

# IIROC NOTICE

**Rules Notice**  
**Request for Comments**  
Dealer Member Rules

*Please distribute internally to:*  
Institutional  
Legal and Compliance  
Senior Management  
Retail

**Comments Due By: December 7, 2020**

*Contact:*

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**20-0203**  
**October 8, 2020**

## **Proposed Amendments – IIROC Exemptions for Bulk Account Movements**

### **Executive Summary**

IIROC is proposing amendments to the [Dealer Member Rules \(DMRs\)](#) and corresponding amendments to the [IIROC Dealer Member Plain Language Rule Book \(IIROC Rules<sup>1</sup>](#) and, together with the DMRs, the **Rules<sup>2</sup>** in order to set out in the rules the authority of IIROC Staff<sup>3</sup> (**Staff**) to grant exemptive relief to Dealer Members (**Dealers**) from certain client account documentation requirements (the **Proposed Amendments**).

### **Impacts**

We anticipate the Proposed Amendments to have an overall positive impact on Dealers, their clients and other stakeholders as they would:

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<sup>1</sup> See [Notice 19-0144](#) and [Notice 20-0079](#) for more information on the IIROC Rules.

<sup>2</sup> Unless as otherwise indicated, in this Notice specific references to the IIROC Rules provisions are entered inside square brackets beside the corresponding DMRs provisions.

<sup>3</sup> This is IIROC senior staff authorized by the IIROC's Board of Directors to issue exemptions on bulk account movements. See section 1.3. below for more details.

- enable Staff to grant exemptive relief for bulk account movements in an efficient manner, limiting delays of planned transactions,
- provide greater clarity to Dealers, their clients and other stakeholders, on the process for granting such exemptive relief, and
- lay out a consistent framework for bulk account movements which considers the interests of impacted clients.

### **How to Submit Comments**

We request comments on all aspects of the Proposed Amendments, including any matter that they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by December 7, 2020 [60 days post-publication] to:

Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
Suite 2000  
121 King Street West  
Toronto, Ontario M5H 3T9  
e-mail: [memberpolicymailbox@iiroc.ca](mailto:memberpolicymailbox@iiroc.ca)

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

**Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at [www.iiroc.ca](http://www.iiroc.ca).**



## 1. Proposed Amendments

### 1.1 What are we proposing?

We are proposing a bulk accounts movements exemption provision in:

- [DMR 2300](#), under a new section 2300.12, and
- [IIROC Rule 4800](#), under a new Part B.2, section 4866,

which would set out the authority of Staff to grant exemptive relief to Dealers from the obligation to complete the applicable account opening requirements within the timelines set out in the Rules, provided that Staff is satisfied that doing so would not be prejudicial to the interest of clients, the public or Dealers.

More specifically, under the Proposed Amendments, Staff would have the authority to provide relief to Dealers from the applicable timelines on a number of account opening requirements, such as<sup>4</sup>:

- to complete a new account application for each new client,<sup>5</sup>
- to obtain the required account documents within 25 business days of opening an account,<sup>6</sup>
- to approve the account within one business day of the initial trade,<sup>7</sup>
- to obtain the necessary signed agreements from the client prior to opening, or trading in, a specific type of account e.g. margin account agreement,<sup>8</sup> option account agreement,<sup>9</sup> futures contract or futures contract option account agreement,<sup>10</sup> and discretionary account agreement,<sup>11</sup>

(referred to as the **Re-papering Requirements**).

The Proposed Amendments would enable Staff to impose any terms and conditions on the exemptive relief it considers necessary.

The text of the Proposed Amendments to:

- DMR 2300 is set out in **Appendix 1** (clean) and **Appendix 2** (blackline),
- IIROC Rule 4800 is set out in **Appendix 3** (clean) and **Appendix 4** (blackline).

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<sup>4</sup> We do not intend this list to be exhaustive, given the diversity of the client-Dealer or Dealer- Dealer relationship models in the IIROC platforms. Staff will evaluate on a case by case basis the applicable timelines for the Re-papering Requirements and whether a relief from such timeline is justified and would not be prejudicial to the interest of clients, the public or Dealers.

<sup>5</sup> [DMR 2500.II.A.1.](#), [DMR 2700.II.1.](#) [IIROC Rules, subsection 3202(2)].

<sup>6</sup> DMR 2500.II.B.4. [IIROC Rules, clause 3213(2)(iii)].

<sup>7</sup> DMR 2500.II.A.2. [IIROC Rules, section 3214].

<sup>8</sup> DMR 2500.II.B.2., [DMR 200.02](#) [IIROC Rules, subsection 3247(1)].

<sup>9</sup> DMR 2500.II.B.2., DMR 2500.V.A. [IIROC Rules, subsection 3252(1)].

<sup>10</sup> DMR 2500.II.B.2., DMR 2500.VI.A. [IIROC Rules, subsection 3257(1)].

<sup>11</sup> DMR 2500.VII.A. [IIROC Rules, clause 3273(1)(iv)].

## **1.2 Why are we proposing these amendments?**

We are proposing the Proposed Amendments to set out in the rules the authority of Staff to grant exemptive relief from the applicable timelines on the Re-papering Requirements for bulk account movements without having to seek approval from IIROC's Board of Directors (the **Board**). Many account movements are time-sensitive and the Proposed Amendments would enable IIROC to grant necessary exemptive relief from the Re-papering Requirements in a timely manner.

### **1.2.1 What is a bulk account movement?**

We consider bulk account movements to be movements of multiple client accounts as a result of a change in the parties responsible for the account and that does not require the prior approval or authorization of their clients.<sup>12</sup> More specifically, we consider the following types of changes to lead to bulk account movements that would qualify for exemptive relief under the Proposed Amendments:

- a change of carrying broker,
- an introducing broker becoming a self-clearing Dealer or vice versa,
- a Dealer purchasing a block of accounts from another Dealer,
- two Dealers amalgamating to form a new Dealer, and
- a change of service provider Dealer as result of changes to the portfolio manager, as applicable, where there is a change in the Dealer or Dealers responsible for maintaining the impacted client accounts.

### **1.2.2 Why Dealers need relief from the Re-papering Requirements?**

When granting exemptive relief for bulk account movements, we propose to exempt Dealers from the timeline for completing the Re-papering Requirements applicable to their particular situation. Dealers may request relief from these requirements so that they can open new accounts for clients impacted by the account movement and complete all required account documentation within an extended timeline.

In a typical bulk account movement situation, thousands of accounts are opened simultaneously making it virtually impossible for a Dealer to complete all Re-papering Requirements within the timelines provided in our rules (e.g., 25 business days to obtain all required account documentation after opening an account<sup>13</sup>). The Proposed Amendments would enable Staff the ability to grant relief in a manner consistent with the specific bulk account movement scenario, while ensuring that doing so would not be prejudicial to the interest of clients, the public or Dealers.

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<sup>12</sup> Account transfers, which are subject to separate rule requirements, occur where the client requests or authorizes a transfer of the account from one Dealer to another Dealer.

<sup>13</sup> DMR 2500.II.B.4. [IIROC Rules, clause 3213(2)(iii)].



### **1.3 IIROC Staff with authority to issue exemptive relief pursuant to the Proposed Amendments**

Under the Proposed Amendments, senior Staff will be provided by the Board with authority to grant exemptive relief for bulk account movements. When exercising its exemptive authority, Staff will be guided by the following:

1. any relief granted will be limited to the applicable timeline for the Dealer to complete the Re-Papering Requirements only;
2. Staff will consider the facts and circumstances with respect to each bulk account movement situation, including details of the situation and number and type of accounts involved; and
3. any relief granted:
  - (a) will include the conditions that the Dealer must:
    - (i) notify clients in advance that their accounts will be moved, and
    - (ii) give clients the opportunity to transfer out their account to another Dealer of their choosing free of charge,
  - (b) will not be prejudicial to the interest of clients, the public or Dealers, and
  - (c) will include additional exemption terms and conditions deemed necessary, taking into consideration the nature of the account movement situation and its impact.

Upon the implementation of the Proposed Amendments, IIROC will be publishing guidance outlining in more detail the procedure for granting exemptive relief under the Proposed Amendments.

### **1.4. Consequential amendments**

Together with the Proposed Amendments, we are also making minor revisions of a consequential nature, such as structural and conforming language changes, to DMR 2300 and IIROC Rule 4800 (see Appendices 1 to 4). We do not believe these changes would have a material impact on investors, issuers, Dealers, registrants or the capital markets in any province or territory of Canada.

## **2. Economic Impact Analysis**

We determined the Proposed Amendments would not have a negative economic impact on our Dealers, their clients and other stakeholders because they enable IIROC to grant exemptive relief for bulk account movements in an efficient, transparent and consistent manner, which we anticipate will reduce the costs incurred during an account movement. This practice is not novel and we are not aware of any negative impact over the years.

The alternative would be to bring every single request for exemptions to the Board, pursuant to its exemption authority under DMR 17.15 [IIROC Rule 1300]. This procedure is lengthier compared to Staff issued exemptions and would not prove responsive to the market needs regarding time sensitive

transactions. Staff is experienced in transactions involving account transfers and account movements and every exemptive relief is issued in consideration of not only the interest of Dealers and their clients, but also the public.

In lieu of the Proposed Amendments, we also considered introducing prescriptive rules to address bulk account movement situations. However, because there are numerous scenarios that result in bulk account movement situations<sup>14</sup> and there are unique firm-specific features and considerations with each firm situation, we determined that the introduction of prescriptive rules would not be feasible, as it could not contemplate all scenarios and all firm-specific facts and circumstances. The Proposed Amendments provide flexibility for Staff to determine when exemptive relief is appropriate and, where appropriate, the additional exemption terms and conditions that are necessary to ensure that the interests of impacted clients are protected<sup>15</sup>.

### **3. Should Staff have exemptive authority to provide relief from the need to re-paper?**

In this notice, IIROC is also soliciting comments as to whether in the context of bulk account movements, the scope of the proposed exemption should be expanded to also include relief from the need to “re-paper” an account in instances where the previous firm documentation can be relied upon.

More specifically, should Staff have the authority to grant exemptive relief to the receiving Dealer from the overall obligation to complete the applicable re-papering requirements, or part of the Re-papering Requirements, for the received accounts in a bulk account movements situation?

Bulk account movements transactions can be diverse and have unique features. Sometimes, bulk account movements do not bring material changes to the Dealer – client relationship for the moved accounts, given similarities in the services provided between the delivering Dealer and the receiving Dealer and their processes for collecting client information and carrying out any suitability determination. In those instances, account re-papering can be a formality, to the extent the previous firm documentation can be relied upon and timely notifications and relationship disclosures are sent to clients by the Dealers or other responsible parties, as applicable.

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<sup>14</sup> These scenarios include: an introducing broker changing its carrying broker, an introducing broker becoming a self-clearing dealer, a self-clearing dealer becoming an introducing broker, a dealer purchasing a block of accounts from another dealer, two dealers amalgamating to form a new dealer of another name and any other scenario where there is a change in the parties involved in the client relationship.

<sup>15</sup> All account movement exemptions granted will include, as mandatory minimum conditions, the requirements that the Dealer must:

- notify clients in advance that their accounts will be moved
- give clients the opportunity to transfer out their account to another Dealer of their choosing free of charge.



To clarify, IIROC will treat this question separately from the Proposed Amendments. Depending on the comments received, IIROC may recommend that revisions are made to the Proposed Amendments to expand Staff's exemptive authority regarding bulk account movements.

#### **4. Policy Development Process**

##### **4.1 Regulatory Purpose**

The Proposed Amendments would:

- establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity,
- promote just and equitable principles of trade and the duty to act fairly, honestly and in good faith,
- foster fair, equitable and ethical business standards and practices, and
- promote the protection of investors.

##### **4.2 Regulatory Process**

The Board has determined the Proposed Amendments to be in the public interest and on September 23<sup>rd</sup>, 2020 approved them for public comment.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend that revisions be made to the applicable proposed amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the proposed amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, the Proposed Amendments, including any revisions, will be submitted to the Board for approval for republication or implementation as applicable.

#### **5. Implementation**

If approved for implementation, pursuant to the Regulatory Process (section 4.2 above) the Proposed Amendments to:

- DMR 2300 will take effect on the date indicated in the of notice of approval/implementation;
- IIROC Rule 4800 will take effect at the same time as the IIROC Rules – December 31, 2021.

## **6. Appendices**

[Appendix 1](#) – DMR 2300 Proposed Amendments (clean)

[Appendix 2](#) – DMR 2300 Proposed Amendments (blacklined)

[Appendix 3](#) – IIROC Rule 4800 Proposed Amendments (clean)

[Appendix 4](#) – IIROC Rule 4800 Proposed Amendments (blacklined)