IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

# IIROC NOTICE

**Rules Notice**
**Technical**
Dealer Member Rules

*Please distribute internally to:*
Internal Audit
Legal and Compliance
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Retail
Senior Management
Training

*Contact:*

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## Client Relationship Model ("CRM") - Frequently Asked Questions

Attached is a revised version of the IIROC CRM FAQs document. This version replaces the previous FAQ document issued on February 9, 2015 as part of IIROC Rules Notice 15-0042. New to this revised version are the following FAQs:

- FAQ #12 which provides guidance on the calculation and disclosure of individual position cost information for futures contract positions;
- FAQ #22 relating to the assessment of actual account portfolio risk as part of complying with the suitability assessment obligation;
- FAQ #23 relating to the performance of a suitability assessment in instances where the client has accounts at more than one dealer; and
- FAQ #24 relating to complying with the suitability assessment obligation for certain high risk tolerant clients.

Questions concerning this notice and the attached frequently asked questions document should be directed to:

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| ***Question*** | ***Background*** | ***Response*** |
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| ***Pre-trade disclosure of charges*** *[Dealer Member Rule section 29.9]* | | |
| 1. Does the requirement to provide pre-trade disclosure of charges apply to trades in segregated funds? | In 2003, the IDA (now IIROC) announced an arrangement whereby segregated fund positions sold to a client by a life insurance agent (acting for an insurance company that would generally be an affiliate of the Dealer Member) would be:<br>• held in custody for the client by the Dealer Member; and<br>• reported on in the positions held section of the relevant account statement sent by the Dealer Member to the client.<br>The introduction of this arrangement was intended to ensure that clients would continue to purchase insurance products from an insurance agent acting for an insurance company and would have the option of aggregating their segregated fund holdings with other similar holdings (such as mutual funds) at the Dealer Member. | Since the client must purchase segregated fund positions from an insurance agent acting for an insurance company, all trades in segregated funds must take place outside of the Dealer Member and, as a result, the requirement to provide pre-trade disclosure of charges does not apply to trades in segregated funds. |
| 2. Does the requirement to provide pre-trade disclosure of charges apply to trades in investment products other than securities, futures contract options, futures contracts or exchange contracts? | Dealer Member Rule subsection 200.1(l) requires that trade confirmations be issued for trades in securities, futures contract options, futures contracts and exchange contracts.<br>Dealer Member Rule subsection 200.1(d) requires that account statements issued include all positions held in securities, futures contract options, futures contracts and exchange contracts.<br>Neither Dealer Member Rule subsection 200.1(l) nor 200.1(d) prohibits a Dealer Member from issuing trade confirmations or including in account statements trades/positions in "other investment products"[1]. It is a long-standing street practice to provide the same level of client reporting for trades involving and positions in other investment products as for trades involving securities, futures contract options, futures contracts and exchange contracts. | IIROC's Dealer Member Rules only require that dealers provide their clients with pre-trade disclosure of charges relating to trades in securities. However, IIROC staff believe it would be impractical for a Dealer Member to adopt a different scope for pre-trade charge disclosure from the scopes they already use to determine:<br>• the trades for which a trade confirmation is issued; and<br>• the positions which are included in any account statement (or off-book position report) that is issued.<br>Specifically, narrowing the scope of trades subject to pre-trade disclosure to the legislative minimum will likely result in client service issues as clients will not understand why there is pre-trade disclosure of charges for some trades and not for others and would introduce unnecessary complexity to the processes used by Dealer Members to meet their trading-related charge disclosure obligations. |

[1] Where "other investment products" are products other than securities, futures contract options, futures contracts and exchange contracts.

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| | | In summary, IIROC expects that scope of trades subject to pre-trade charge disclosure would be consistent with all other forms of client reporting (i.e. trade confirmations, account statements and various client reports [off-book positions, fee/charge, and performance]). |
| 3. Is pre-trade disclosure required for trades where a client instruction to initiate the trade has not been received and/or accepted? | There are purchase and sale trades that take place that are not initiated by the client. Examples of such trades include:<br>• client account position liquidation trades (relating to either long or short account positions) to meet a margin call<br>• client account naked short position buy-ins to meet a position delivery obligation to another market participant<br>Are these trades outside the scope of the pre-trade disclosure rule? | We agree that these situations are technically outside the scope of the rule but it was never intended that the rule would specifically allow for no disclosure in situations where the firm alone authorizes and executes the trade. Rather, we believe that in these instances the client should be informed of the charges that will result in advance of the trade.<br>However, unlike client initiated trade situations, because these situations are almost always the result of client inaction (i.e. failure to maintain adequate margin loan collateral in the account, failure to deliver a security position already sold by the dealer for the client into the account), client consent to the fees/charges before the trade could take place would not be necessary. |
| 4. Many accounts charge a standard amount or standard percentage for all or most account trades. Is pre-trade disclosure necessary in advance of each trade if the same amount/percentage is charged for all or | Not applicable. | Dealer Member Rule section 29.9 requires that a client be informed of the charges associated with a trade before the Dealer Member accepts client instructions to proceed with the trade. While this disclosure would normally take place just prior to proceeding with any trade, it would be acceptable in the instance where a standard charge amount/percentage applies to all or most trades to inform the client:<br>• when the account is opened or at another earlier date of standard charge amount/percentage that would normally apply to the trade; |

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| most trades? | | • just prior to the trade that either:<br>o the standard charge applies[2]; or<br>o the standard charge does not apply, along with the charge amount or a reasonable estimate of charge amount |
| 5. Is there an obligation to disclose trade-related charges on a pre-trade basis to Retail Customers with third party electronic access? | What is the minimum pre-trade disclosure expectation relating to trades initiated by Retail Customers with third party electronic access? Is the expectation different if the Retail Customer is using a third party supplied trading platform (versus a Dealer Member provided trading platform)? | Under Dealer Member Rule 29.9, the obligation to disclose trade-related charges on a pre-trade basis to Retail Customers with third party electronic access is the same as for any other type of client account service offering. As a result, this disclosure obligation can be met by disclosing the trade-related charges to the Retail Customer in advance of each trade, or, where all of the trades executed by Retail Customers are subject to a standard charge amount / percentage, by using the disclosure approach set out in FAQ#4 above.<br>However, in the case where a third party supplied trading platforms is used by a Retail Customer to initiate their direct electronic access trades, neither of these above disclosure approaches are feasible unless the Dealer Member can get the platform vendor to make the necessary systems changes. Given that the number of Retail Customers with third party electronic access is very small, third party vendors have to date refused to make any systems changes to accommodate pre-trade charge disclosure because the cost of providing this disclosure significantly outweighs the benefit. It is also the generally the case that the Retail Customers with third party electronic access are more sophisticated investors than the average Retail Customer and are fully aware of the trading fees they pay for each trade they execute. As a result, in the case where a third party supplied trading platform is used by a Retail Customer to initiate their direct electronic access trades |

[2] Where a standard charge always applies, it would be acceptable to provide the standard charge disclosure once on each trading day the client executes a trade provided that the disclosure is provided to the client in advance of the first trade the client executes on each trading day.

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| | | and:<br>• all of the trades executed by Retail Customers through the third party electronic access service offering are subject to a standard charge amount/percentage;<br>• the Dealer Member verifies that all of the Retail Customers that are using the third party electronic access service offering are fully aware of all charges associated with the service offering (including all trade related charges)[3]; and<br>• all of the Retail Customers that are using the third party electronic access service offering consent to not receiving pre-trade disclosure of trade-related charges<br>IIROC is willing to consider granting an exemption from the pre-trade disclosure obligation set out in Dealer Member Rule 29.9. |
| 6. How do order execution only dealers provide the necessary pre-trade disclosure for pending mutual fund trades? | Because order execution only dealers do not have individual registered representatives communicating by phone, for example, with each client prior to the trade, the communication of detailed mutual fund fee information to each client prior to each mutual fund trade is challenging.<br>A generic/sample fee schedule can be relatively easily provided but providing the specific fee schedule for each fund is much more difficult to do on a pre-trade basis.<br>Some firms are referring clients to the specific fee information rather than sending the clients the specific information (i.e. they are relying on "access equals delivery"). | We appreciate that there are unique challenges to how order execution only dealers communicate charge information to their clients on a pre-trade basis. However, since the rule does not mandate the means of communication that must be used, other communication methods such as on-line account notifications may be used as an alternative to communicating by phone.<br>Specific to the issue of disclosing potential deferred sales charges on mutual funds, the following response was included in IIROC's first response to public comments received on its CRM2 proposals which was included in IIROC Rules Notice 14-0133:<br>*"IIROC staff believes that Deferred Sales Charge (DSC) information is readily available for each mutual fund and that there are no impediments to the communication of this* |

[3] This verification work would need to be done prior to making the third party electronic access service available to the Retail Customer, at the same time the Dealer Member assesses whether the service offering is suitable for the Retail Customer [pursuant to Dealer Member Rule subsection 1300.1(v)], and periodically thereafter.

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| | | *information to a client before the Dealer Member accepts the client trade instruction. In the circumstance where DSC information and/or whether or not a DSC fee applies is unavailable/unknown for a particular proposed mutual fund transaction, we question why the transaction should take place until such information is available/known and, after taking this information into consideration, the transaction is determined to be appropriate.*<br>*IIROC staff do not believe that a generic DSC schedule meets the requirement in proposed Dealer Member Rule clause 29.9(1)(b) to provide the client with fund-specific DSC information in advance of the trade if the generic DSC schedule does not reflect the DSC information for specific mutual fund."*<br>We also note that the challenge of providing clients with accurate pre-trade charge information must ultimately be addressed when Dealer Members are required to provide their client with the mutual fund "Fund Facts" document on a pre-trade basis. In the interim, until the requirement to provide the "Fund Facts" document on a pre-trade basis comes into effect, Dealer Members are expected to use other means to provide their clients with accurate mutual fund charge information on a pre-trade basis. |

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| ***Pre-trade disclosure of charges*** *[Dealer Member Rule section 29.9]* | | |
| 7. How does the pre-trade charge disclosure obligation apply to trades in debt securities? | Effective July 15, 2014, Dealer Members were subject to:<br>• new requirements to provide clients with information about the charges associated with a proposed trade in advance of the trade; and<br>• enhanced debt security trade confirmation disclosure requirements.<br>The mandatory minimum effect of the enhanced debt security trade confirmation disclosure requirements set out in Dealer Member Rule clause 200.2(l)(v) is that the gross commission amount paid by the client must now be disclosed on a debt security trade confirmation.<br>Dealer Member Rule 29.9 requires pre-trade disclosure of all "charges the client will be required to pay, directly or indirectly, in respect of the purchase or sale". A technical application of this requirement to a proposed debt security trade would result in requiring a Dealer Member to disclose more compensation-related information to the client in advance of the trade than is required to be disclosed to the client on the trade confirmation that is issued subsequent to the trade. | It was never intended that a Dealer Member would be required to disclose more compensation-related information to the client in advance of the trade than is required to be disclosed to the client on the trade confirmation that is issued subsequent to the trade. As a result, it is acceptable that for a proposed debt security trade, the pre-trade charge disclosure be limited to:<br>• the gross commission amount or a reasonable estimate of the gross commission amount, where the Dealer Member subsequently discloses the gross commission amount on the related trade confirmation that is issued for the trade; or<br>• the total compensation amount or a reasonable estimate of the total compensation amount, where the Dealer Member subsequently discloses the total compensation amount on the related trade confirmation that is issued for the trade. |
| 8. Is pre-trade disclosure required for account transfer-related sales? If so, which Dealer Member must provide the disclosure - the Delivering Dealer Member or the Receiving Dealer Member? | It is not uncommon where a client account is being transferred from one Dealer Member (the "Delivering Dealer Member") to another Dealer Member (the "Receiving Dealer Member") for the Receiving Dealer Member to not have the capability to transfer-in and/or support the ongoing holding of certain client account positions. As a result, in order to complete the transfer of account assets, the Delivery Dealer Member would be requested by the Receiving Dealer Member to sell these positions and in turn transfer to the Receiving Dealer Member the cash proceeds. As trades are required to facilitate these "in cash" transfers, the question of whether there is a pre-trade obligation to disclose the charges associated with these trades | Yes, because trades are required to facilitate these "in cash" transfers, pre-trade disclosure to the client of the charges that will apply to these trades must be provided.<br>While the rule requirement to provide this disclosure would technically apply to the "Delivering Dealer Member", there are both practical and fairness reasons why it would be more appropriate for the "Receiving Dealer Member" to provide this disclosure to the client. First, once the client has decided to change firms, the client will likely not wish to receive any further communications from the Delivering Dealer Member. Second, in most cases it is the inability of the Receiving Dealer Member to support the ongoing holding of |

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| | arises. | certain client positions in the client's new account that results in the need to liquidate these positions and to transfer the disposal cash proceeds to the Receiving Dealer Member.<br>Because of these practical and fairness reasons, IIROC believes it would be appropriate to allow the Receiving Dealer Member to provide this disclosure to the client on the Delivering Dealer Member's behalf. |
| 9. Do new issue fees need to be disclosed on a pre-trade basis? | New issue fees are paid by the issuer company to compensate the Dealer Member for:<br>• in part, the services it provides to the issuer company in structuring, pricing and otherwise readying for market the new security issuance; and<br>• in part, the services it provides in selling the new security issuance to clients (the "commission portion")<br>The commission portion of the new issue fee is not always easily determinable for a particular new issue security distribution. | The commission portion of the new issue fee for a particular new issue security distribution is not subject to the pre-trade charge disclosure requirements at this time. |
| 10. What are the audit trail expectations for the pre-trade disclosure of charges | Not applicable. | Dealer Member Rule section 29.9 formalizes a requirement that a Retail Customer be informed of all charges associated with a client instruction to purchase or sell a security in an account before the purchase or sale takes place. This is a codification of a long-standing industry best practice that was previously discussed in IIROC's Client Relationship Model guidance [refer to IIROC Rules Notice 12-0108] and is consistent with the equivalent requirement introduced in section 14.2.1 of the CSA CRM2 amendments.<br>Dealer Members are required to maintain documented evidence that the required pre-trade compensation disclosure to/discussion with their client has taken place. In the case where the disclosure has been provided in writing to the client, a copy of the written disclosure provided should be retained. In the case where the disclosure has been provided by having a |

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| | | discussion with the client, while it is a best practice that the documentation retained for the conversation include specific details of the conversation with the client, including the exact dollar amount of the compensation or compensation estimate disclosed to and discussed with the client, this level of detail is not specifically required under Dealer Member Rule 29.9 - a checkbox approach indicating that the required pre-trade compensation discussion with the client had taken place would therefore be acceptable. |

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| ***Account statement*** *[Dealer Member Rule subsection 200.2(d)]* | | |
| ***Statement contents - new individual position cost disclosure*** *[Dealer Member Rule subsections 200.1(b) and 200.2(d)]* | | |
| 11. How is individual position cost calculated for "multiple transferred-in" positions? | The rules developed for the determination and reporting to clients of individual position cost information (on both the Account Statement and the Report on Client Positions Held Outside of the Dealer Member) specifically address reporting on:<br>• Account and off-book positions held as at rule implementation date; and<br>• Account and off-book positions acquired subsequent to rule implementation date either directly or through an account transfer<br>The rules developed do not specifically address reporting on positions created through the accumulation of multiple transferred in quantities of the same investment product position - referred to as "multiple transferred-in" positions. How is individual position cost calculated for "multiple transferred-in" positions and what notation language must be used to explain the calculated amount? | The calculation of the individual position cost amount for "multiple transferred-in" positions should be consistent with the calculation approach used for "single" transferred in positions. Specifically, as each quantity of the same investment product is transferred into a client account, the Dealer Member will need to determine whether there is reliable cost information available for the quantity and, if not, whether the current "point in time" market value of the position will have to be used as an estimate of cost. Further, in the situation where a portion or all of the position cost calculated is based on "point in time" market value information or a mixture of different types of cost information (i.e., original cost and book cost) the Dealer Member will need to provide in a note to the position, further details of how the amount reported has been calculated.<br>**Note:**<br>The final requirement set out in Dealer Member Rule subsection 200.1(b) no longer requires that the Dealer Member disclose the date of transfer in situations market value as at transfer date is reported as the cost of the investment product position. This revision to the final rule was made in response to comments received on the September 18, 2014 republication of IIROC's 2015 and 2016 CRM2 Amendments. |
| 12. How is individual position cost to be calculated and disclosed for futures contract positions? | The rules developed for the calculation of and disclosure to clients of individual position cost information (on both the Account Statement and the Report on Client Positions Held Outside of the Dealer Member) do not specifically address futures contract positions that may be held for a client.<br>In the case of futures contract positions held for a client, the current account statement reporting requirements require the disclosure of the position's: | The calculation of the individual position cost amount for futures contract positions should be consistent with the calculation approach used by the Dealer Member for security positions. In the case of futures contract positions, the equivalent amount to the individual position cost amount is the average trade price for the futures contract position, an amount which is already disclosed on statements / reports provided to clients for futures contract positions. |

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| | • market value, which is the position's "settlement price on the relevant date or last trading day prior to the relevant date"[4]<br>• average trade price, which the average "price at which each open commodity futures contract was entered into"[5]<br>How is individual position cost to be calculated and disclosed for futures contract positions held for clients and what notation language must be used to explain the disclosed amount? | Our view is therefore that where the Dealer Member is already providing its clients with average futures contract trade price information (and clearly disclosing this information within the statements and reports the client receives) it is already effectively meeting the obligation to provide individual position cost information to its clients.<br>In addition, as long as it made clear that average futures contract trade price information is being provided, there would be no need to include notation language explaining that trade price information (and not book cost or original cost information) is being provided. |
| 13. Is "N/A" disclosure acceptable on the statement when position cost is unavailable? | As part of the public comments IIROC received on its proposed CRM2 amendments commenters recommended that, rather than requiring Dealer Members to use date of rule implementation market value as a proxy for "original cost" or "book cost" when cost information is unavailable, Dealer Members be allowed to simply inform that client that the individual position cost of certain account positions held as at the rule implementation date could not be determined. The commenters further supported this recommendation by stating that allowing this alternative would ensure that clients wouldn't incorrectly use market value information as tax cost information in their income tax filings. | The following response was included in IIROC's second response to public comments received on its CRM2 proposals which was included in IIROC Rules Notice 14-0214:<br>*"The objective of the requirement to provide position cost information to clients is to enable clients to assess on a quarterly basis whether they have made or lost money on individual account investments. To achieve this objective, the proposed amendments allow the client:*<br>• *where cost information is provided, to assess whether they have made or lost money on the individual account position since the investment position was purchased;*<br>• *where, in the case of transferred-in security positions, market value information as at transfer date is provided (instead of either "book cost" or "original cost" information for such positions), to assess whether they have made or lost money on the individual account position since the investment position was transferred-in to the Dealer Member;* |

[4] Pursuant to Dealer Member Rule sub-clauses 200.1(c)(i)(D) *[effective December 31, 2105]* and 200.2(d)(ii)(E).

[5] Pursuant to Dealer Member Rule sub-clause 200.2(d)(iv)(D).

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| | | • *where, in the case of existing account positions as at July 15, 2015, market value information as at July 15, 2015 is provided (instead of either "book cost" or "original cost" information for such positions), to assess whether they have made or lost money on the individual account position since July 15, 2015.*<br>*Without a requirement to provide some form of comparative information, as recommended by the commenter where "book cost" or "original cost" information is unavailable, the client will have no ability to make an assessment as to whether they have made or lost money on the individual account position. This would undermine the intent of the proposed individual position cost disclosure requirement.*<br>*The commenter also raises the issue of investor confusion as a rationale for not requiring the disclosure of comparative information when individual position cost information is unavailable. The issue of potential investor confusion and potential misuse of individual position cost information provided is an issue irrespective of whether "book cost", "original cost" or prior point in time market value comparative information is provided to the client. Specifically, as:*<br>• *where either "original cost" or point in time "market value" information is provided to the client, this information cannot be used as the "adjusted cost base" for tax reporting purposes; and*<br>• *where "book cost" information is provided to the client, this information cannot be used as the "adjusted cost base" for tax reporting purposes where the client holds positions of the same security in more than one account.*<br>*In summary, the potential for client misuse of comparative information exists irrespective of whether "book cost",* |

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| | | *"original cost" or point in time market value information is provided. To manage this potential for misuse, it is expected that firms will provide the appropriate disclosures to the client describing what the information can be used for rather than not providing the client with the comparative information."* |

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| ***Account statement*** *[Dealer Member Rule subsection 200.2(d)]* | | |
| ***Statement position valuation - revised "market value" definition*** *[Dealer Member Rule subsections 200.1(c) and 200.2(d)]* | | |
| 14. Why does the revised "market value" definition require the use of last bid and ask prices rather than last traded price to value client account positions? Doesn't use of this valuation approach sometimes result in reporting misleading values? | As part of the public comment process a commenter expressed concerns about using last bid and ask prices to value client positions in listed securities and argued that last traded price provided clients with better information, was the current industry standard and therefore less costly to provide and was more comparable to the pricing information available from websites and other public sources. | The following response was included in IIROC's second response to public comments received on its CRM2 proposals which was included in IIROC Rules Notice 14-0214:<br>*"We agree that pricing inconsistencies may result through the universal use of one valuation approach – however, this would be the case if either the "last bid and ask prices" valuation approach or the "last traded price" valuation approach is used. It is for this reason that while IIROC's proposed "market value" definition stipulates that "last bid and ask prices" is the default valuation approach to be used, the definition also allows the making of adjustments that are "...considered by the Dealer Member to be necessary to accurately reflect the market value". Specifically, in the case of liquid securities, if it can be demonstrated through use of a periodic assessment that the currently used "last traded price" valuation approach results in security market values that are materially the same as under the "last bid and ask prices" valuation approach, it may be acceptable to continue to use this current "last traded price" valuation approach. However, in the case of illiquid securities, where the use of the "last traded price" valuation approach has frequently resulted in positions being valued using stale prices, it would generally be expected that the "last bid and ask prices" valuation approach would always be used, unless it could be demonstrated that the values did not accurately reflect the illiquid security's market value."* |

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| 15. In the case of illiquid security positions, when should a Dealer Member indicate that:<br>• the security market value is not determinable or not available?<br>• the security market value is nil? | The issue of "stale pricing" is a challenge faced by Dealer Members when:<br>• valuing account positions for the purposes of account statement reporting to clients<br>• valuing client and Dealer Member inventory account positions for the purposes of regulatory reporting to IIROC<br>While the revisions to the "market value" definition were made in part to help address this issue, by not relying exclusively on the occurrence of a trade to determine market value, proper management of the stale pricing issue requires the adoption of firm procedures and the ongoing exercising of professional judgment to ensure that:<br>• any market value assigned to a security is the Dealer Member's best estimate of its current value<br>• informing the client that the security's market value is "not determinable" or "not available" occurs in cases where the Dealer Member's estimate of the current value of the security is either unreliable or unavailable<br>• informing the client that the security's market value is nil occurs in cases where the Dealer Member is unavailable to assign a current value to the security for an extended period of time<br>Addressing the practical issues of when should a Dealer Member indicate that the security market value is not determinable or not available and when should a Dealer Member indicate that the security market value is nil are therefore important elements of any set of firm policies and procedures designed to manage the stale pricing issue. | There are no specific answers to either of these questions as in most cases the answers can only be determined by looking at facts specific to each security position being valued.<br>The following considerations have been developed by IIROC staff to assist in determining when the market value for a particular account position is either "not determinable" or "not available":<br>• the position is illiquid;<br>• there is little or no issue and issuer related financial data available or the data is stale;<br>• there is little or no financial data available for comparable issuers or for the issuer's business sector;<br>• there is not enough data to use the IFRS valuation approaches and/or the results of the various IFRS approaches used have been determined to be unreliable because of the use of unreliable data or the results indicate a wide range in possible values; and<br>• the cost of the position is outside the range of possible values for the position.<br>Important to applying these considerations is establishing and maintaining a firm policy as to how many days beyond which the last data available is considered to be stale. Similarly, key to determining which account positions are assigned a nil market value is establishing and maintaining a firm policy as to how many days beyond which the market value of the security is considered to be nil. Establishing these time periods can be difficult. We understand an industry initiative is underway to try to reach a consensus on what these time periods should be. |

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| 16. How are debt securities to be valued under the revised "market value" definition? | Some Dealer Members that engage in proprietary trading of debt securities and that make debt securities available for purchase to their retail customers maintain both wholesale debt inventory and retail debt inventory accounts.<br>If both wholesale and retail debt inventory accounts are maintained, the following questions arise:<br>• Is it acceptable to value the wholesale inventory positions at a different price than positions of the same debt security held in a retail inventory account?<br>• If so, what price should be used to value client account debt security positions - wholesale or retail? | **Valuation of Dealer Member debt security inventory positions**<br>All inventory positions in the same debt security should be valued using the wholesale market last bid and ask prices for that security, irrespective of whether the position is held at any point in time during the day or at the end of day within a wholesale inventory account or a retail inventory account. While the revised "market value" definition allows the making of pricing adjustments that are "...considered by the Dealer Member to be necessary to accurately reflect the market value" the practical application of this provision would require looking at the combined (both wholesale and retail) inventory holdings for a particular debt security and determining whether an adjustment to the prevailing wholesale price for the security is necessary/justified.<br>**Valuation of client debt security positions**<br>The challenge with determining the values assigned to client debt security positions, specifically retail client positions, is that some firms apply a mark-up or mark-down to the prevailing wholesale price to arrive at a "retail" price/market value for a retail client debt security position. The effect of this approach is that long/short debt security positions in retail client accounts could potentially be assigned a lower/higher market value at any point in time than the same position would otherwise receive in a firm inventory account or in an institutional client account. A number of other firms, on the other hand, use wholesale prices to value all client account debt security positions (both retail and institutional). Both approaches to valuing debt positions for the purposes of transacting with retail clients in debt securities continue to be acceptable under the new "market value" definition. |

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| ***Account statement*** *[Dealer Member Rule subsection 200.2(d)]* | | |
| ***Statement position valuation - revised "market value" definition*** *[Dealer Member Rule subsections 200.1(c) and 200.2(d)]* | | |
| | | Whichever approach is used, it is important to note that the approach used to value client debt security positions on an ongoing basis must be the same as the approach used for the purposes of transacting with clients in debt securities. For example, it would be inappropriate to use the prevailing wholesale price to value a retail client debt security position for the purposes of periodic account statement reporting when the Dealer Member uses a "mark-up/mark-down" approach for the purposes of transacting with retail clients in debt securities. Rather, in this instance, the values reported in client's periodic account statement should be "mark-up/mark-down" approach values. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Report on client positions held outside of the Dealer Member*** *[Dealer Member Rule subsection 200.2(e)]* | | |
| ***Report scope - client assets to be included*** | | |
| 17. Under what conditions will IIROC grant an exemption from the requirement to provide clients, if applicable, with a quarterly "Report on client positions held outside of the Dealer Member"? | | In its recently republished revised proposed IIROC 2015 and 2016 CRM2 Amendments, IIROC announced that it was willing to consider Dealer Member requests to be exempted from the requirement to provide clients with a quarterly "Report on client positions held outside of the Dealer Member". The following is a copy of the discussion included in IIROC Rules Notice 14-0214:<br>*"IIROC will consider exemption requests from Dealer Members who can demonstrate that the costs of building and administering this new client reporting capability significantly outweigh the benefits to the client of also receiving off-book position information from their "dealer of record". In considering each exemption request, IIROC staff will need to be satisfied that the Dealer Member:*<br>• *has made a good faith effort to convert off-book client name positions into on-book nominee name positions;*<br>• *does not maintain a material number or amount of off-book client named positions;*<br>• *is not promoting, or otherwise actively making available, the option of holding client-named positions off-book ; and*<br>• *does not receive any ongoing compensation on the off-book client named positions."* |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Report on client positions held outside of the Dealer Member*** *[Dealer Member Rule subsection 200.2(e)]* | | |
| ***Report scope - client assets to be included*** | | |
| 18. In order to meet IIROC's requirement that an audit trail be maintained for all transactions that result in off-book client named positions, can off-book transaction detail be provided in the quarterly "Report on client positions held outside of the Dealer Member? | Pursuant to IDA Member Regulation Notice MR0481, Dealer Members have an obligation to maintain adequate books and records that document all transactions that the Dealer Member has arranged for its clients, either on or off-book. With respect to off-book transactions this documentation requirement has generally been met by the posting of journal entries to the client's account, which are reported as non-cash items in the transactions summary section of the client's periodic account statement.<br>We've been asked, as a result of the introduction of the new "Report on client positions held outside of the Dealer Member", whether Dealer Members can meet the audit trail obligations by reporting off-book transactions as non-cash items in a transactions summary section of the client's periodic "Report on client positions held outside of the Dealer Member" (rather than the account statement). | Yes - As a result of the introduction of the new "Report on client positions held outside of the Dealer Member", Dealer Members will have the option of providing the necessary audit trail disclosures in either a transactions summary section within the account statement provided to the client or within the "Report on client positions held outside of the Dealer Member" provided to the client. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Performance Report*** *[Dealer Member Rule subsection 200.2(f)]* | | |
| ***Report scope - client assets to be included*** | | |
| 19. How are "N/A" valued positions addressed in the performance report? | IIROC Dealer Member Rule 200.2(f) does not specify how "N/A" valued client account positions are to be treated for the purposes of calculating performance information. How are "N/A" valued positions addressed in the performance report? | The treatment of "N/A" valued for performance reporting purposes was not specified to give the Dealer Member the options of either:<br>• Excluding "N/A" valued positions from the performance report calculations and disclosing that the positions have been excluded (and why they have been excluded); or<br>• Including "N/A" valued positions in the performance report calculations by assigning them "nil" value for performance reporting purposes.<br>**Note:** Recent feedback from Dealer Members is that the first option is not viable as it would involve significant account-by-account manual work to exclude any "N/A" valued positions from the account performance calculations. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Trade confirmations*** *[Dealer Member Rule subsection 200.2(l)]* | | |
| ***Confirmation disclosure placement*** | | |
| 20. Which trade confirmation disclosure elements must be placed on the front/first page of the trade confirmation and which trade confirmation disclosure elements may be placed on the back/second page of the trade confirmation? | With the introduction of new trade confirmation disclosure requirements for debt security trades on July 15, 2014, a number of Dealer Members have inquired as to whether parts of these new disclosure requirements can be included on the back / second page of the trade confirmation. | The following response was included in IIROC's first response to public comments received on its CRM2 proposals which was included in IIROC Rules Notice 14-0133:<br>*"The commenter's statement that "we are not aware of any requirements under the CRM2 Rules or otherwise as to the specific location of this notification" suggests that the commenter intends to disclose the new debt trade confirmation notification language in a location other than on the front page/first page of the paper/electronic trade confirmation). While we agree that neither current nor proposed Dealer Member Rule 200 specify a location for each trade confirmation element on any trade confirmation that is issued, Dealer Member Rule section 29.7 prohibits the distribution of any correspondence to clients (including trade confirmations) which, among other things:*<br>• *contains any untrue statement or omission of a material fact or is otherwise false or misleading" - [Dealer Member Rule sub-clause 29.7(1)(a)]; and/or*<br>• *"does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction." - [Dealer Member Rule sub-clause 29.7(1)(g)]*<br>*In the case of the new debt trade disclosure obligations to Retail Customers, the Dealer Member must disclose to the client:*<br>• *The dollar amount of either the gross commission or total compensation the Dealer Member earned on the trade; and*<br>• *Where gross commission is disclosed, a text notification indicating that additional compensation has been (may have been) taken on the trade.*<br>*With respect to the dollar amount disclosure requirement,* |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Trade confirmations*** *[Dealer Member Rule subsection 200.2(l)]* | | |
| ***Confirmation disclosure placement*** | | |
| | | *IIROC expects that this amount would be disclosed on the front page/first page of the paper/electronic trade confirmation, along with all other trade-specific information required to be included on the trade confirmation.*<br>*With respect to the text notification, IIROC would prefer that this disclosure would also be provided on the front page/first page of the paper/electronic trade confirmation. However, if this is not possible due to trade confirmation space constraints, the text notification may be provided on a page other than the front/first page of the paper/electronic trade confirmation, provided that text is included on the front page/first page of the paper/electronic trade confirmation that directs the reader to the additional debt trade compensation disclosure information set out elsewhere on the paper/electronic trade confirmation. Without this text on the front/first page of the paper/electronic trade confirmation, clients could conclude that the only compensation they paid on the debt security trade was the "gross commission" amount and the trade confirmation would be considered to be "misleading" under Dealer Member Rule sub-clause 29.7(1)(a)."* |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Enhanced suitability assessment obligation*** *[Dealer Member Rule section 1300.1]* | | |
| ***Know your client information - new required "investment time horizon" data element*** | | |
| 21. Does time horizon information have to be collected from each client even if the client does not have a specific investment time horizon in mind? | Not every client has an investment objective that must be achieved within a specified period of time. This is particularly the case for long-term investment objective such as saving for retirement. | The client should be asked whether they have a specific time horizon within which they would like to meet their investment objective(s). While negative confirmation approaches are acceptable for reminding the client to inform the firm when their know your client information has changed, in this case (where a new requirement to collect investment time horizon information has been introduced) there should be a positive inquiry as the client wouldn't have necessarily previously provided time horizon information to the firm and/or wouldn't necessarily know that they should provide such information to the firm. From a practical standpoint, as long as the information is collected within a reasonable period of time, it would be fine to ask the client whether they have a specific investment time horizon in mind before or at the time the next suitability assessment must take place. This will generally be at or before the time the next trade is recommended by the advisor or the next client initiated order is accepted by the advisor. If they do have a specific investment time horizon in mind, the information should be collected and assessed for reasonableness to ensure that the client's stated investment objectives are achievable within the client's stated time horizon. If they don't have a specific investment time horizon in mind that's also fine as long as this is also documented by the firm.<br>These comments are consistent with the guidance set out in the "time horizon" and "periodic updates and review" sections of IIROC Rules Notice 12-0109. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Enhanced suitability assessment obligation*** *[Dealer Member Rule section 1300.1]* | | |
| ***Complying with suitability assessment obligation*** | | |
| 22. Do the revised suitability assessment requirements allow for the holding of some positions within a client's account portfolio that have a higher individual position risk level than the client's agreed-upon risk tolerance level? | When changes to the suitability assessment obligation were implemented in March 2013, the focus of the suitability assessment obligation changed from ensuring a proposed order/trade recommendation is individually suitable for the client to ensuring that:<br>• a proposed order/trade recommendation is a suitable addition/subtraction to the client's account investment portfolio; and/or<br>• the resultant account investment portfolio is suitable for the client.<br>Does this change to focusing on account portfolio suitability allow for the holding of some positions within a client's account portfolio that have a higher individual position risk level than the client's agreed-upon risk tolerance level? | Under the new account portfolio-focused approach to assessing suitability, it is possible that one or a few higher-risk individual positions may be held within a client's account investment portfolio, without raising the overall portfolio risk to unacceptable levels. This is possible in instances where:<br>• the higher risk of some account investment portfolio positions is balanced out by the lower risk of other positions; and/or<br>• risk reduction is achieved through portfolio diversification.<br>It is also possible that a portfolio where the risk of each individual position appears to be acceptable may be unsuitable for a client. This can occur in situations where the client's investments are concentrated in a particular asset type, industry sector or individual issuer and the concentration risk in the portfolio increases the overall risk of the portfolio to an unacceptable level.<br>In summary, under the amended suitability assessment obligation, portfolio-level risk adjustments relating to diversification and concentration risk must also be considered, in addition to considering individual position risk levels, when determining the actual risk of the client's investment portfolio. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Enhanced suitability assessment obligation*** *[Dealer Member Rule section 1300.1]* | | |
| ***Complying with suitability assessment obligation*** | | |
| 23. What are acceptable practices in performing an account portfolio suitability assessment for a client that has accounts at more than one dealer? | Not all clients maintain their investment accounts at a single dealer. Where a client opens accounts at more than one dealer they may be receiving investment advice from more than one source and the accounts may be opened in order to achieve entirely different investment objectives. What is an acceptable approach to complying with the suitability assessment obligation in these cases? | Where a client maintains accounts at more than one dealer, there is no expectation that each dealer would consider the "know your client" and account portfolio information across all the accounts the client holds with all dealers.<br>Rather, each dealer should be generally aware of the accounts held at other dealers, along with the general investment objective(s) and client risk tolerance(s) associated with these accounts, to the extent the client is willing to divulge this information. Having this information will assist the dealer in assessing the reasonableness of the "know your client" information provided by the client for the account(s) opened at the Dealer Member.<br>If no other accounts share the same investment objective(s) or if this information cannot be obtained from the client, suitability assessments for accounts maintained at the dealer can be performed with the focus of ensuring that each account portfolio of assets is suitable for the client in attaining their stated account investment objective(s) (taking into consideration the client's investment time horizon, tolerance for risk and other "know your client" information factors).<br>Where there are accounts at more than one dealer with the same investment objective, some additional amount of discussion with the client should occur with regard to the client's willingness to have the Dealer Member consider the "outside of dealer" account(s) as part of an overall suitability assessment. It is not expected that every dealer with which the client has an account would be required to perform such an overall suitability assessment. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Enhanced suitability assessment obligation*** *[Dealer Member Rule section 1300.1]* | | |
| ***Complying with suitability assessment obligation*** | | |
| 24. What are acceptable practices in performing an account portfolio suitability assessment for high risk tolerant clients? | Not all clients that open an account with a dealer require ongoing portfolio advisory or management services, or have restrictions on the level of risk they can assume. Some clients may open an account with a dealer:<br>• to enable them to engage in the speculative trading of financial products; or<br>• for the sole purpose of participating in a single investment opportunity offered by the dealer.<br>What is an acceptable approach to complying with the suitability assessment obligation in these cases? | Pursuant to Dealer Member Rule 1300.1, "know your client" and account portfolio information must be considered when an account suitability assessment is performed. Where the advisor has confirmed with a client that:<br>• the client wishes to engage in speculative trading and/or the client has opened an account for reasons other than to receive portfolio advisory or management services (such as to purchase a security new issue)<br>and<br>• the client has a tolerance for high levels of risk (including the ability to absorb investment losses)<br>the approach used to consider "know your client" and account portfolio information in assessing suitability can be streamlined to focus on:<br>• ensuring:<br>o the client is comfortable with assuming high levels of risk and can absorb significant investment losses;<br>o the client is not entirely reliant on the advisor or the Dealer Member to advise them on engaging in speculative investing or trading in financial assets or on participating in individual investment opportunities; and<br>o there is some likelihood (in relation to the risk being assumed) that these trading or investing activities will be profitable for the client.<br>and<br>• documenting the suitability assessment that has been performed. |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Relationship disclosure*** *[Dealer Member Rule 3500]* | | |
| ***New required "investment performance benchmark" disclosure element*** | | |
| 25. What is an acceptable approach for disclosing the necessary information relating to investment performance benchmarks to all clients on or before the July 15, 2014? | Given that Dealer Members have just recently completed delivery of a complete set of relationship disclosure information to all clients, what is an acceptable form for disclosing the necessary information relating to investment performance benchmarks to all clients on or before the July 15, 2014 implementation date? | The following is acceptable as per the e-mail sent to all Dealer Member UDPs, CCOs and CFOs on January 28, 2014:<br>*"**Specifics relating to additional rule requirement coming into effect on July 15, 2014***<br>*To implement this new requirement to provide information about investment performance benchmarks, IIROC Dealer Members will not be required to send a complete updated set of relationship disclosures to all clients. Rather, it will be sufficient to send the discussion of investment performance benchmarks to clients as a separate (likely one-page) "Relationship Disclosure Addendum". This discussion should then be incorporated into the firm's combined relationship disclosure materials within a reasonable period of time (but no later than July 15, 2016) so that new clients will be provided with this information about investment performance benchmarks as part of a combined set of account relationship disclosures."* |

| ***Question*** | ***Background*** | ***Response*** |
|---|---|---|
| ***Relationship disclosure*** *[Dealer Member Rule 3500]* | | |
| ***Who is required to provide the disclosure*** | | |
| 26. Where a Dealer Member has appointed an external portfolio manager to make investment decisions for its managed accounts, which registrant is required to provide the relationship disclosure information to the client? | Not applicable. | The Dealer Member must provide relationship disclosure information to these clients as these managed accounts are accounts opened with the Dealer Member. The relationship disclosure information provided should include a discussion of the account investment decision making role of the externally appointed portfolio manager. |