of its resignation to IIROC.

Clean and black-lined (black-lined to existing Dealer Member Rule 8.7) copies of the Proposed Amendments are included as Attachments A and B.

Corollary amendments to Dealer Member Rule 8.3A

As part of the amendments being made to Dealer Member Rule 8.7, amendments to Dealer Member Rule 8.3A are also being made. Existing Dealer Member Rule 8.7 does not explicitly include surrendering Dealer Members. Rather, Dealer Member Rule 8.3A states that a surrender of membership shall be considered a resignation for the purposes of Dealer Member Rule 8.7. This language in Dealer Member Rule 8.3A is no longer necessary since the Proposed Amendments explicitly capture surrendering Dealer Members. Clean and black-lined (black-lined to existing Dealer Member Rule 8.3A) copies of the proposed amendments are included as Attachments A and B.

Issues and alternatives considered

IIROC staff considered making the proposed reduction available to surrendering Dealer Members; however, IIROC rejected this amendment since the purpose of the reduction is to assist a Dealer Member that is winding up its operations. A Dealer Member that is surrendering its membership is



doing so as a result of an amalgamation or merger with another Dealer Member that will continue to carry on business. Therefore, the continuing Dealer Member accepts the surrendering Dealer Member's liabilities, including the payment of the surrendering Dealer Member's outstanding annual membership fees.

IIROC staff also considered having resigning, suspended and terminated Dealer Members who meet the proposed criteria to pay their membership fees to the end of the month, as opposed to the end of the quarter, in which the proposed conditions are met. However, IIROC decided it was more appropriate to require payment until the end of the quarter for consistency with IIROC's quarterly membership fee billing.

Classification of Proposed Amendments

Statements have been made elsewhere as to the nature and effects of the Proposed Amendments. The purpose of the Proposed Amendments is to foster fair, equitable and ethical business standards and practices which recognize that a Dealer Member's share of fees should be based on its usage or consumption of IIROC's regulatory services.

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

Effects of the Proposed Amendments on market structure, Dealer Members, non-Dealer Members, competition and costs of compliance

The effects of the Proposed Amendments will be to promote a fair and equitable regulatory environment which recognizes that a Dealer Member's share of fees should be based on its usage or consumption of IIROC's regulatory services to the extent possible. The Proposed Amendments do not impose any burden or constraint on competition or innovation. 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 Board has determined that the Proposed Amendments are not contrary to the public interest.

Technological implications and implementation plans

IIROC anticipates that the Proposed Amendments will be effective on a date to be determined by IIROC staff after receiving notification of approval by the recognizing regulators. Given that the Proposed Amendments do not introduce any new costs or compliance challenges to Dealer Members, the Proposed Amendments will be implemented without a transition period.



Request for public comment

Comments are sought on the Proposed Amendments. Comments should be made in writing. Two copies of each comment letter should be delivered within 30 days from the publication date of this notice. One copy should be addressed to the attention of:

Keith Persaud
Senior Vice President, Finance and Administration
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario, M5H 3T9
kpersaud@iiroc.ca

The second copy should be addressed to the attention of:

Manager of Market Regulation
Ontario Securities Commission
19th 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) under “Notices – Dealer Rules - All – Request for Comments – Proposed Policy”.

Questions may be referred to:

Keith Persaud
Senior Vice President, Finance and Administration
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario, M5H 3T9
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Attachments

[Attachment A](#) - Proposed Amendments to Dealer Member Rules 8.3A and 8.7 (clean)

[Attachment B](#) - Black-line copy of Dealer Member Rules 8.3A and 8.7 reflecting amendments