

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
Dealer Member Rules

Implementation: June 1, 2020

Please distribute internally to:
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Amendments to Client Identification and Verification Requirements

Executive Summary

The Canadian Securities Administrators (the **CSA**) have approved amendments to Part A of Rule 3200 (the **Amendments**) of the IIROC Rules¹. The Amendments deal with our client identification and verification requirements and are intended to further align our rules with domestic and international standards.

More specifically, the Amendments:

- update the information Dealer Members are required to collect on clients who are not natural persons (such as corporations, partnerships and trusts)

¹ As described in Notice [19-0144](#), the Dealer Member Plain Language Rule Book is now known as the IIROC Rules.



- change the amount of time Dealer Members have to confirm certain client information
- modify the types of clients we exempt from Part A of Rule 3200 of the proposed IIROC Dealer Member Plain Language Rule Book (the **IIROC Rules**).

We originally published proposed amendments for comment in [Notice 17-0139](#) (the **2017 Proposed Amendments**). We then proposed additional amendments for comment in [Notice 18-0079](#) (the **2018 Proposed Amendments**). In response to public and CSA comments, we made certain non-substantive changes to the 2018 Amendments, which we discuss below.

The Amendments will be effective on June 1, 2020 (the **Implementation Date**), which coincides with the implementation of the IIROC Rules.



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1. Background

Under the current [Dealer Member Rules](#)², Dealer Members must use due diligence to establish the identity of every new client.³ The following federal and provincial regulations also govern client identification due diligence:

- anti-money laundering and anti-terrorist financing requirements (**AML Rules**⁴)
- [National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations](#) (**NI 31-103**).

1.1 Key differences

The key differences between the IROC Rules⁵, AML Rules and NI 31-103 relate to the identification of non-individual clients, such as corporations, partnerships and trusts. While Dealer Members are exempt from NI 31-103 requirements, they are required to comply with AML Rules and IROC Rules.

1.2 Purpose of the Amendments

We proposed the Amendments to further align the IROC Rules with NI 31-103, the AML Rules and other domestic and international standards.

2. Material changes

We made the following material changes to Part A of IROC Rule 3200⁶. In this current publication, we made one non-material change, which we discuss in section 3 of this Notice.

2.1 Beneficial owners and beneficiaries

Once the Amendments are implemented, Dealer Members will have to establish:

- the identity of any beneficial owner of more than 25% of a corporation and obtain the names of all its directors
- the identity of any individual who exercises control over the affairs of a trust or partnership and obtain the names and addresses of all trustees and known beneficiaries and settlors of the trust.

Under the current IROC Rules, Dealer Members have to establish the identity of beneficial owners of more than 10% of a corporate client.

The Amendments will require Dealer Members to collect information on all trustees and known beneficiaries and settlors of a trust, where current IROC Rules do not ask for trustee information. We

² As described in Notice [19-0144](#), the Dealer Member Rules currently in effect will be repealed and replaced with the IROC Rules on June 1, 2020, which is the same day the Amendments will be implemented.

³ See Dealer Member Rules 1300.1, 2500II and 2700II. These requirements are now set out in Part A of Rule 3200 of the IROC Rules.

⁴ “AML Rules” means the [Proceeds of Crime \(Money Laundering\) and Terrorist Act](#) and its accompanying regulations, including the [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations](#).

⁵ For the purposes of this Notice we will refer to both the current Dealer Member Rules and the IROC Rules as the **IROC Rules**.

⁶ When the IROC Rules are implemented, Part A of IROC Rule 3200 will substantially replace Dealer Member Rule 1300.1(a) through (m).



will also require Dealer Members to collect the names of all directors of a corporation. Functionally, however, these Amendments should not affect Dealer Members because they are already required to collect this information under the AML Rules.

2.2 Establishing identity

Dealer Members will have to:

- establish the identity of the individuals listed in 2.1 above by using methods that allow them to form a reasonable belief they knew the identity of the individual and by taking reasonable measures to confirm the accuracy of that information
- keep a record that sets out the information obtained and the measures to confirm the accuracy of that information.

Dealer Members no will longer need to collect details such as citizenship, occupation and employer.

2.3 Timing

Dealer Members will have 30 days to take reasonable measures to establish the identity of those individuals for whom they were required to do so. Compared to the current IIROC Rules, Dealer Members will have less time to establish the identity of key individuals involved in their clients, but they will have less documentation to collect.

2.4 Exceptions

The following types of entities will be exempt from Part A of IIROC Rule 3200:

- firms registered under Canadian securities laws to trade in or advise on securities
- Canadian investment funds
- Canadian financial institutions
- Canadian Schedule III banks
- large corporations whose shares are publicly traded
- affiliates of:
 - exempt Canadian financial institutions
 - exempt Canadian public bodies or large publicly traded corporations (**Affiliates**)
- registered Canadian pension funds.

These exceptions are articulated differently from the current exceptions, but cover most of the same entities. These exceptions are more aligned with those available under the AML Rules.

2.5 Other amendments to align with NI 31-103

To better align with NI 31-103, the Amendments require Dealer Members to:

- establish the creditworthiness of the client if they are financing that client's acquisition of securities
- take reasonable steps to keep client identification information current
- establish the nature of the client's business.



3. Non-material changes in the current publication

Following the publication of the 2018 Proposed Amendments, we received [two comment letters](#). We summarize their contents and our responses in **Appendix 4**. In response to these comments and our consultation with the CSA, we made the following non-material change:

3.1 Beneficiary insider status

The 2017 and 2018 Proposed Amendments would have required Dealer Members ascertain the insider status of all beneficiaries of a trust (which is their client). This would have been a material change from our existing rule⁷ which requires Dealer Members to ascertain the insider status of beneficiaries of more than 10% of a trust. This was an inadvertent change and not made intentionally. As such, we corrected the Amendments to remain consistent with our existing rule. We do not consider this a material change because there will be no impact on existing Dealer Member requirements.

3.2 IIROC Rules

We made non-material drafting changes to conform with the IIROC Rules⁸.

4. Implementation

The Amendments will be effective on the Implementation Date, which coincides with the implementation of the IIROC Rules.

The existing IIROC Dealer Member Rule which Part A of Rule 3200 of the IIROC Rules replaces, [Rule 1300 Supervision of Accounts](#), will be repealed on the Implementation Date.

5. Publication history

We published the Amendments in three separate publications, including this one.

5.1 2017 Proposed Amendments

In July 2017, we published the 2017 Proposed Amendments and proposed most of the changes described in section 2. In response, we received [five comment letters](#).

5.2 2018 Proposed Amendments

In response to the comments we received on the 2017 Proposed Amendments, we made further changes to the proposed exceptions from the Amendments. In April 2018, we published these for comment in the 2018 Proposed Amendments. We received [two comment letters](#).

5.3 Current publication

⁷ See Dealer Member Rule 1300.1(e)(i)

⁸ See Notice 19-0144



As described in section 3, we made non-material changes following the comments we received on the April 2018 publication and to conform with the IIROC Rules. We included a blackline of these changes in **Appendix 2**.

We included a blackline of all changes made throughout these publications in **Appendix 3**. For more information on what was proposed in each publication, please see its Notice.

6. Impact of the Amendments

The Amendments are generally consistent with existing Dealer Member obligations under the current IIROC Rules or under the AML Rules. By further aligning the IIROC Rules with the AML Rules and NI 31-103, we hope to assist Dealer Members in complying with all their regulatory obligations.

7. Policy development process

7.1 Regulatory purpose

The Amendments will ensure consistency with the AML Rules, promote protection of investors and support healthy capital markets.

7.2 Regulatory process

When IIROC's Board of Directors (the **Board**) approved the 2018 Proposed Amendments⁹, they authorized IIROC's President to approve non-material changes on IIROC's behalf and to seek the Recognizing Regulators' approval to implement the final Amendments. Seeing as we did not make any material changes to the 2018 Proposed Amendments, the President approved these most recent changes on behalf of IIROC.

8. Appendices

[Appendix 1](#) – Part A of IIROC Rule 3200 (clean)

[Appendix 2](#) – Part A of IIROC Rule 3200 (blacklined to the 2018 Proposed Amendments)

[Appendix 3](#) – Part A of IIROC Rule 3200 (blacklined to the proposed IIROC Rule 3200 published in [Notice 17-0054](#))

[Appendix 4](#) – Response to public comments on the 2018 Proposed Amendments

⁹ See [Notice 18-0079](#) for details.