



February 19, 2020

Mr. Phil Devault
Senior Counsel Derivatives Regulation
Investment Industry Regulatory Organization of Canada
Suite 601, 525 Viger Avenue West
Montreal, Quebec, H2Z 0B2

Re: Proposed Derivative Rule Modernization, Stage 1

Dear Mr. Phil Devault,

We appreciate being given the opportunity to provide our comments with respect to IIROC's Proposed Derivative Rule Modernization, Stage 1. We acknowledge that the main purpose of proposed amendments to the derivative rules are to align IIROC's rules with those of the securities regulators.

After reviewing, the proposed definition for an institutional client, we are of the opinion that the financial criteria for an individual client to qualify as an Institutional client is exceptionally high.

We agree qualifying individuals should be able to request and consent to being classified as institutional clients. While this is a positive change, the \$10M financial asset threshold limits this to a very exclusive segment of the population. With this mind, please consider 1) lowering this threshold and 2) introduce an intermediate client classification based on the accredited investor exemption.

An accredited investor is an accepted and recognized prospectus exemption under national instrument 45-106. An accredited investor is required to satisfy accredited requirements to purchase investments with risks that exceed retail investments.

Clients that are considered sophisticated investors are called Professional Clients in Europe and Wholesale Clients in Australia and have access to a wider range of financial products and services.

Similar to accredited investors, to qualify as a Professional Client in Europe or a Wholesale Client in Australia, clients are required to meet certain standards for investment knowledge and financial requirements.

European Securities and Markets Authorities ("ESMA") has written regulations with respect to Professional Clients in Europe.

<https://www.esma.europa.eu/databases-library/interactive-single-rulebook/mifid-ii/annex-ii>

To qualify as a Professional Client in Europe, the client must meet two of the three criteria below:

1. Placed 10 significant sized trades per quarter in the last year
2. Have financial instrument portfolio exceeding €500,000
3. Worked in the financial sector for at least one year

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In Australia, section 761G of the *Corporations Act 2001* has written regulations with respect to Wholesale Clients.

http://www8.austlii.edu.au/cgi-bin/viewdoc/au/legis/cth/consol_act/ca2001172/s761g.html

To qualify for as a Wholesale Client in Australia the client must meet either the wealth or sophisticated test:

1. Wealth test – Have net assets greater than \$2.5M AUD or gross income in the last 2 years greater than \$250K AUD per annum.
OR
2. Sophisticated Test – Pass an online knowledge test and demonstrate they have placed at least 50 trades with a total notional value in excess of \$500K per quarter for the last 4 quarters.

Regards,



Jeff Jackson
Chief Compliance Officer & Operational Risk Manager
CMC Markets Canada Inc.

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