

# IIROC NOTICE

## Rules Notice Guidance Note

IIROC Rules

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## Content of Books and Records

### Executive Summary

Rule 3800<sup>1</sup> requires a Dealer Member (**Dealer**) to maintain adequate books and records for audit trail, compliance and reporting purposes. Additionally, maintaining adequate books and records is recommended as a prudent business practice to manage the risks of a Dealer's business.

This guidance sets out what IIROC considers "adequate" books and records for the purpose of Rule 3800.

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<sup>1</sup> In this guidance, all rule references are to the IIROC Rules unless otherwise specified.



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## **1. Dealer records and client communications**

This section provides guidance regarding the content of certain portions of a Dealer's books and records. We set out guidance by relevant section in Rule 3800.

### **1.1 Client account statements (section 3808)**

Monthly and quarterly statements should show the following:

- the dollar balance carried forward from the previous monthly or quarterly statement,
- entries shown in the account since the previous statement date,
- the final dollar balance and the security position as of the statement date, and
- the items included in the final security position which are held in safekeeping.

### **1.2 Performance report (section 3810)**

The combined performance information included in the performance report should be determined based on:

- all client account security and other investment product positions held by the Dealer for the client in nominee name or physically in client name; and
- positions held off-book by the client, either in book-based client name or physical client name:
  - in securities issued by a scholarship plan, a mutual fund or an investment fund that is a labour-sponsored investment fund corporation, or labour-sponsored venture capital corporation, under legislation of a jurisdiction of Canada and the dealer or adviser is the dealer or adviser of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager, and
  - in any other security or other investment product on which the Dealer receives continuing compensation payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party,

subject to the exceptions below.

Where there are one or more positions held in the client account for which the current market value is not determinable, the position(s) should be considered to have no value in the determination of cumulative account performance. In such instance, a disclosure in the performance report should inform the client that the value of certain positions has been set at nil for the purposes of calculating performance information and why.

Where multiple accounts of the same client have the same investment objectives, clients may be offered the alternative of portfolio level (portfolio level being a consolidation of all account positions and debit/credit money balances of the same client) consolidated account performance information.



Where the client consents to this alternative, the Dealer would not be required to provide performance information for each of the accounts included in the portfolio level reporting.

### **1.3 Memoranda of orders (section 3815)**

In this section, the term “instruction” includes instructions between partners or directors and employees of a Dealer. The term “time of entry” is specified to mean the time when the Dealer transmits the order or instruction for execution, or if it is not so transmitted, the time when it is received.

The term “time of entry” would include the date and time the order is first originated or received by the Dealer Member and the date and time the order is transmitted to the marketplace in accordance with National Instrument 23-101 *Trading Rules* and IIROC’s Universal Market Integrity Rules (**UMIR**).

### **1.4 Trade confirmations (section 3816)**

A person, company or a salesperson may be identified in a written confirmation by means of a code or symbols if the written confirmation also contains a statement that the name of the person, company or salesperson will be provided to the client on request.

## **2. Position records**

A Dealer may keep separate position records for equities, debt and derivatives.

## **3. Average Price Accounts or Accumulation Accounts**

This section covers accounts where a Dealer accumulates stock to provide a client with a single fill at an average price.

### **3.1 Printing the unwinding trade**

If a Dealer has a firm, time-stamped, client order and accumulates stock in an inventory account for administrative purposes only, the transfer of the position to the client should not be “printed” on an exchange. There is no change in beneficial ownership as the client is the beneficial owner of the stock at all times.

If a Dealer is accumulating stock based on an indication of interest from a client, or an order with a contingency that has not occurred (e.g. an all or none order), then the client is under no obligation to purchase the stock. In this case, an unwinding trade(s) to the client should be printed on an Exchange as the Dealer is at risk while taking on the position (since the client is not the beneficial owner of the stock while in inventory). A Dealer should not use an error account to unwind the position to the client if the market has moved.

### **3.2 Confirmation to the client**

It is preferable to give clients a confirmation showing each individual trade. If a client requests a single confirmation, it is acceptable to show the date of the trades as the date of the transfer to the client, even though the trades at the average price may appear to be outside the then current market.



Regardless of the process, a Dealer should retain records of each individual trade and of the transfer to the client. These records should be available to the client or IIROC staff upon request.

#### **4. Pledge of the client's investment products**

Dealers should carefully review any arrangements whereby investment products are pledged or guaranteed to a lending financial institution to ensure that the investment products are properly recorded on the client's statement and the Dealer's stock records.

##### **4.1 Client purchases on margin**

A Dealer may finance client purchases on margin by arranging for a call loan directly with a bank and using that portion of the client unpaid investment products as collateral or pledge for the call loan.<sup>2</sup> Under IIROC Rules the client statement should show the security transaction, the money balance and the security holdings of the client in segregation or non-segregation. The Dealer's stock record should show the location of all investment products held on behalf of clients, including those pledged to the bank.

##### **4.2 Personal client bank loans and guarantees**

When a client directs that investment products be delivered out of the account to a bank as a pledge against a personal loan, mortgage, etc. and the Dealer does not retain custody over the investment product, the client's investment products are no longer in the Dealer's control and should not be shown as a security position in the client's account or on the Dealer's stock record.

Where a Dealer, the client and the bank enter into a tri-party loan agreement and the agreement requires that the investment product (under control of the Dealer) cannot be withdrawn from the client's account without the prior written consent of the bank, these security positions should be recorded on behalf of the client on the Dealer's books and records. This arrangement is used primarily to simplify tax event reporting by the Dealer on the client's security position.

#### **5. Supplementary information**

A Dealer should retain supporting documentation in sufficient detail to enable IIROC to verify the accuracy of the regulatory financial reports. Included with these documents are items such as:

- (a) the trial balance (general ledger, clients, brokers and inventory sub-ledgers),
- (b) status slips,
- (c) clearing reports,
- (d) exception and delinquency reports,
- (e) inventory and client margin reports,
- (f) interest and dividend reports,
- (g) security count and reconciliation sheets,
- (h) segregation control reports,

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<sup>2</sup> See Rule 5100 more generally for margin requirements.



- (i) security position record, and
- (j) working papers required to substantiate the daily or weekly capital calculations and to monitor early warning.

## **6. Applicable rules**

IIROC Rules this Guidance Note relates to:

- Rule 3800.

## **7. Related documents**

This Guidance Note was published under [Notice 20-0007](#) – Notice of Approval/Implementation – Guidance Review Project – Group 1.