Rule Book Workshop

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Agenda

• Brief history and background of Rule Book project
• Benefits of the Rule Book
• Structure and Organization of the Rule Book
• Changes to the Rules
• Communication plans
• Review sample of redrafted rules
• FAQs
**Brief History and Background**

- Board approval: 2006
- Plain language workshop: November 2006
- Start of redrafting: January 2007
- Initial target date for completion: Q1 2009
- Target completion date: 2010

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**Benefits of the new Rule Book**

- Restate the rules in plain language style
- Streamline rules by focusing on core requirements and moving details to Guidance Notes
- Improve clarity and accessibility of rules
- Eliminate obsolete, duplicative and unnecessary requirements
- Change the Rule Book into a mix of principle based and prescriptive rules
- Reorganize rule structure more logically
- Clearly state the objective of each rule
Structure and organization of the new Rule Book

- Structure of Rule Book
  - Rules: mix of principle based and prescriptive Rules
  - Guidance Notes
  - Introduction to the Rule Book
  - User Guide

Numbering convention:

Rule 4230

Section 4231
  - subsection 4231 (1)
    - clause 4230 (1) (i)
      - subclause 4230 (1) (i) (a)
      - 4230 (1) (i) (b)

  - 4230 (1) (ii) (b)

*Use parts where necessary
Structure and organization of the new Rule Book

- Definitions
  - General
  - Rule specific
  - Form 1
- Introduction to each Rule
- Use of tables

Changes to the Rules

Substantive change criteria
- New requirements
- Material change to an existing requirement
- Rule changed to guidance and moved to a Guidance Note
- Rule requirement that is deleted

Non-substantive changes
- Deleting redundant rule or requirement
- Eliminating a non-mandatory provision
- Moving a non-mandatory provision to a Guidance Note

* See Appendix 1 for a copy of certification memo to CSA.
Type of changes we have made to the Rule Book

**Deleted redundant provisions**

- Rule 1.3 – now part of General By-law 1
- Rule 5.4(3)
- Rule 6.4 related companies having to comply with the Rules. All IIROC members now.
- Deleted 17.7, 17.8 & 17.9 (DC may reduce insurance requirements)
- Rule 18.14(a)(i) working in remote area
- Rule 300.3(b) Reference to Exchange seats
- Rule 900 Service charge on Rights
- Rule 1100.3 Furnish bond quotation to the press under IIROC name
- Rule 1600 Money Market Operations
- Rule 2600 - references to vault facilities

Type of changes we have made to the Rule Book

**Deleted provisions with no regulatory significance**

- Business valuation activities (Rule 29.14 to 29.25)
- Inter Dealer Bond Brokers provisions (Rule 36 and 2100)
### Type of changes we have made to the Rule Book

**Outdated Rules**
- Rule 33 Review by Securities Commissions
- Rule 800 Delivery and Settlement (being rewritten)
- Rule 1700 Municipal Debentures
- Rules 5.9 through 5.16A Members going public

**Duplications**
- A number of provisions deleted in Rules 7, 17, 30, 32, 200, 300, 1800, 2200 and 2300
Type of changes we have made to the Rule Book

**Substantive changes**

- Rule 3900 Communication with the public (current Rule 29.7) – research requirements made more consistent with FINRA’s requirements
- We will no longer approve Member policies (29.7(2))
- Rule 9100 Early Warning System (current Rule 30) – we will no longer be reporting early warning violations to District Councils
- Some Rules changed to comply with Registration Reform requirements

**Timelines**

Currently under re-consideration.
Member Consultation

Rule Book consultative Committee consisting of 9 Member representatives

Substantive change Rules
- Committee consultation
- MOW publication

Non-substantive change Rules
- MOW publication

Communication plans

• May – June 2009 Rule Book workshops
• Rule Book webcast - See IIROC Education Notice 09-0236 of Aug 10, 2009
• Rule Book web page with regular updates
• Member Only Website (MOW)
• Table of Concordance
Almost all Rules and Guidance Notes have been redrafted.

All non-substantive change Rules except for one have been reviewed by Members and submitted to CSA staff for pre-approval review.

Substantive change Rules have all been redrafted except for the principles and interpretation of the Rule Book.

We have received a number of comments from Members and CSA staff. We continue to review and respond to all such comments and take whatever necessary action to deal with such comments.

We have redrafted all UMIR overlapping Rules (with the Dealer Member Rules). Policy staff are currently reviewing these drafts.

The consolidated Enforcement Rule is being redrafted.

* See Appendix 2
Covering Memo  
Rule 7300 Inter-dealer bond brokers (IDBBs)  
Non-substantive change Rule

Overall objectives of the Rule Book rewrite project
The objectives of the project were to reformat, reorganize, rationalize and rewrite the Rules in plain language.

Objective of the Rule
Rule 7300 describes IIROC requirements for IDBBs used by Dealer Members. Its purposes are to ensure the financial viability of IDBBs and make the debt market more efficient.

Current related Rules
Rule 7300 is a plain language re-write of the provisions from current Rules 36 and 2100.

Changes included in the Rule
As a non-substantive change Rule, we did not introduce substantive changes to this Rule.

The definitions in current Rule 2100.1 were moved to the General Definitions of Rule 1000.

We deleted the current Rule provision 36.4 which dealt with the application of the current Rule 33 to IDBBs. We are deleting current Rule 33 which we deemed it to be unnecessary.

We deleted provision 2100.2 regarding continued recognition since it was a transition provision which has lapsed.

We deleted section 2100.7 regarding regulatory variations. This section is redundant. Members are given reasonable notice in the application of any new Rule.

Table of Concordance
We attach a copy of the latest consolidated Table of Concordance which outlines where the provisions from the current Rules can be found in the new Rule.
Certification
This is to certify that the revised Rule has been reformatted, reorganized and redrafted into plain language. The revised Rule does not contain any new requirements, or changes to existing requirements beyond deletion of redundant and duplicative requirements. In some cases, we changed the Rules to bring them in line with the current practices and without change to the substance of the requirements.

Maysar Al-Samadi
VP – Professional Standards

July 14, 2009
FAQS FOR THE NEW RULE BOOK

Q1. Why is IIROC re-writing the Rule Book?
A. IIROC aims to introduce a user-friendly, better-organized and up-to-date Rule Book. The legalistic style of drafting is being replaced with plain language. The Rule Book will also consolidate Dealer Member and UMIR rules. The old IDA Rule Book was added to incrementally over time, which eventually had a negative impact on its style, organization and consistency.

Q2. What are the objectives of the Rule Book re-write?
A. The re-write aims to reorganize, restructure, reformat, rationalize and update the Rules. It rewords them in plain language. In addition, a number of substantive changes are being made to streamline the rules and update policy in many areas.

Q3. What are the key changes to the Rule Book?
A. The most important changes are:
   1. The Rule Book is restructured into Rules and Guidance Notes.
   2. Many Rules are being streamlined to focus on core requirements, with details moved to Guidance Notes.
   3. The Rules are reorganized into a more logical order. Many current rules have been broken down into shorter Rules, and sections ordered more logically.
   4. The wording of Rules is substantially revised in plain language, which makes them easier to understand and comply with.
   5. Each Rule contains a clear statement of its purpose.
   6. Redundant and outdated provisions are deleted.
   7. In a number of cases substantive changes have been made to Rules to update regulatory policy and ensure they are relevant to current industry practices.

Q4. Who does the Rule Book apply to?
A. The new Rule Book consolidates Dealer Member Rules and trading (UMIR) Rules. The new Rule Book will state clearly which Rules apply to Dealer Members, to Participants and those that apply to all.

Q5. Will the new Rule Book apply to all Dealer Members and Participants?
A. The new Rule Book will clearly state which Rules apply to Dealer Members and those that apply to Participants.
Q6. **Were Members consulted in the Rule Book re-write process?**

A. We have consulted with IIROC Members extensively in the course of the re-write. All the substantive change Rules are following the normal rule development process where the Rules are discussed with Members through the Committee (CLS, FAS and others) consultation process. All Rules are also posted for 30 days to the Members Only Website for Members’ review and comments. In addition, we also consulted with a Rule Book Consultative Committee representing nine Members on major issues related to the Rule Book structure, organization, numbering convention, etc.

Q7. **How was the Rule Book project financed?**

A. The Rule Book project was financed through the IIROC Restricted Fund (the old Discretionary Fund). The project was not financed out of Member fees.

Q8. **Are the new Rules principles-based or prescriptive?**

A. The Rule Book is a combination of both types of Rules – some Rules are principles-based while others are prescriptive. This is because the subject matter of some Rules is suitable to a principles-based approach while others, such as financial and capital Rules, must be prescriptive.

Q9. **What is the difference between a Rule and a Guidance Note?**

A. Rules set out requirements that are mandatory, while Guidance Notes are non-mandatory and interpretive in nature. Guidance Notes might also include best practices or explain how to implement a Rule. Compliance with Guidance Notes is not required; however Guidance Notes are important statements on IIROC’s interpretation of a Rule and, in many cases, provide guidance on how to ensure compliance with a Rule.

Q10. **Can Members simply follow the Rules and ignore the Guidance Notes?**

A. IIROC will issue Guidance Notes to explain and interpret the Rules, and often to set out best practices. Guidance Notes are important statements of policy, although they are not mandatory requirements. Members will need to review and consider the content of Guidance Notes. If a Member decides to use an alternative interpretation of a Rule, or to adopt different procedures to implement a Rule, the Member must ensure that its approach complies with the Rules.

Q11. **Where there is a conflict between a Guidance Note and a Rule, can Members apply any one?**

A. There should not be a conflict between a Rule and a Guidance Note, since Guidance Notes are only intended to interpret and clarify Rules. Rules are
mandatory and must be adhered to by Members and/or Participants. Guidance Notes are only interpretive and can include best practices. Guidance Notes do not amount to Rules.

Q12. **Will a Guidance Note be issued for each Rule?**

A. No. A Guidance Note is not necessarily needed for every Rule. Guidance Notes are only issued when required or useful. A Rule may have one or more Guidance Notes. IIROC will continue to add to the list of Guidance Notes going forward.

Q13. **Where will Guidance Notes appear in the Rule Book?**

A. Guidance Notes will be set out immediately after the Rule they relate to, and will be linked electronically to the Rule (and vice versa).

Q14. **Are substantive changes being made to the Rules?**

A. Yes, substantive changes are being made to 25 of the new Rules. Those Rules are listed on this Rule Book web page.

Q15. **What qualifies as a substantive change?**

A. Substantive changes include new requirements, material changes to a current requirement, a requirement that has moved to a Guidance Note and a rule requirement that is deleted.

Q16. **What Rules were substantively changed?**

A. A list of the substantive change Rules can be seen using the link on this web page.

Q17. **Should Members be concerned about changes they might not be aware of?**

A. IIROC is developing an education and training plan on the new Rule Book to assist Members in preparing for the changes. Details will be provided in due course.

In addition, Members are being given ample opportunity to review and comment on all changes introduced to the Rule Book though this rewrite, whether they are substantive or non-substantive. This includes posting to the Members Only Website, the IIROC Member Committee consultation process and the final publication for public comments.

Q18. **What happens if there appears to be an unintended substantive change to a Rule?**
A. We hope that there will be no unintended substantive changes in the Rules considering the number of reviews that are being conducted internally by IIROC staff, the consultants engaged on this project, consultation with the Members and the approval of the CSA. Members should contact IIROC concerning the interpretation of a rule if it appears that any unintended changes in the meaning of a rule have been made.

Q19. How do I find out where the old rule provisions are in the new Rule Book?

A. A Table of Concordance (TOC) will track all current Rule provisions to the corresponding new Rule and section of the new Rule Book. This TOC will be made available to users when the Rule Book is finalized.

Q20. Where do I find the table of concordance that will reference the old and new Rules to each other?

A. We will make the Table of Concordance available on the Knotia site when the new Rule Book comes into effect.

Q21. Will IIROC track all changes to the Rules?

A. Rule changes will be tracked starting with the date the new Rule Book becomes effective. The history of Rule changes will be available to users.

Q22. Why are some definitions listed in the General Definitions while other definitions are left in the individual Rules?

A. General definitions that apply to more than one Rule are listed together in Rule 1000 while definitions that are Rule specific will be retained with that Rule. All definitions will be electronically linked to the text of the Rules.

Q23. Will defined terms be linked in the text of the Rules?

A. Yes, defined terms in the text of the Rules will be highlighted and electronically linked to the definitions.

Q24. Will the new Rule Book be approved by the CSA?

A. Yes, the CSA must approve all of the Rules before the new Rule Book is implemented. The substantive change Rules will be submitted individually to the CSA for approval following IIROC Board approval and publication for public comments. In addition, the whole Rule Book package, including substantive and non-substantive change Rules, will be published for public comments prior to filing with the CSA for approval.

Q25. Will there be a phase-in period when the Rules are finally approved?
A. This is under consideration. Should changes to certain Rules require a longer lead time before they become effective, this will be considered in setting the effective date of the Rule change.

Q26. **How did the Rule numbering change?**

A. IIROC is adopting a new numbering convention that uses a series of numbers for each Part of the Rule Book, and uses a number in that series for each Rule. For instance, Membership and Registration Rules are in the 2000 series; Business Conduct Rules are in the 3000 series; Financial and Operational Rules are in 4000 and 5000, and so on. Each Rule is assigned a number in the relevant series, for example Rule 3100. Each Rule consists of one or more sections numbered 3101, 3102, 3103, etc.

Q27. **Is there a relationship between the old and new rule numbers?**

A. No, in the case of Dealer Member Rules. The complete restructuring of the Rule Book required different numbering. However, in the UMIR Rules we tried, as much as possible, to incorporate the old UMIR numbers in the 6000 and 7000 series. This was possible since UMIR has undergone fewer changes so far.

Q28. **Why were numerical examples not included in the Rules relating to margin calculations?**

A. We will consider including such calculations in Guidance Notes that we may issue in the future.

Q29. **How will Guidance Notes be numbered?**

A. Guidance Notes are numbered using the Rule number the Note relates to, followed by -1 or -2, etc. For example Rule 3700 might have GN 3700-1 or GN 3700-2.

Q30. **Have all MR Notices, Bulletins and FAQs been rewritten and reissued?**

A. IIROC has rewritten MR Notices and Bulletins into plain language Guidance Notes if the content is considered relevant today. Not all old Notices and Bulletins will appear as Guidance Notes. IIROC will consider updating all the FAQs that are currently on the IIROC website in future.

Q31. **What happens to the old Notices and Bulletins?**

A. Most policy Notices and Bulletins have been rewritten into new Guidance Notes. The old policy Notices and Bulletins will be removed from the website once the new Rule Book becomes effective.
Q32. Where do I find the link to old (archived) MR notices, bulletins, and FAQs?

A. Old MR Notices and Bulletins will no longer be on the website since they will be out of date once the new Rule Book is in place. The FAQs will continue to be on the IIROC website until they are updated.

Q33. Where will I find other IIROC Notices?

A. Other IIROC Notices that are current will continue to be on the IIROC website and accessible through the IIROC home page.

Q34. What if I can’t find a Guidance Note (that I know exists) linked to the Rule that I thought it would be linked to? (Example: Guidance Note on In Trust for accounts: I thought it would be linked to Rule 3100 with a GN 3100-1 but it is not there so it must be linked to another rule). How do I search for it?

A. The IIROC website will continue to have the necessary search tools to enable you to find what you are looking for. In addition, Guidance Notes will be linked to their related Rules. Therefore, once you identify the Rule you can easily link to the Guidance Note.

Q35. What if a Guidance Note relates to more than one Rule; will it be linked to all relevant Rules?

A. Guidance Notes will be linked to all related Rules.

Q36. Will the search engine for the new IIROC Rule Book work the same way as the existing IIROC Rule Book (through Knotia)?

A. Yes, the new Rule Book will reside on Knotia and will continue to have the same search tools.

Q37. Will a link be provided from each Rule to disciplinary notices that relate to that Rule?

A. There are no plans to link disciplinary Notices to IIROC Rules.

Q38. For the Rules that overlap with TMX’s rules, will TMX also make plain language changes in their Rule Book?

A. TMX will consider this question in the future. IIROC is communicating with TMX on the nature of the changes to the Rule Book.

Q39. Who do I contact if I need help?
A. You can use the link on this Rule Book web page to write to IIROC if you have any questions about the Rule Book.