

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Please distribute internally to:
Legal and Compliance
Operations
Senior Management
Retail

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15-0248
November 5, 2015

Re-Publication of Proposed Amendments of Requirement to Disclose Membership in IIROC as a Dealer Member

Executive Summary

On September 10, 2015, the Board of Directors (“Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the re-publication for comment of revisions to previously published proposed amendments to IIROC Dealer Member Rules, setting out, among other things, requirements for Dealer Members to disclose that they are regulated by IIROC.

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1. History

1.1 Background

As described in greater detail below, proposed amendments relating to the requirements to disclose membership in IIROC have previously been published for comment on two separate occasions.

1. Proposed amendments were originally published for public comment on December 2, 2011¹ (“2011 amendments”).
2. In response to public comments and upon further consideration, material revisions were made to the 2011 amendments and the proposed amendments were re-published for public comment on November 13, 2014² (“2014 amendments”).

The public comments received with respect to the 2014 amendments raised issues that we have further considered and, as a result, we are now proposing material revisions (collectively, the “2015 amendments”) to the 2014 amendments.

1.2 Current Rules

Currently, the IIROC Dealer Member Rules allow for the optional use of the IIROC name and logo on Dealer Member materials, including letterheads and advertisements, provided that they are used in a manner that complies with [Dealer Member Rule 700 - Use of Name or Logo of the Corporation](#) (“Dealer Member Rule 700”). To ensure that the name and logo of IIROC are being used properly, Dealer Members must provide IIROC, upon request, with samples of materials bearing the name and logo of IIROC. Where improper use is identified, IIROC may direct a Dealer Member to cease using the name and logo of IIROC.

1.3 Objectives of the Amendments

The proposed amendments are intended to:

- (a) promote and raise public awareness of IIROC’s regulatory oversight of IIROC-regulated firms and approved investment advisors;
- (b) educate investors on the benefits and protections of dealing with IIROC-regulated firms and investment advisors; and
- (c) assist investors to assess the regulatory status of firms and advisors.

¹ IIROC Rules [Notice 11-0344](#).

² IIROC Rules [Notice 14-0265](#).

1.4 2011 amendments

The 2011 amendments were primarily to Dealer Member Rule 700 (corollary amendments were made to other Dealer Member Rules and are discussed below) and set out mandatory requirements for Dealer Members to disclose their IIROC membership in a manner that we considered appropriate to ensure that clients of IIROC Dealer Members are aware that the firm they are dealing with is regulated by IIROC. More specifically, the 2011 amendments required Dealer Members to comply with their disclosure requirements in accordance with a new proposed IIROC membership disclosure policy (the "IIROC Membership Disclosure Policy"). Under the 2011 amendments, the IIROC Dealer Member Rules would no longer contain rules setting out the IIROC membership disclosure requirements but instead Dealer Members would be required to comply with the proposed IIROC Membership Disclosure Policy, which would be posted on the IIROC website and updated from time to time, as required. The 2011 amendments required Dealer Members to:

- (a) display the IIROC Decal, as defined in the proposed IIROC Membership Disclosure Policy, at each place of business location to which the public has access;
- (b) include the IIROC Logo, as defined in the proposed IIROC Membership Disclosure Policy, on client account statements, trade confirmations and websites; and
- (c) distribute the IIROC Official Brochure, as defined in the proposed IIROC Membership Disclosure Policy³, to new clients at time of account opening and make it available to existing clients upon request.

1.5 2014 amendments

In response to concerns from the public relating to the costs to Dealer Members of including the IIROC Logo on client account statements and trade confirmations, IIROC reconsidered the matter and proposed revisions to the 2011 amendments which we believed at the time balanced the objectives of the proposed amendments with the concerns raised during the comment period. More specifically, the proposed revisions to the 2011 amendments consisted of the removal of the requirement in the proposed IIROC Membership Disclosure Policy to include the IIROC Logo on account statements and trade confirmations.

2. 2015 amendments

2.1 IIROC Logo and Official Brochure

Further to the public comments received in response to the 2014 amendments, IIROC has revisited the cost/benefit analysis in considering whether or not to require Dealer Members to (a) include the IIROC Logo on client account statements and trade confirmations, and (b) distribute the IIROC Official Brochure (in either electronic or hard copy form) to existing clients.

³ The IIROC Official Brochure defined in the proposed IIROC Membership Disclosure Policy is entitled "*Why IIROC Matters to You, the Investor*".
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(a) *IIROC Logo on client account statements and trade confirmations*

In order to understand the costs associated with the inclusion of the IIROC Logo on client account statements and trade confirmations, IIROC engaged in discussions with a vendor that designs, prints and/or circulates client account statements and trade confirmations on behalf of some of our Dealer Members. Through these discussions and consistent with the cost concerns expressed by Dealer Members during consultations and through public comment letters, it is highly likely that the inclusion of the IIROC Logo on these documents would be very costly to Dealer Members and, in some cases, may result in higher ongoing fees if the redesign substantially changed the layout of the relevant document (i.e., from 1 page to 2 pages).

Based on the feedback we received from the vendor and commenters, we believe that cost concerns can be addressed, while at the same time achieving the investor protection objectives of the 2015 amendments, by requiring Dealer Members to include the IIROC Logo on client account statements, but not on trade confirmations.

A trade confirmation is a special purpose transaction-based document that is provided to clients only when a transaction occurs and only with respect to that transaction. The primary purpose of trade confirmations is to provide clients with the ability to review specific trades in a timely manner. In contrast, an account statement is provided to clients either monthly or quarterly and includes a snapshot of information pertaining to the client's entire account – i.e., it is more geared to providing account relevant information (e.g., information about IIROC membership) in a manner and at a time that a client would be more likely to focus on it.

We believe that requiring Dealer Members to include the IIROC Logo on client account statements will adequately increase investor education and awareness about whether the investment dealer with which they have an account is subject to the regulatory oversight of IIROC. In our view, requiring Dealer Members to also display the IIROC Logo on client trade confirmations would not significantly increase investor education and awareness and therefore does not justify the increased cost to Dealer Members of such additional disclosure.

(b) *Distribution of the IIROC Official Brochure*

Consistent with the comments we received, it is our view that while the IIROC Official Brochure does contain information that is relevant to all types of investors, its content is primarily retail client focused and less relevant to institutional clients. Accordingly, we have limited the requirement to distribute the IIROC Official Brochure to only new *retail clients* of Dealer Members. Dealer Members will only be required to provide the IIROC Official Brochure to existing retail clients upon request.

We believe that the costs that will be incurred by Dealer Members associated with the distribution of the IIROC Official Brochure are warranted. However, in order to minimize the cost burden, we have provided Dealer Members the option of providing electronic copies of the IIROC Official Brochure. Furthermore, the 2015 amendments will be subject to a reasonable transition period in order to allow Dealer Members enough time to implement the changes contemplated by the 2015 amendments cost effectively, including the requirement to distribute the IIROC Official Brochure.

2.2 IIROC AdvisorReport

Introduced in 2010, Know Your Advisor / the IIROC *AdvisorReport*⁴ (the “IIROC *AdvisorReport*”) is a searchable database that allows investors to research the background, qualifications and disciplinary history on advisors at IIROC-regulated firms by generating an electronic report. The IIROC *AdvisorReport* is intended to assist investors to perform due diligence when selecting or working with an advisor at an IIROC-regulated firm.

In order to increase investor awareness and use of the IIROC *AdvisorReport*, we propose to require (through inclusion in the proposed IIROC Membership Disclosure Policy) each Dealer Member that provides products or services to retail investors to include a hyperlink and clearly visible reference to the IIROC *AdvisorReport* on the Dealer Member’s homepage and on any other Dealer Member webpage that includes a profile of an IIROC-regulated investment advisor.

It should be noted that in the United States, the Financial Industry Regulatory Authority (“FINRA”) has recently made a similar proposal which would require its members to include a hyperlink to the BrokerCheck database (the U.S. equivalent to the IIROC *AdvisorReport*) on their websites.⁵

2.3 Previously published additional amendments

The proposed amendments to current Dealer Member Rules 700, 22 and 29.14 and proposed new Dealer Member Rule 29.28 were previously published as part of the 2014 amendments and do not require any additional revisions as a result of the 2015 amendments. The 2015 amendments only require revisions to be made to the proposed IIROC Membership Disclosure Policy. A clean copy of the proposed revised Dealer Member Rules has been included in **Attachment A**. Clean and black-lined (to the 2014 amendments) copies of the proposed IIROC Membership Disclosure Policy are included as **Attachments B and C**, respectively. The following are the additional amendments previously published as part of the 2014 amendments.

1. Dealer Member Rule 22, *Use of Name and Logo: Liabilities: Claims* - the requirements set out in Dealer Member Rule 22, detailing the conditions under which a Dealer Member may use IIROC’s name and logo, are covered in Article 15 of IIROC’S General By-Law No.1; therefore, Dealer Member Rule 22 is redundant and will be repealed in its entirety.
2. Dealer Member Rule 29.14, *Business Conduct* – the Canadian Investor Protection Fund (“CIPF”) membership disclosure requirements set out in Dealer Member Rule 29.14 will be repealed. New Dealer Member Rule 29.28, in a manner similar to the IIROC membership disclosure requirements, will refer Dealer Members to the CIPF disclosure policy (“CIPF Disclosure Policy”) for compliance with CIPF disclosure requirements. A copy of the CIPF Disclosure Policy and supplemental guide to the CIPF Disclosure Policy are included as **Attachments D and E**, respectively.

⁴ <http://www.iiroc.ca/investors/knowyouradvisor/Pages/default.aspx>

⁵ In June 2015, FINRA proposed a requirement that each of its members include “a readily apparent reference and hyperlink to BrokerCheck on: (i) the initial webpage that the member intends to be viewed by retail investors; and (ii) any other webpage that includes a professional profile of one or more registered persons who conducts business with retail investors.” The FINRA proposal applies only to FINRA members that provide products or services to retail investors. See U.S. Securities and Exchange Commission [Release No. 34-75377](#). ***IIROC Notice 15-0248 Rules Notice – Request for Comments – Re-Publication of Proposed Amendments of Requirement to Disclose Membership in IIROC as a Dealer Member***

3. Assuming the 2015 amendments are approved and implemented prior to the Plain Language Rules, the proposed Plain Language Rule sections 2355, 2356 and 2357 will be updated to reflect these 2015 amendments. A black-lined copy of proposed Plain Language Rule sections 2355, 2356 and 2357 is included as **Attachment F**.

3. Alternatives Considered

IIROC considered the possibility of maintaining the status quo, which is the optional disclosure of membership in IIROC. However, IIROC rejected this alternative as we are committed to ensuring that clients of IIROC Dealer Members are aware that their firm is regulated by IIROC.

IIROC also considered including the IIROC Logo on client trade confirmations but did not feel the additional costs were warranted as clients will be made sufficiently aware of IIROC's regulatory oversight through the inclusion of the IIROC Logo on client account statements.

Lastly, IIROC considered providing an exemption from the 2015 amendments for ATSS. However, we concluded that the 2015 amendments impose no undue regulatory burden on ATSS, given that the only requirement that will apply to them will be the obligation to disclose their IIROC membership on their websites.

We believe that by requiring all Dealer Members to disclose their membership in IIROC, clients will be better informed as to Dealer Members' regulatory status, which in turn enhances investor protection and strengthens market integrity.

4. Classification of the Amendments

As indicated above, the 2015 amendments are intended to promote and raise public awareness of IIROC's regulatory oversight of IIROC-regulated firms and individuals thereby promoting investor education and protection.

Due to the extent and substantive nature of the 2015 amendments, they have been classified as a Public Comment Rule proposal.

5. Effects of the Amendments

The most significant costs associated with the 2015 amendments will be related to the system changes Dealer Members will have to make in order to comply with the disclosure requirements relating to the inclusion of the IIROC Logo in client account statements. As a result, and in consultation with Dealer Members, the 2015 amendments provide for reasonable transition periods in order to allow Dealer Members enough time to implement the changes cost effectively. Dealer Members will also incur additional costs relating to the proposed requirement to distribute the IIROC Official Brochure to existing clients as well. In response to this concern, Dealer Members will have the option to circulate the IIROC Official Brochure electronically which will substantially reduce the costs associated with this requirement.

The 2015 amendments do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives. Further, the 2015 amendments do not impose costs or restrictions on the activities of market participants (including

Dealer Members and non-Dealer Members) that are disproportionate to the benefits of the regulatory objectives sought to be realized.

6. Implementation

The 2015 amendments 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 2015 amendments will be subject to a 6 month transition period, except with respect to the requirement relating to the inclusion of the IIROC Logo on client account statements, in which case Dealer Members will be given 2 years to make any system changes before the Proposals become effective.

7. Request for public comment

Comments are sought on the 2015 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:

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Investment Industry Regulatory Organization of Canada
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Toronto, Ontario, M5H 3T9
cpiroli@iiloc.ca

The second copy should be addressed to the attention of:

Manager of Market Regulations
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario, M5H 3S8
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.iiloc.ca) under the heading "Notices" and sub-heading "[Dealer Rules – Request for Comments](#)".

8. Attachments

- [Attachment A](#) - Dealer Member Rules 700, 22, 29.14 and 29.28 (clean)
- [Attachment B](#) - IIROC Membership Disclosure Policy (clean)
- [Attachment C](#) - IIROC Membership Disclosure Policy, black-lined to the 2014 amendments
- [Attachment D](#) - CIPF Disclosure Policy
- [Attachment E](#) - CIPF Supplemental Guide to the CIPF Disclosure Policy

- [Attachment F](#) - Proposed Plain Language Rule sections 2355, 2356 and 2357, black-lined to the version published in February 2011
- [Attachment G](#) - Summary of public comments received and IIROC staff response to comments on the previously published amendments