

IIROC Update

IIROC FAS Conference
June 7, 2013

Presenter:

Richard Corner, Vice President, Member Regulation Policy, IIROC

IIROC Update

Agenda

- IIROC policy priorities for fiscal 2013-14
- Client Relationship Model - conflict of interest management, account relationship disclosure and enhanced suitability assessment
- Margin rule related initiatives
- Trade settlement / affirmation initiatives
- Other risk-related initiatives
- Other matters

IIROC Update

IIROC policy priorities for fiscal 2013-14

- Client Relationship Model – account performance and account fee/charge reporting
- Transaction reporting for debt securities
- Consolidation of IIROC enforcement, procedural, examination and approval rules (a joint initiative of Member and Market Regulation Policy staff)
- Project to rewrite Dealer Member Rules in plain language
- Third-party electronic access (a joint initiative of Member and Market Regulation Policy staff)

IIROC Update

Client Relationship Model - conflict of interest management, account relationship disclosure and enhanced suitability assessment

- Conflict of interest management requirements – March 26, 2012
- Enhanced suitability assessment requirements – March 26, 2013
- Account relationship disclosure requirements –
 - New clients - March 26, 2013
 - Existing clients – March 26, 2014
- Focus is still on responding to Dealer Member inquiries and assisting Dealer Members in complying with the new requirements

IIROC Update

Client Relationship Model [con't]

- Our outreach work has identified a number of misconceptions as to the impact of the CRM changes
- For example, there is a misconception that CRM requires that:
 - a twenty-plus page document setting out account relationship information must be provided to the client
 - a client's KYC information must be updated every time a suitability assessment is performed
 - a suitability assessment must be performed any time there is a decline in value in one or more positions in the client's account
- IIROC's near term priority is to eliminate these misconceptions

IIROC Update

Margin rule related initiatives

- We continue to receive a number of requests from Dealer Members to consider amendments to our margin requirements to address the unique risk characteristics of new investment products or the expand the number of reduced margin offsets available to Dealer Members and their clients
- Open requests include:
 - reduced margin requirements for qualifying security portfolios (“portfolio margining”)
 - increased margin requirements for settlement date loans to institutional clients

IIROC Update

Margin rule related initiatives

- Open requests include:
 - revised margin requirements for qualifying listed equity securities (“Equity Margin Project”)
 - reduced margin requirements for commodity futures contracts subject to clearing fund requirements that are adjusted daily
 - reduced margin rates for “tracking” ETFs
 - reduced margin requirements for offsets involving total performance swap contracts
- IIROC is facing increasing challenges in pursuing these initiatives due to the increasing role of other regulatory bodies in the setting of both margin requirements and clearing fund requirements

IIROC Update

Margin rule related initiatives

- As examples there are two CSA policy projects underway that may directly impact IIROC's ability to set/revise margin requirements for investment product positions are:
 - ***Canadian adoption of the “BCBS IOSCO Margin requirements for non-centrally-cleared derivatives (March 2013)”*** – Document proposes higher margin requirements for non-centrally-cleared derivatives and the CSA Derivatives Committee is looking at developing specific margin requirements for these products

IIROC Update

Margin rule related initiatives

- **Canadian adoption of the “CPSS IOSCO Principles for financial market infrastructures (March 2011)”** - Principle 14 of this document, which relates to segregation and portability, proposes gross client account clearing fund requirements at derivatives clearing corporations in the short term and at securities clearing corporations in the long term – IIROC provided a submission to the CSA committee studying this issue setting out its concerns with this initiative and indicating that no such initiative should even be considered until “cross margining” (the combined margining of securities and related derivatives positions) is available at Canadian clearing corporations

IIROC Update

Trade settlement / affirmation initiatives

Rule amendments awaiting implementation -

- The proposed amendments to the trade matching and trade confirmation requirements are to be implemented at the end of September
- At around the same time, CDS will start compiling compliance statistics based on the new 6:00PM cut-off time – The first CDS broker to broker quarterly trade matching report will cover the quarter ended December 31, 2012
- To address the interim period, IIROC staff will prepare quarterly reports for the March, June and September 2013 quarter-ends

IIROC Update

Trade settlement / affirmation initiatives

Future rule amendments -

- IIROC has received a request from an ad hoc working group of the FAS Operations Subcommittee to expand the conditions under which trade confirmations need not be sent to clients beyond situations where the dealer is in compliance with the applicable trade matching rule
- IIROC has agreed to pursue this request and introduce further rule amendments, provided that we see progress towards greater compliance with the matching requirements set out in NI 24-101 and IIROC Dealer Member Rule 800.49

IIROC Update

Other risk-related initiatives

- Proposed free credit usage and segregation requirements
 - proposed amendments to Statement D of Form 1 to replace the existing free credit segregation limit with two limits as follows:
 - 20 times Early Warning Reserve where free credits are used for margin lending purposes
 - 12 times “remaining” Early Warning Reserve where free credits are used for any other purpose

IIROC Update

Other risk-related initiatives

- Proposed debt securities concentration requirements
 - proposed amendments to Schedule 9 of Form 1 would extend the existing concentration restrictions to debt securities with the exception of:
 - Non-commercial debt with a normal margin rate of less than 10%; and
 - Canadian bank paper maturing in 1 year or less

IIROC Update

Other matters:

- Outsourcing arrangements guidance note
- Clearing arrangements guidance note

IIROC Update

Questions?