

## Schedule 2 – Draft Interim Rules of the New SRO

### 1. Investment Dealer and Partially Consolidated Rules

To ensure timely rulemaking and minimal disruption to investment dealers and their employees and Approved Persons, only the following substantive changes are being introduced within the proposed New SRO interim rules for investment dealers:

- Elimination of remaining District Council regulatory approval authorities
- Permitting mutual fund dealers to introduce business to investment dealers, enabling greater mutual fund dealer client access to exchange traded funds
- Revision of the upgrade rule requirements for mutual funds only Registered Representatives and Investment Representatives

A number of changes have been made to transition and jurisdiction-related rule provisions. Below is list of the most significant of these changes:

- The title of the rule set has been changed from “IIROC Rules” to “Corporation Investment Dealer and Partially Consolidated Rules” to clarify that these interim rules:
  - in most areas only apply to investment dealers and, where applicable, their employees and Approved Persons
  - in certain areas<sup>1</sup>:
    - apply to both investment dealer and marketplace Regulated Persons, including investment dealers and their employees and Approved Persons
    - represent partially consolidated rules of the New SRO in that apply to both investment dealer and marketplace Regulated Persons, including persons subject to the Universal Market Integrity Rules (UMIR), **but do not apply** to mutual fund dealer Regulated Persons, including their employees and Approved Persons
- The transitional provisions within section 1105 have been revised to reference what will be on Day 1 of the New SRO, the former rules of IIROC
- The defined terms set out in subsection 1201(1) that are to be used throughout the interim rules have been revised to:
  - reflect the elimination of the remaining District Council regulatory approval authorities<sup>2,3</sup>,

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<sup>1</sup> Such as the general standards of conduct set out in Rule 1400 and the investigation and enforcement set out in Rules 8100 through 8400).

<sup>2</sup> Refer to the proposed elimination of the definition for “applicable District Council”.

<sup>3</sup> As part of the elimination of the remaining District Council regulatory approval authorities throughout the rules, we have replaced each District Council approval with a requirement for “the Corporation” to approve. Specifically, we have not proposed for any of the former District Council approvals whether the decision would be made going forward by the Board, a Board Committee, a hearing panel or Corporation staff. We believe it is a better approach to refer within the rules to “the Corporation” deciding and to allow the Corporation Board to determine which individual or body of the Corporation makes the decision rather than hard coding within the rules which individual or body makes each decision.

- reflect the replacement of District Councils with Regional Councils<sup>4</sup>,
- enable a mutual fund dealer to introduce to an investment dealer<sup>5</sup>, and
- ensure that the scope of persons subject to the rules remains the same as with the current IROC rules<sup>6</sup>.
- Revisions have been made to Rules 2100 and 2200 to reflect the elimination of the remaining District Council approval authorities with respect to firm ownership and organization matters
- Revisions have been made to Rule 2400 to permit a mutual fund dealer to introduce to an investment dealer
- New section 2430 has been added to help clarify that:
  - a mutual fund dealer can introduce part or all of its business to an investment dealer
  - where a mutual fund dealer introduces a significant portion of their business to an investment dealer, they must comply with the Corporation's Investment Dealer and Partially Consolidated Rules
  - where a mutual fund dealer introduces an insignificant portion of their business to an investment dealer, they must comply with the Corporation's Mutual Fund Dealer Rules
- Revisions have been made to Rules 2500 through 2700 to:
  - reflect the elimination of the District Council approval authorities with respect to individual registration and proficiency matters
  - revise the upgrade rule requirements for mutual funds only Registered Representatives and Investment Representatives

As part of the revisions to the upgrade rule requirement, we are proposing to:

- revise subsection 2553(3) to reference the 2 existing temporary approval categories and the 1 new permanent approval category for mutual funds only licensed individuals
- introduce subsection 2553(6) to clarify that the upgrade rule only applies to mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer.
- revise the first table in subsection 2602(3) to clarify that the:
  - 2 temporary approval categories are for mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer
  - 1 new permanent approval category is for mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer
- revise the second table in subsection 2602(3) to clarify that the:

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<sup>4</sup> Refer to the proposed elimination of the "District Council" definition and the proposed introduction of the "Region" and "Regional Council" definitions.

<sup>5</sup> Refer to the proposed revised definitions for "introducing broker" and "carrying broker".

<sup>6</sup> Refer to the proposed revised definitions for "Dealer Member" and "Regulated Persons".

- 2 temporary approval categories in clauses 2602(3)(vi) and 2602(3)(xiii) and are for mutual funds only licensed individuals who are employed by a firm who is registered as an investment dealer and who is not registered as a mutual fund dealer
- 1 new permanent approval category in clause 2602(3)(vii) is for mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer [**Note:** Individuals in this category would be required to complete the Conduct and Practices Handbook Course]
- o introduce in subsection 2603(1) incremental proficiency requirements for mutual funds only licensed individuals wishing to trade in exchange-traded funds
- o introduce in subsection 2603(2) incremental proficiency requirements for mutual funds only licensed individuals wishing to trade in exempt market products
- o introduce in subsection 2625(2) a specific exemption available for individuals seeking approval as a Supervisor in relation to activities of mutual funds only licensed individuals
- o introduce in subsection 2631(1) transitional provisions for mutual funds only licensed individuals
- o introduce subsection 2704(2) to clarify that mutual funds only licensed individuals who are employed by a firm who is registered as both an investment dealer and a mutual fund dealer are not subject to the investment dealer continuing education requirements and are subject to the mutual fund dealer continuing education requirements
- Revisions have been made to the continuing jurisdiction provisions in Rules 8100 and 8200
- Revisions have been made to process set out in Rule 8300 for appointing members of the hearing committee within each district to remove the current District Council authority to nominate certain individuals for appointment
- Revisions have been made to Rules 9100 through 9400 to reflect the elimination of District Council involvement in regulatory decisions involving individuals and firms, including the elimination of involvement in related opportunity to be heard and decision review processes
- Rule 9700 relating to the Canadian Investor Protection Fund has been eliminated as an equivalent set of rule provisions relating to the new investor protection fund have been added to the proposed general by-law for New SRO.

## 2. Mutual Fund Dealer Rules

To ensure continuity of regulatory oversight, the Mutual Fund Dealer Rules will contain the pre-amalgamation requirements set out under current MFDA Rules, certain provisions of the MFDA By-law, MFDA Policies and the MFDA Form 1. Certain revisions to reflect the new structure of the Interim Rules have been made as set out below.

In addition, the Mutual Fund Dealer Rules include the following new proposals:

- Proposed amendments to *MFDA Rule 1.1.6 (Introducing/Carrying Arrangement)* to permit introducing / carrying broker arrangements between mutual fund dealers and investment dealers.

- Where the business being carried by the investment dealer is limited to exchange-traded funds, or platform-traded funds, and does not represent a significant portion of the mutual fund dealer's overall business, the mutual fund dealer shall comply with requirements established by the Corporation that are applicable to mutual fund dealers.
- Where a significant portion of the mutual fund dealer's business or business other than trading in exchange traded funds or platform-traded funds is being carried by the investment dealer, the mutual fund dealer shall comply with requirements established by the Corporation that are applicable to investment dealers.
- *New Rule 7.1 (Hearing Committees)* sets out provisions for the establishment and composition of District Hearing Committees and the nomination and appointment process for hearing committee members. The District Hearing Committees will replace the current MFDA Regional Councils and be responsible for the conduct of hearings by hearing panels.

The following is a summary of the new structure of the Mutual Fund Dealer Rules.

*New Rule 1A – Application, Interpretation, Exemptions and Definitions*

New Rule 1A sets out the application of the Mutual Fund Dealer Rules to Dealer Members:

- The Mutual Fund Dealer Rules will apply to Dealer Members who are registered under securities legislation as mutual fund dealers with the exception of mutual fund dealers registered only in Québec.
- Where a Dealer Member is registered under securities legislation as a mutual fund dealer and an investment dealer, the Dealer Member shall be exempt from the Mutual Fund Dealer Rules, provided that they are in compliance with corresponding requirements under the Investment Dealer Partially Consolidated Rules.

A section with respect to exemptions (currently section 37 of MFDA By-law No.1) has been included in Rule 1A which provides that the Board of Directors may exempt any Member, Approved Person, or any other person subject to the jurisdiction of the Corporation from the requirements of any Rule provided that the Board is satisfied that doing so would not be prejudicial to the interests of Members, their clients, or the public.

Definitions are being brought forward from the existing MFDA By-laws. Certain of these definitions are being brought forward in their current form. Other definitions are being brought forward in an amended form (i.e. with conforming amendments that reflect changes in Rule numbering, changes in the location of certain requirements, and changes to reflect the transition to the interim Rulebook). New definitions have been added to reflect the creation of District Hearing Committees in accordance with Rule 7.1.

*Rules 6 (Examinations and Investigations), 7 (Discipline) and 8 (Membership Matters)*

The following provisions from existing MFDA By-Law No. 1 are being brought forward for adoption into the interim Rulebook, as Mutual Fund Dealer Rules:

- By-Law No.1, section 21 (Examinations and Investigations) – New Rule 6 (Examinations and Investigations)
- By-Law No. 1, section 23 (Co-operation with Other Authorities) – New Rule 6 (Examinations and Investigations)
- By-Law No. 1, sections 19.9 – 19.13 (Hearing Panels) – New Rule 7 (Hearing Panels)
- By-Law No. 1, section 20 (Disciplinary Hearings) – New Rule 7 (Discipline)

- By-Law No. 1, section 24 (Discipline Powers) – New Rule 7 (Discipline)
- By-Law No. 1, section 26 (Review of Decisions) – New Rule 7 (Discipline)
- By-Law No. 1, section 24A (Ombudservice) – New Rule 7 (Discipline)
- By-Law No. 1, subsection 11.2 (Application Approval Process – Submission of Financial Information) – New Rule 8 (Membership Matters)
- By-Law No. 1, subsection 11.7 (Application Approval Process – Review) – New Rule 8 (Membership Matters)
- By-Law No. 1, section 13 (Resignations, Reorganizations and Terminations) – New Rule 8 (Membership Matters)
- By-Law No. 1, subsection 13.9 (Ownership) – New Rule 8 (Membership Matters)
- By-Law No. 1, section 14 (Annual Fees), and section 15 (Other Fees) – New Rule 8 (Membership Matters).

*Rules 100 – 1000 (Former MFDA Policies)*

MFDA Policies are prescriptive regulatory instruments which establish minimum standards that must be met to comply with requirements under MFDA Rules. All existing MFDA Policies are being brought forward for adoption into the interim Rulebook, as Mutual Fund Dealer Rules. The designation of these regulatory instruments has been changed from “Policy” to “Rule”:

- Policy No. 1 (New Registrant Training and Supervision) – Rule 100
- Policy No. 2 (Minimum Standards for Account Supervision) – Rule 200
- Policy No. 3 (Complaint Handling, Supervisory Investigations and Internal Discipline) – Rule 300
- Policy No. 4 (Internal Control Policy Statements) – Rule 400
- Policy No. 5 (Branch Review Requirements) – Rule 500
- Policy No. 6 (Information Reporting Requirements) – Rule 600
- Policy No. 7 (Performance Reporting) – Rule 700
- Policy No. 8 (Proficiency Standards for Approved Persons Selling Exchange Traded Funds – (“ETFs”) – Rule 800
- Policy No. 9 (Continuing Education (“CE”) Requirements) – Rule 900
- Policy No. 10 (Disclosure of Corporation Membership) – Rule 1000

*FORM 1*

Form 1 sets out financial reporting, and related requirements with which mutual fund dealers must comply. Currently, financial and operations requirements are set out under MFDA Rule 3. Form 1 has been amended to change “Policy” / “Policies” / “By-Law(s)” to “Rule(s)”. References to “MFDA” have been deleted, and where appropriate, replaced with “Corporation”.

### 3. **Universal Market Integrity Rules**

No substantive changes to the Universal Market Integrity Rules are being introduced. The only changes being introduced are to remove references to “IROC”, or “IROC Rules” and replace with “Corporation” or “Corporation Rules”. These changes apply to:

- UMIR 1.1 – Definitions
  - “Acceptable Foreign Trade Reporting Facility”
  - “marketplace”
  - “order execution service”
  - “UMIR”
- UMIR 6.2 – Designations and Identifiers
- UMIR Policy 6.4 – Trades to be on a Marketplace
- UMIR Policy 7.1 – Supervision of Trading
- UMIR Policy 8.1 – Client-Principal Trading
- UMIR Policy 10.1 – Compliance Requirement
- UMIR 10.4- Suspension or Restriction of Access
- UMIR 10.15 - Gatekeeper Obligations of Directors, Officers and Employees of Participants and Access Persons