

IIROC NOTICE

Rules Notice

Request for Comments

Dealer Member Rules

Please distribute internally to:

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Client Relationship Model - Phase 2 Performance Reporting and Fee / Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1

Background and history of the Client Relationship Model project and the "Phase 2" amendments

Client Relationship Model project

The Client Relationship Model project is essentially a continuation of a previous project of the Ontario Securities Commission Fair Dealing Model Committee, which released the Fair Dealing Model Concept Paper in January, 2004. This concept paper envisioned extensive changes to the regulatory requirements applicable to retail client accounts, from the negotiation and documentation of the relationship at account opening to the transactional information and account reporting to be provided to clients on an ongoing basis.

In September 2004, the Fair Dealing Model initiative was brought under the umbrella of the broader CSA Registration Reform Project ("RRP"). The aim of the RRP was to streamline and harmonize the registration regime and develop rules in certain key areas to apply to all registrants on a national basis. Under the RRP, the Fair Dealing Model initiative was re-branded as the Client Relationship Model and its focus was narrowed to the following areas:

- account opening documentation;
- conflicts of interest management;



- costs and compensation transparency; and
- performance reporting.

IIROC CRM1 Amendments

In May 2005, the Investment Dealers Association of Canada ("IDA") and the Mutual Fund Dealers Association ("MFDA") were asked by the CSA to develop rule proposals to address these three areas. To facilitate this rulemaking work, a joint rulemaking committee of the IDA and the MFDA drafted rule proposals in consultation with staff of the securities commissions. The resultant draft rule proposals relating to account relationship disclosure, conflict of interest management, retail client suitability assessment and annual account performance reporting (collectively the "IIROC CRM1 Amendments") were then subjected by the IDA (and subsequently IIROC) to extensive advisory committee and retail advisor review, as well as several rounds of public comment. Specifically, three drafts of the IIROC CRM1 Amendments were published for public comment on:

- February 29, 2008;
- April 24, 2009 [IIROC Rules Notice 09-0120]; and
- January 7, 2011 [IIROC Rules Notice 11-0005].

In response to the comments received on these drafts, IIROC staff revised the IIROC CRM1 Amendments to focus more closely on the core CRM objectives and to factor in potential implementation issues.

On March 23, 2012, the IIROC CRM1 Amendments were approved by IIROC's recognizing regulators on the condition that implementation of the annual account performance reporting elements of the IIROC rule amendments be suspended. The effect of this suspension was that although the IIROC performance reporting rule amendments had been approved, IIROC could not implement its annual performance reporting rule amendments until the CSA performance reporting rule amendments were finalized and IIROC amended its annual performance reporting requirements to harmonize with those of the CSA.

CSA CRM2 Amendments

On March 28, 2013, the CSA announced that amendments to National Instrument 31-103 relating to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting (collectively the "CSA CRM2 Amendments") would come into force on July 15, 2013. In addition to a number of additional requirements introduced in the CSA CRM2 Amendments, different requirements from those

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recently implemented by IIROC or proposed by IIROC as part of its IIROC CRM1 Amendments were introduced by the CSA as follows:

- Disclosure of compensation taken on debt security trade confirmations; and
- Annual account performance reporting

Disclosure of compensation taken on debt security trade confirmations

Effective September 4, 2012¹, IIROC introduced requirements to: (1) disclose yield to maturity on debt security purchase trade confirmations issued to all clients; and (2) provide the following compensation-related text disclosure on all debt security trade confirmations issued to all Retail Customers:

"The investment dealer's remuneration on this transaction has been added to the price in the case of a purchase or deducted from the price in the case of a sale."

As part of the CSA CRM2 Amendments, the CSA has introduced requirements to: (1) disclose yield to maturity on debt security purchase trade confirmations issued to all clients, (2) disclose either total compensation or gross commission² on all debt security trade confirmations issued to all clients and (3) where gross commission is disclosed, to provide the following compensation-related text disclosure on all debt security trade confirmations issued to all clients:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you."

Annual account performance reporting

The annual performance reporting elements of the IIROC CRM1 Amendments previously approved by the CSA on March 23, 2012 included requirements to provide on an annual basis: (1) position cost information, using either

¹ Changes to the debt security trade confirmation requirements were part of the amendments relating to the "Over-the-counter securities fair pricing rule and confirmation disclosure requirements" that were announced on September 1, 2011 through the issuance of IIROC Rules Notice 11-0256 and were implemented effective September 4, 2012.

² "Total compensation" is the total amount of any mark-up or mark-down, commission or other services charges the Dealer Member charges on the debt security trade. "Gross commission" is the commission the Dealer Member charges on the debt security trade (as compared to "net commission which is the Registered Representative's portion of the commission charged on the trade).



original cost or tax cost; (2) annual and "since account inception" account activity information; and (3) account percentage return information, determined using either an acceptable time-weighted or money-weighted calculation methodology.

As part of the CSA CRM2 Amendments, the CSA has introduced requirements to provide: (1) position cost information, using either original cost or tax cost, on a quarterly basis; (2) annual and "since account inception" account activity information, on an annual basis; and (3) account percentage return information, determined using an acceptable money-weighted calculation methodology, on an annual basis.

IIROC CRM2 Amendments

Summary of the nature and purpose of the proposed rules and amendments

Enclosed are proposed amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1 (collectively the "IIROC CRM2 Amendments") to address the following second (and final) set of regulatory objectives identified under the Client Relationship Model project:

- Annual account performance reporting;
- Pre-trade and trade confirmation compensation disclosures; and
- Annual account fee / charge reporting.

The IIROC CRM2 Amendments are being published for public consideration at this time in order to adopt IIROC rule requirements that are substantially the same as the CSA CRM2 Amendments. If the CSA determines that the IIROC CRM2 Amendments are materially harmonized with the CSA CRM2 Amendments, the CSA will exempt IIROC Dealer Members from some or all of the CSA CRM2 Amendments.

The IIROC CRM2 Amendments contain the following components:

- (i) Proposed amendments to the existing IIROC rule requirements for fee /charge disclosure prior to a trade and on trade confirmations;
- (ii) A revised version of a previously published (and CSA approved) IIROC rule proposal³ to require annual account performance reporting; and

³ A number of IIROC (and IDA) proposals to adopt requirements relating to: (1) account relationship disclosure, (2) management and disclosure of conflicts of interest, (3) account suitability, and (4) account performance reporting were published for public comment. The most recent proposal was:

- Considered by the Board and approved for re-publication and implementation on June 24, 2010;
- Published for public comment on January 7, 2011, through the issuance of IIROC Rules Notice 11-0005;

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(iii) Proposed new IIROC rules to require annual account fee / charge reporting.

The IIROC proposals will be published for public comment for:

- 60 days in the case of proposals that are scheduled to become effective either immediately upon announcement of implementation or on July 15, 2014; and
- 120 days in the case of proposals that are scheduled to become effective on either July 15, 2015 or July 15, 2016.

A complete list of the public comment periods and proposed implementation dates for the IIROC CRM2 Amendments is set out later on in this notice.

Objective of the proposed IIROC CRM2 Amendments

The objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as the CSA CRM2 Amendments. If the CSA determines that the IIROC CRM2 Amendments are materially harmonized with the CSA CRM2 Amendments, the CSA will exempt IIROC Dealer Members from some or all of the CSA CRM2 Amendments.

An alternative to the proposed IIROC CRM2 Amendments is to not propose any IIROC rule amendments. Under this alternative, IIROC Dealer Members would be subject to the client disclosure and reporting requirements for fees, charges and performance under both the IIROC Dealer Member Rules and under the applicable provisions of National Instrument 31-103. This alternative was seen as being more burdensome to IIROC Dealer Members with no incremental client benefit as IIROC Dealer Members would be required to comply with two sets of client reporting and disclosure requirements instead of one.

In recognition of the fact that the amendments that comprise the IIROC CRM2 Amendments are collectively a significant set of amendments that will have a material impact on the operations of Dealer Members and other stakeholders, we considered publishing for public comment the IIROC CRM2 Amendments as two separate sets of amendments as follows:

- Immediately publish the amendments that are scheduled to come into effect upon announcement of implementation, as well as those that are scheduled to come into effect on July 15, 2014; and

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- Approved by the CSA for implementation on March 22, 2012, provided IIROC suspended implementation of the account performance reporting elements of its proposals; and
 - Implemented by IIROC (with the exception of the account performance reporting elements) on March 26, 2012.

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- Publish at a later date the amendments that are scheduled to come into effect on July 15, 2015 and July 15, 2016.

This alternative was not chosen as it was felt that by publishing all of the proposed amendments at the same time, commenters would get a better sense as to how the proposed amendments will work with each other. However, because the amendments are collectively a significant, we have allowed for more time to provide public comments on the amendments scheduled to come into effect on July 15, 2015 and July 15, 2016 (120 days).

Detailed description of proposed IIROC CRM2 Amendments

Pre-trade disclosure of charges [proposed new section 29.9]

Included in the proposed IIROC CRM2 Amendments is a proposal to establish a formal requirement that a Retail Customer is informed of all fees / charges associated with a client instruction to purchase or sell a security in an account before the purchase or sale takes place. This is in essence a proposed codification of a long-standing industry best practice that is currently discussed in IIROC's Client Relationship Model guidance⁴ and is consistent with the equivalent requirement introduced in section 14.2.1 of the CSA CRM2 Amendments.

Trade confirmation disclosure requirements

The proposed IIROC CRM2 Amendments also include enhancements to the existing trade confirmation disclosure requirements for trades involving securities with deferred charges and for trades involving debt securities as follows:

- (i) *Disclosure of deferred charges [proposed amended subsection 200.2(1), preamble]*

Pursuant to the revised preamble language in subsection 200.2(1), an additional disclosure would be required on all trade confirmations issued for trades involving securities with deferred charges.

Consistent with proposed section 29.9 relating to pre-trade disclosures, the new trade confirmation disclosure requirement could be met by disclosing a range of deferred charges that might apply on any subsequent sale of the security purchased. This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments.

⁴ Refer to IIROC Rules Notice 12-0108, "Client Relationship Model - Guidance", issued on March 26, 2012.



(ii) *Disclosure of debt security compensation* [proposed new subparagraph 200.2(1)(v)(C)] preamble]

Pursuant to the language in new subparagraph 200.2(1)(v)(C), the existing IIROC requirement to provide compensation-related information on debt security trade confirmations issued to Retail Customers will be revised to require the following:

- Disclosure of either the total compensation or gross commission⁵ taken on the trade, and
- Where gross commission is disclosed, the provision of the following text disclosure:

“Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you.”

This change has been made in response to a CSA request that, where the SROs retain/introduce their own rules relating to debt security fee/charge disclosure, disclosure of either the total compensation or gross commission taken on the trade must be made mandatory.

This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments, with the exception that the IIROC requirement will only apply to Retail Customer trades. See the “difference” section below for further discussion of this proposed difference.

Client account statement [proposed revised subsection 200.2(d)]

Two changes are being introduced to the existing client account statement requirements set out subsection 200.2(d) [as renumbered], as follows:

- A revision to the approach used to determine the “market value” of account security positions by inserting a “market value” definition in subsection 200.1(c); and
- A requirement to provide cost information for each account security position.

⁵ “Total compensation” is the total amount of any mark-up or mark-down, commission or other services charges the Dealer Member charges on the debt security trade. “Gross commission” is the commission the Dealer Member charges on the debt security trade (as compared to “net commission which is the Registered Representative’s portion of the commission charged on the trade).



These proposed requirements are consistent with the equivalent requirements introduced in section 1.1, 14.11.1, and 14.14 of the CSA CRM2 Amendments, with the exception that there are differences in how IIROC has defined the terms "book cost", "market value" and "original cost". See the "difference" section below for further discussion.

Report on client positions held outside of the Dealer Member [proposed new subsection 200.2(e)]

A new report requirement is being introduced in proposed subsection 200.2(e) requiring separate reporting on Retail Customer security positions held outside of a Dealer Member client account on which the Dealer Member continues to receive compensation. The report will require the disclosure of the same information required to be disclosed for account positions in the account statement - specifically name and quantity of each security position, as well as market value and cost information for each security position and aggregate market value and cost information for all security positions. These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1, 14.11.1, and 14.14.1 of the CSA CRM2 Amendments, with the following exceptions:

- there are differences in how IIROC has defined the terms "book cost", "market value" and "original cost"; and
- the IIROC proposals do not contemplate reporting on cash balances held outside of the Dealer Member by the client.

See the "difference" section below for further discussion.

Performance report [proposed new subsection 200.2(f)]

A further new report requirement is being introduced in proposed subsection 200.2(f) to require annual performance reporting to Retail Customers. The information to be included in the new report, for the periods from account inception to report date and for the last 12 months, is as follows:

- total combined market value of cash and securities at the beginning of the period;
- total combined market value of all deposits and transfers in of cash and security positions;
- total combined market value of all withdrawals and transfers out of cash and security positions;
- total combined market value of cash and securities at the end of the period; and



- total combined change in market value for the period of all cash and security positions.

In addition, percentage return information for the most recent 1, 3, 5 and 10 years periods and for the period from account inception will also have to be included in the performance report as the information becomes available (i.e. the percentage return information requirements will be implemented prospectively).

The revised proposed annual performance reporting requirements differ from those previously published for public comment by IIROC in the following way:

- The annualized percentage returns provided to clients in the performance report must be calculated using a money-weighted percentage return calculation methodology (the previous IIROC proposal allowed Dealer Member choice between using a money-weighted percentage return calculation methodology and a time-weighted percentage return calculation methodology)

This change has been made in response to a CSA request that, where the SROs retain/introduce their own rules relating to performance reporting, the provision of annualized percentage returns calculated using a money-weighted percentage return calculation methodology must be made mandatory and that choice between using a money-weighted percentage return calculation methodology and a time-weighted percentage return calculation methodology must not be permitted.

These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1, 14.11.1, 14.18 and 14.19 of the CSA CRM2 Amendments, with the following exceptions:

- there are differences in how IIROC has defined the term "market value"; and
- the IIROC proposals require the preparation of a consolidated performance report that covers the same accounts as any consolidated fee / charge report that is prepared for the client.

See the "difference" section below for further discussion.

Relationship disclosure - discussion of investment performance benchmarks [proposed new subparagraph 3500.5(2)(c)(j)]

A related initiative to the introduction of the performance report is the introduction of a proposed new relationship disclosure requirement in subparagraph 3500.5(2)(c)(j) to provide a general explanation of what investment performance benchmarks are, how they can be used to help the

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client assess the performance of their investments and to discuss any investment performance benchmark options that the Dealer Member might make available to the client.

This proposed requirement is consistent with the equivalent requirement introduced in paragraph 14.2(2)(m) of the CSA CRM2 Amendments, with the following exception:

- IIROC intends to implement this new requirement on July 15, 2016⁶, the same date the related IIROC performance reporting requirements come into effect.

See the "difference" section below for further discussion.

Fee / charge report [proposed new subsection 200.2(g)]

Finally, there is a new report requirement being introduced in proposed subsection 200.2(g) that requires annual fee / charge reporting to Retail Customers. The information to be included for the 12 months covered by the report is as follows:

- a discussion of the operating charges which might be applicable to the client's account;
- total amount of each type of operating charge;
- aggregate total amount of all operating charges;
- aggregate total amount of all transaction charges;
- aggregate total amount of all charges; and
- specific disclosures relating to debt security trade compensation taken, trailing commissions earned and other third party compensation earned during the year.

These proposed requirements are consistent with the equivalent requirements introduced in sections 1.1 and 14.17 of the CSA CRM2 Amendments, with the following exceptions:

- the IIROC proposals do not require that an annual fee / charge report be sent to the client if no fees or charges were paid by the client, either directly or indirectly, during the year; and
- the IIROC proposals require the preparation of a consolidated performance report that covers the same accounts as any consolidated fee / charge report that is prepared for the client.

See the "difference" section below for further discussion.

⁶ Paragraph 14.2(2)(m) of the CSA CRM2 Amendments is to come into effect on July 15, 2014.



Differences between proposed IIROC CRM2 Amendments and CSA CRM2 Amendments

As noted above, certain aspects of the proposed CRM2 Amendments differ from the CSA CRM2 Amendments. The following highlights these differences and explains the reasons for the proposed differences:

- **Disclosure of debt security compensation** [*Dealer Member Rule subparagraph 200.2(1)(v)(C) versus paragraph 14.12(1)(c.1) of NI 31-103*] - As part of the CSA CRM2 Amendments revisions were made to introduce:
 - o Pre-trade disclosure of charge requirements, including for debt security trades, for clients other than non-individual permitted clients [*Section 14.2.1 of NI 31-103*];
 - o Compensation disclosure requirements for debt security trade confirmations issued to all clients [*Paragraph 14.12(1)(c.1) of NI 31-103*]; and
 - o Annual fee / charge reporting requirements, including specific reporting requirements for debt securities purchased or sold during the year, for clients other than non-individual permitted clients [*Section 14.17 of NI 31-103*].

The result is that the CSA requirements for pre-trade, trade confirmation and annual disclosure of debt security compensation amounts are inconsistent, as two of the three requirements are focused on retail clients and the third, the trade confirmation requirements, apply to all clients. To address this inconsistency, all three of the proposed IIROC CRM2 Amendments relating to pre-trade, trade confirmation and annual disclosure of debt security compensation amounts only apply to trades involving, and accounts held by, Retail Customers.

- **"Market value" definition** - [*Dealer Member Rule subsection 200.1(c) and Definition (g) to the General Notes and Definitions to Form 1 versus subsection 14.11.1(1) of NI 31-103*] - Both the proposed IIROC CRM2 Amendments and CSA CRM2 Amendments contain a similar definition of "market value" to be used for the purposes of client reporting. The main difference between these two definitions is that the IIROC definition contains additional provisions that assist in the valuation of different types of investment products. IIROC staff does not consider these differences to be material.

The CSA CRM2 Amendments contain no similar definition of "market value" to be used for the purposes of registrant financial solvency reporting. Rather, CSA registrants are to use the International Financial



Reporting Standard ("IFRS") "fair value" approach to value securities for solvency reporting purposes. It is IIROC staff's view that the comingling of valuation standards will not produce a desirable result. For example, if the approach required of CSA registrants was adopted by IIROC:

- o For the purposes of client statement and performance reporting to clients, client account security positions would be valued in accordance with a "market value" definition;

while

- o For the purposes of Dealer Member solvency reporting to IIROC:
 - The capital to be provided for under-margined client accounts would be determined by valuing client account security positions using the IFRS "fair value" approach; and
 - Dealer Member proprietary inventory positions would be valued using the IFRS "fair value" approach.

Rather than comingling these two standards, which could lead to different values being reported for the same security position held at the same time in an inventory and a client account, the IIROC CRM2 Amendments propose to introduce a revised "market value" definition for Dealer Member solvency reporting purposes that is consistent with the "market value" definition to be used for client reporting purposes.

- **"Book cost" and "original cost" definitions** - [Dealer Member Rule subsections 200.1(a) and 200.1(e) versus section 1.1 of NI 31-103] - The definitions of the terms "book cost" and "original cost" set out in the CSA CRM2 Amendments assume that all client security positions are long positions. As this is not the case, the equivalent definitions in the IIROC CRM2 Amendments have been revised to set out how book cost and original cost amounts are to be determined for both long and short positions.
- **Inclusion of cash balances in "Report on client positions held outside of the Dealer Member"** - [Dealer Member Rule subsections 200.2(e) versus subsection 14.11.1(1) of NI 31-103] - The CSA CRM2 Amendments assume that cash balances will or may be reported as part of any report covering security positions held outside of the Dealer Member on which the Dealer Member continues to receive compensation. Since all cash balances for which the Dealer Member would be responsible would be held within a client account and Dealer Members never receive compensation on cash balances they do not hold or control, we do not believe it would ever be appropriate to include cash balances as part of the



"Report on client positions held outside of the Dealer Member" and have therefore excluded cash balances from the proposed IIROC requirements.

- **Discussion of performance benchmarks within the relationship disclosure information to be provided to clients** [Dealer Member Rule subparagraph 3500.5(2)(c)(j) versus paragraph 14.2(1)(m) NI 31-103] - As part of the CSA CRM2 Amendments, the relationship disclosure requirement to provide clients with information about investment performance benchmarks will come into effect on July 15, 2014. The timing of this effective date is of concern to IIROC staff because, as at July 15, 2014:
 - o IIROC will have just completed the implementation of its relationship disclosure requirements (the implementation completion date is March 26, 2014) and to implement this additional relationship disclosure requirement shortly thereafter would impose an undue burden on Dealer Members, by requiring them to provide clients with additional information a few months after initial delivery of the currently mandated minimum relationship disclosure information; and
 - o Providing clients with information about investment performance benchmarks by July 15, 2014 will be, in staff's opinion, of limited value to clients who won't start receiving an annual performance report until July 15, 2016.

To address this concern, IIROC staff plan to implement this new relationship disclosure requirement on July 15, 2016, the same date the annual performance reporting requirements come into effect. It is believed that this later effective date will both alleviate the burden on Dealer Members that would otherwise occur and result in client communications about the use of investment performance benchmarks that are closely-timed to the delivery to clients of the first annual performance reports.

- **Consolidated report consistency** [Dealer Member Rule paragraphs 200.2(f)(viii) and 200.2(g)(vi)] - As part of the CSA CRM2 Amendments, firm registrants are given the option of providing both consolidated annual performance reports and consolidated annual fee charge reports to clients, provided:
 - o The client consents to receiving the consolidated information; and
 - o The report specifies the accounts and securities for which the consolidated information is being provided.

IIROC staff also believe it is important that, where both a consolidated annual performance report and a consolidated annual fee charge report are provided to a client, the accounts and securities



covered by each consolidated report should be the same. Without this additional requirement, clients will lose the ability to directly compare the information set out in the two consolidated reports - an ability they would have if consolidated reports were not prepared. To address this issue, the proposed IIROC CRM2 Amendments include this additional requirement in proposed paragraphs 200.2(f)(viii) and 200.2(g)(vi).

- **When a fee / charge report must be sent to a client** [Dealer Member Rule paragraph 200.2(g)(i) versus paragraph 14.17(1) of NI 31-103] - As part of the CSA CRM2 Amendments, each client must be provided with an annual fee / charge report, even if the client has paid no fees or charges during the past 12 months. IIROC staff do not believe it is necessary to send a "nil" fee / charge report to a client. To address this issue, the equivalent proposed IIROC CRM2 Amendments include an additional requirement in proposed subparagraph 200.2(g)(i)(C) that, for an annual fee / charge report to be required to be sent to the client, the client must have "Paid a fee, charge or other payment, either directly or indirectly, to the Dealer Member or any of its registered individuals during the period covered by the report."

The proposed IIROC CRM2 Amendments were approved by the IIROC Board of Directors on November 27, 2013. The text of the proposed IIROC CRM2 Amendments is set out in Attachment A. A summary comparison of the major elements of the IIROC CRM2 Amendments to the major elements of the CSA CRM2 Amendments is also included as Attachment B.

Issues and alternatives considered

No other alternatives to developing IIROC proposals that are materially harmonized to the CSA CRM2 proposals were considered. The issues that were identified during the development of the IIROC CRM2 Amendments and IIROC's proposed resolution to these issues are discussed in the "difference" section above.

Comparison with similar provisions

As the primary objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as rule requirements recently adopted by the CSA with respect to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting and we separately discussed the differences between the IIROC CRM2 Amendments and the CSA CRM2 Amendments,



a comparison with similar provisions in other jurisdictions is unnecessary.

Effects of proposed IIROC CRM2 Amendments on market structure, Dealer Members, non-members, competition and costs of compliance

As previously stated, the primary objective of the proposed IIROC CRM2 Amendments is to adopt IIROC rule requirements that are substantially the same as rule requirements recently adopted by the CSA with respect to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee / charge reporting. As such, implementation of IIROC CRM2 Amendments should result in no greater impacts on IIROC Dealer Members than if the CSA CRM2 Amendments alone were implemented. Further, because implementation of the IIROC CRM2 Amendments will result in IIROC Dealer Members having to comply with one set of client reporting and disclosure requirements, it is hoped that the implementation of these amendments will result in some modest burden reduction due to IIROC Dealer Members not having to comply with two sets of requirements.

The effect of the proposed IIROC CRM2 Amendments will be to improve the quality of information that clients are provided regarding the performance of their investments and the fees and charges they are paying.

It is expected that the systems and cost impacts will be significant for both the annual performance reporting and the annual fee / charge reporting requirements. The extent of the systems and cost impact for these reports will be influenced by:

1. *Report data requirements* -
 - (a) *Data collection* - Dealer Members will be required to collect more data elements to produce the reports (i.e. account-level trailing commission information)
 - (b) *Data retention* - Dealer Members will be required to store greater volumes of historical data to produce the reports (i.e. multi-year data sets will need to be readily available to calculate annualized percentage return information)
2. *Report line-item categorization requirements* - Dealer Members will be required to categorize existing data to produce the reports (i.e. categorization of operating charges and transaction charges by type)
3. *Report calculation requirements* - Costs will likely increase where a greater number of calculations must be performed to generate the report.



The costs incurred may also differ between Dealer Members, as many firms already furnish at least a portion of the information required under the new requirements. The effect on a particular Dealer Member can only be precisely determined by performing a firm specific assessment, but may include costs associated with the production of documents (including printing and mailing) and the imposition of new compliance and supervisory requirements. As detailed below, appropriately long transition periods are being proposed to allow Dealer Members time to make necessary systems changes.

Public interest determination

The proposed IIROC CRM2 Amendments impose costs and restrictions on the activities of market participants that are proportionate to the goals of the regulatory objectives sought to be realized and the enhanced transparency and standards of dealing with clients that will result. The IIROC Board has determined that the proposed IIROC CRM2 Amendments are not contrary to the public interest.

Public comment periods and proposed implementation dates

The public comment periods and proposed implementation dates for the IIROC CRM2 Amendments are as follows:

Public comment periods	Proposed implementation dates
<i>60 days expiring on February 10, 2014</i>	<ul style="list-style-type: none">• <i>Immediate upon announcement of implementation</i>, the following provisions which were amended to clarify existing language and/or were existing Dealer Member Rule requirements which were renumbered:<ul style="list-style-type: none">○ Subsections 200.2(a) through 200.2(c) and related guidance in "Guide to Interpretation of Rule 200.2"○ Subsection 200.2(d) and existing "Guide to Interpretation of Rule 200.2" Item (d) [<i>client account statements</i>] with the exception of:<ul style="list-style-type: none">▪ Subparagraphs 200.2(d)(ii)(F) and 200.2(d)(ii)(H) [<i>position cost</i>]; and▪ Paragraph 200.2(d)(iii) [<i>deferred sales charge notation</i>]○ Subsections 200.2(h) through 200.2(k) and related guidance in "Guide to Interpretation of Rule 200.2"○ Subsection 200.2(l) and existing "Guide to Interpretation of Rule 200.2" Item (l) [<i>trade</i>

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Public comment periods	Proposed implementation dates
	<p><i>confirmations</i>] with the exception of:</p> <ul style="list-style-type: none"> ▪ Revision to preamble to subsection 200.2(1) [<i>trade confirmation disclosure of deferred charges</i>] ▪ Subparagraph 200.2(1)(v)(C) [<i>trade confirmation disclosure of debt security compensation</i>] <p>○ Subsections 200.2(m) through 200.2(r) and related guidance in "Guide to Interpretation of Rule 200.2"</p>
<p>60 days expiring on February 10, 2014</p>	<ul style="list-style-type: none"> • July 15, 2014: <ul style="list-style-type: none"> ○ Section 29.9 [<i>pre-trade disclosure of charges</i>] ○ Subparagraph 200.2(1)(v)(C) [<i>trade confirmation disclosure of debt security compensation</i>]
<p>120 days expiring on April 10, 2014</p>	<ul style="list-style-type: none"> • July 15, 2015: <ul style="list-style-type: none"> ○ Subsections 200.1(a), 200.1(b) and 200.1(e) [<i>definitions of "book cost", "cost" and "original cost"</i>] ○ Subsection 200.1(c) [<i>definition of "market value" for the purposes of client reporting</i>] ○ Definition (g) of the General Notes and Definitions to Form 1 [<i>definition of "market value" for the purposes of regulatory reporting to IIROC</i>] ○ Subparagraphs 200.2(d)(ii)(F) and 200.2(d)(ii)(H) and revised "Guide to Interpretation of Rule 200.2" Item (d) [<i>Inclusion of position cost in quarterly client account statements</i>] ○ Paragraph 200.2(d)(iii) [<i>Inclusion of deferred sales charge notation in account statements</i>] ○ Subsection 200.2(e) and "Guide to Interpretation of Rule 200.2" Item (e) [<i>Report on client positions held outside of the Dealer Member</i>] ○ Subsection 200.3(a), 200.3(b) preamble and paragraph 200.3(b)(I) [<i>timing of sending documents to clients - report on client positions held outside of the Dealer Member</i>]
<p>120 days expiring on</p>	<ul style="list-style-type: none"> • July 15, 2016:

IIROC Notice 13-0300- Rules Notice - Request for Comments - Dealer Member Rules - Client Relationship Model - Phase 2; Performance Reporting and Fee / Charge Disclosure; Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1



Public comment periods	Proposed implementation dates
April 10, 2014	<ul style="list-style-type: none">o Subsections 200.1(d), 200.1(g) and 200.1(h) [definitions of "operating charge", "trailing commission" and "transaction charge"]o Subsection 200.1(f) [definition of "total percentage return"]o Subsection 200.2(f) and "Guide to Interpretation of Rule 200.2" Item (f) [performance report]o Subsection 200.2(g) and "Guide to Interpretation of Rule 200.2" Item (g) [fee / charge report]o Subsection 200.2(l), preamble [trade confirmation disclosure of deferred charges]o Paragraphs 200.3(b)(II) and 200.3(b)(III) [timing of sending documents to clients - performance report and fee / charge report]o Subparagraph 3500.5(2)(c)(j) [relationship disclosure relating to investment performance benchmarks]

These proposed implementation dates are the same as the implementation dates for the equivalent CSA CRM2 Amendments, with the exception of:

- Subparagraph 3500.5(2)(c)(j) [relationship disclosure relating to investment performance benchmarks], which is to be implemented on July 15, 2016.

See the "difference" section above for further discussion.

Classification of Rules and amendments and filing in other jurisdictions

IIROC has determined that the proposed IIROC CRM2 Amendments are Public Comment Rules and they will therefore be published for comment.

The proposed IIROC CRM2 Amendments will be filed with each of IIROC's Recognizing Regulators, in accordance with s.3 of the Joint Rule Review Protocol contained in the IIROC Recognition Order.

Request for public comment

Comments should be made in writing. One copy of each comment letter should be delivered within the applicable public comment period set out in this notice, addressed to the attention of:

Richard J. Corner
Vice President, Member Regulation Policy

IIROC Notice 13-0300- Rules Notice - Request for Comments - Dealer Member Rules - Client Relationship Model - Phase 2; Performance Reporting and Fee / Charge Disclosure; Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1



Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario
M5H 3T9

A second copy should be addressed to the attention of:

Manager of Market Regulation
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario, M5H 3S8
marketregulation@osc.gov.on.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website (www.iiroc.ca under the heading "IIROC Rulebook - Dealer Member Rules - Proposed Policy").

Attachments

Attachment A - Proposed amendments to Dealer Member Rules 29, 200 and 3500 and Dealer Member Form 1; and

Attachment B - Comparison of equivalent IIROC CRM2 Amendment and CSA CRM2 Amendment provisions.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PERFORMANCE REPORTING AND FEE / CHARGE DISCLOSURE
AMENDMENTS TO DEALER MEMBER RULES 29, 200 AND 3500
AND TO DEALER MEMBER FORM 1
(THE "IIROC CRM2 AMENDMENTS")

TEXT OF IIROC CRM2 AMENDMENTS

1. Dealer Member Rule 29 is amended by adding section 29.9 as follows:

"29.9 **Pre-trade disclosure of charges**

- (1) Before a Dealer Member accepts an instruction from a client to purchase or sell a security in an account other than a managed account, the Dealer Member must disclose to the client:
- (a) The charges the client will be required to pay, directly or indirectly, in respect of the purchase or sale, or a reasonable estimate if the actual amount of the charges is not known to the firm at the time of disclosure;
 - (b) In the case of a purchase to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply; and
 - (c) Whether the firm will receive trailing commissions in respect of the security.
- (2) Subsection 29.9(1) does not apply to a Dealer Member in respect of an instruction involving:
- (a) An Institutional Customer; or
 - (b) A client for whom the Dealer Member purchases or sells securities only as directed by a registered adviser acting for the client."

2. Dealer Member Rule 200 is repealed and replaced by the following:

"**RULE 200**

MINIMUM RECORDS

- 200.1. For the purposes of this Rule 200:

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- (a) "book cost" means:
- (i) In the case a long security position, the total amount paid for the security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations; and
 - (ii) In the case of a short security position, the total amount received for the security, net of any transaction charges related to the sale, adjusted for any distributions, returns of capital and corporate reorganizations.
- (b) "cost" means for each security position in the account and each security position subject to the additional reporting obligation under subsection 200.2(e):
- (i) On or after July 15, 2015:
 - (A) Either "book cost" or "original cost", determined as at the end of the applicable period, provided that only one cost calculation methodology, either "book cost" or "original cost", is used for all positions; or
 - (B) In the case of security positions that are transferred in, either:
 - (I) The amount determined in subparagraph 200.1(b)(i)(A); or
 - (II) The market value of the security position as at the date of transfer and the following notification or a notification that is substantially similar:

"Market value has been reported as the cost of this transferred in security position."
 - (ii) Before July 15, 2015:
 - (A) Either "book cost" or "original cost", determined as at the end of the applicable period, provided that only one cost calculation methodology, either "book cost" or "original cost", is used for all positions; or

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- (B) The market value of the security position as at July 15, 2015 or an earlier date provided the date used for all positions and for all clients is the same.
- (iii) Where the Dealer Member reasonably believes it cannot determine the cost in accordance with paragraphs 200.1(b)(i) and 200.1(b)(ii), the following notification or a notification that is substantially similar:
 - "The cost of this security position cannot be determined."
- (c) "market value" of a security means:
 - (i) For securities, precious metals bullion and commodity futures contracts quoted on an active marketplace, the published price quotation using:
 - (A) For listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,
 - (B) For unlisted investment funds, the net asset value provided by the manager of the fund on the relevant date,
 - (C) For all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate,
 - (D) For commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date,
 - (E) For money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield

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for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,

- (F) For money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (E) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and
- (G) For money market repurchases with borrower call features, the borrower call price

and after making any adjustments considered by the Dealer Member to be necessary to accurately reflect the market value,

- (ii) Where a reliable price for the security, precious metals bullion or commodity futures contract cannot be determined:
 - (A) The value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly; or
 - (B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions; or
 - (C) Where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate within that range, cost

and the Dealer Member must include the following notification or a notification that is substantially similar:

"There is no active market for this security so we have estimated its market value."

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(iii) Where a value cannot be reliably determined under subparagraphs 200.1(c)(i) and 200.1(c)(ii) above no value shall be reported and the Dealer Member must include the following notification or a notification that is substantially similar:

"Market value not determinable."

- (d) "operating charge" means any amount charged to a client by a Dealer Member in respect of the operation, transfer or termination of a client's account and includes any taxes paid on that amount;
- (e) "original cost" means:
- (i) In the case of a long security position, the total amount paid for the security, including any transaction charges related to the purchase; and
 - (ii) In the case of a short security position, the total amount received for the security, net of any transaction charges related to the sale.
- (f) "total percentage return" means the cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage;
- (g) "trailing commission" means any payment related to a client's ownership of a security that is part of a continuing series of payments to a Dealer Member by any party;
- (h) "transaction charge" means any amount charged to a client by a Dealer Member in respect of a purchase or sale of a security and includes any taxes paid on that amount;

200.2. As required under Rule 17.2 every Dealer Member shall make and keep current books and records necessary to record properly its business transactions and financial charts including, without limitation:

(a) **Trade blotters**

Blotters (or other records of original entry) containing an itemized daily record of all

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purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all trades in commodity futures contracts and commodity futures contract options, all receipts and disbursements of cash and all other debits and credits. Such records shall show the account for which each such transaction was effected, the trade dates and

- (i) In the case of trades in securities,
 - (A) The name, class and designation of securities,
 - (B) The number, value or amount of securities and the unit and aggregate purchase or sale price (if any), and
 - (C) The name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;

And

- (ii) In the case of trades in commodity futures contracts,
 - (A) The commodity and quantity bought or sold,
 - (B) The delivery month and year,
 - (C) The price at which the contract was entered into,
 - (D) The commodity futures exchange, and
 - (E) The name of the dealer if any, used by the Dealer Member as its agent to effect the trade;

And

- (iii) In the case of trades in commodity futures contract options,
 - (A) The type and number,
 - (B) The premium,
 - (C) The commodity futures contract that is the subject of the commodity futures contract option,
 - (D) The delivery month and year of the commodity futures contract that is the subject of the commodity futures option,

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- (E) The declaration date,
- (F) The striking price,
- (G) The commodity futures exchange, and
- (H) The name of the dealer, if any, used by the Dealer Member as its agent to effect the trade;

(b) **General ledger of accounts**

A general ledger (or other records) maintained in detail reflecting all assets and liabilities, income and expense and capital accounts;

(c) **Itemized client ledger accounts**

Ledger accounts (or other records) itemizing separately as to each cash and margin account of every client, all purchases, sales, receipts, deliveries and other trades of securities, commodity futures contracts and commodity futures contract options for such account and all other debits and credits to such account, and

- (i) With respect to all securities and property received to margin, guarantee or secure the trades or contracts of clients,
 - (A) A description of the securities or property received,
 - (B) The date when received,
 - (C) The identity of any deposit institution where such securities or property are segregated,
 - (D) The dates of deposit and withdrawal from such institutions, and
 - (E) The date of return of such securities or property to the client or other disposition thereof, together with the facts and circumstances of such other disposition,

And

- (ii) With respect to any investments of such money, proceeds or funds segregated for the benefit of the clients,
 - (A) The date of which such investments were made,

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- (B) The identity of the person or company through or from whom such securities were purchased,
- (C) The amount invested,
- (D) A description of the securities invested in,
- (E) The identity of the deposit institution, other dealer or dealer registered under any applicable securities legislation where such securities are deposited,
- (F) The date of liquidation or other disposition and the money received on such disposition, and
- (G) The identity of the person or company to or through whom such securities were disposed;

(d) **Client account statements**

(i) A Dealer Member must send:

(A) A monthly client account statement to each client who, at the end of the month has:

(I) Had a transaction during the month;

(II) Has experienced a cash or security modification, other than dividend or interest payments;

(III) An unexpired and unexercised futures contract option position; or

(IV) An open futures contract, or exchange contract position;

in their account.

(B) A quarterly client account statement to each client who, at the end of the quarter has:

(I) A debit or credit balance; or

(II) One or more security positions (including securities held in safekeeping or in segregation)

in their account.

And

(ii) The statement must include all of the following information about the client's

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account at the end of the period for which the statement is made:

- (A) The opening cash balance in the account;
- (B) All deposits, credits, withdrawals and debits made to the account;
- (C) The closing cash balance in the account;
- (D) The name and quantity of each security position in the account;
- (E) For each security position in the account:
 - (I) Where the market value is determinable:
 - (a) The market value;
 - (b) The total market value; and
 - (c) If applicable, the notification required pursuant to subparagraph 200.1(c)(ii);
 - (II) Where the market value is not determinable, the notification required pursuant to subparagraph 200.1(c)(iii);
- (F) Where the client is a Retail Customer and the statement is a quarterly statement, for each security position in the account:
 - (I) Where the cost is determinable, either the cost or the total cost; and
 - (II) Where the cost is not determinable, the notification required pursuant to subparagraph 200.1(b)(iii);
- (G) The total market value of all cash and security positions in the account; and
- (H) Where the client is a Retail Customer and the statement is a quarterly statement, the total cost of all cash and security positions in the account.

And

- (iii) In the case of clients with any security positions which might be subject to a deferred sales charge if they are sold, a notation identifying each security position

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that might be subject to a deferred sales charge.

And

(iv) In the case of clients with any unexpired and unexercised commodity futures contract options, open commodity futures contracts, or exchange contracts, the statement must include at least all of the following information:

- (A) Each unexpired and unexercised commodity futures contract option,
- (B) The striking price of each unexpired and unexercised commodity futures contract option,
- (C) Each open commodity futures contract,
- (D) The price at which each open commodity futures contract was entered into.

And

(v) In the case where a Dealer Member has acted as an agent in connection with a liquidating trade in a commodity futures contract, the monthly statement must include at least all of the following information:

- (A) The dates of the initial transaction and liquidating trade,
- (B) The commodity and quantity bought and sold,
- (C) The commodity futures exchange upon which the contracts were traded,
- (D) The delivery month and year,
- (E) The prices on the initial transaction and on the liquidating trade,
- (F) The gross profit or loss on the transactions,
- (G) The commission, and
- (H) The net profit or loss on the transactions.

And

(vi) In the case of transactions involving securities of the Dealer Member or a related issuer of the Dealer Member, or in the course

of a distribution to the public, securities of a connected issuer of the Dealer Member, the monthly statement must state that the securities are securities of the Dealer Member, a related issuer of the Dealer Member or a connected issuer of the Dealer Member, as the case may be. For the purposes of this paragraph, the terms "related issuer" and "connected issuer" shall have the same meaning as ascribed to them in the Regulation made under the Securities Act (Ontario).

(e) Report on client positions held outside of the Dealer Member

- (i) A Dealer Member must send a quarterly Report on client positions held outside of the Dealer Member (referred to as "outside holdings" in this rule) to each Retail Customer who, at the end of the quarter holds one or more security positions outside of the Dealer Member, either in book-based client name or physical client name, on which the Dealer Member 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.

And

- (ii) The report must include all of the following information about the client's outside holdings at the end of the period for which the report is made:
- (A) The name and quantity of each security position;
 - (B) For each security position:
 - (I) Where the market value is determinable:
 - (a) The market value;
 - (b) The total market value; and
 - (c) If applicable, the notification required pursuant to subparagraph 200.1(c)(ii);

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- (II) Where the market value is not determinable, the notification required pursuant to subparagraph 200.1(c)(iii);
- (C) For each security position:
 - (I) Where the cost is determinable, either the cost or the total cost; and
 - (II) Where the cost is not determinable, the notification required pursuant to subparagraph 200.1(b)(iii);
- (D) The total market value of all security positions;
- (E) The total cost of all security positions; and
- (F) The name of the party that holds or controls each security position and a description of the way it is held.

And

- (iii) In the case of clients with any outside holdings which might be subject to a deferred sales charge if they are sold, a notation identifying each security position that might be subject to a deferred sales charge.
- (iv) The report must indicate:
 - (A) That the client's outside holdings are not covered by the Canadian Investor Protection Fund; and
 - (B) Whether the securities are covered under any other investor protection fund approved or recognized by a Canadian securities regulatory authority and, if they are, the name of the fund.
- (f) **Performance report**
 - (i) A Dealer Member must send an annual performance report to each Retail Customer who, at the end of the 12-month period covered by the report has:
 - (A) An account with:
 - (I) A debit or credit balance; or

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(II) One or more security positions
(including securities held in
safekeeping or in segregation).

And/or

(B) Holds one or more security positions
outside of the Dealer Member for which
quarterly reporting pursuant to
subsection 200.2(e) is required.

And

(C) There is at least one security, in the
account or held outside of the Dealer
Member for which quarterly reporting
pursuant to subsection 200.2(e) is
required, for which a market value can be
determined pursuant to either paragraph
200.1(a)(i) or 200.1(a)(ii).

And

(D) The client's account was opened at least
12 months ago.

(ii) The annual performance report must include
all of the following combined information
about the client's account and outside
holdings at the end of the period for which
the report is made:

(A) The total combined market value of all
cash and security positions:

(I) As at July 15, 2015 or, where the
account was opened prior to July 15,
2015 and the information is
available, as at the account opening
date;

(II) As at the beginning date of the 12-
month period covered by the report;
and

(III) As at the end date of the report;

(B) The total combined market value of all
deposits and transfers in of cash and
security positions:

(I) In the period from July 15, 2015 or,
where the account was opened prior to
July 15, 2015 and the information is
available, the period from the

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account opening date, to the end date of the report; and

- (II) In the 12-month period covered by the report;
- (C) The total combined market value of all withdrawals and transfers out of cash and security positions:
 - (I) In the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report; and
 - (II) In the 12-month period covered by the report;
- (D) The total combined change in market value of all cash and security positions:
 - (I) For the period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report, determined using the following formula:

Total market value change from account opening

=

Closing market value
[Clause 200.2(f)(ii)(A)(III)]

-

Account opening market value
[Clause 200.2(f)(ii)(A)(I)]

-

Deposits and transfers in
[Clause 200.2(f)(ii)(B)(I)]

+

Withdrawals and transfers out
[Clause 200.2(f)(ii)(C)(I)]

- (II) For the 12-month period covered by the report, determined using the following formula:

Total 12-month market value change

=

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Closing market value
[Clause 200.2(f)(ii)(A)(III)]

-

Account opening market value
[Clause 200.2(f)(ii)(A)(II)]

-

Deposits and transfers in
[Clause 200.2(f)(ii)(B)(II)]

+

Withdrawals and transfers out
[Clause 200.2(f)(ii)(C)(II)]

(E) The amount of the annualized percentage return calculated net of charges using a money-weighted rate of return calculation methodology generally accepted in the securities industry for the following periods:

(I) The 12-month period covered by the investment report;

(II) The 3-year period preceding the end date of the report;

(III) The 5-year period preceding the end date of the report;

(IV) The 10-year period preceding the end date of the report; and

(V) The period from July 15, 2015 or, where the account was opened prior to July 15, 2015 and the information is available, the period from the account opening date to the end date of the report;

provided that if any portion of a period referred to in clauses 200.2(f)(ii)(E)(II), 200.2(f)(ii)(E)(III) and 200.2(f)(ii)(E)(IV) is before July 15, 2015, the Dealer Member is not required to report the annualized percentage return for that period.

(F) The definition of "total percentage return" and set out in subsection 200.1(f) and a notification indicating the following:

(I) The total percentage return presented in the performance report

- was calculated net of fees / charges;
 - (II) The calculation method used;
 - (III) A general explanation in plain language of what the calculation method takes into account.
- (iii) The combined information required to be provided under 200.2(f)(ii) must be presented using text, tables and charts, and must be accompanied by notes in the performance report explaining:
- (A) The content of the report and how a client can use the information to assess the performance of the client's investments; and
 - (B) The changing value of the client's investments as reflected in the information in the report.
- (iv) The Dealer Member must send a performance report to a client every 12 months, except that the first performance report sent after a Dealer Member opens an account for a client may be sent within 24 months.
- (v) For the purposes of this subsection 200.2(f), the information in respect of securities of a client required to be reported under subsection 200.2(d) [*Client account statements*] must be provided in a separate report for each of the client's accounts.
- (vi) For the purposes of this subsection 200.2(f), the information in respect of securities of a client required to be reported under subsection 200.2(e) [*Report on client positions held outside of the Dealer Member*] must be included in the report for each of the client's accounts through which the securities were transacted.
- (vii) Paragraphs 200.2(f)(v) and 200.2(f)(vi) do not apply if the Dealer Member sends a single report to the client that consolidates the required information for more than one of

a client's accounts and any securities of a client required to be reported under subsection 200.2(e) [*Report on client positions held outside of the Dealer Member*] provided:

- (A) The client has consented in writing to receiving a consolidated report; and
- (B) The report that is sent specifies the accounts and securities for which the consolidated information is being provided.

(viii) Where a consolidated performance report is sent to a client pursuant to 200.2(f)(vii) and a consolidated fee / charge report is sent to the client pursuant to 200.2(g)(v), both consolidated reports must consolidate information for the same accounts and securities.

(g) Fee / charge report

(i) A Dealer Member must send a fee / charge report to each Retail Customer who, at the end of the 12-month period covered by the report or a shorter period in the case of the first report delivered after a client has opened an account, has:

- (A) An account.

And/or

- (B) Holds one or more security positions outside of the Dealer Member for which quarterly reporting pursuant to subsection 200.2(e) is required.

And

- (C) Paid a fee, charge or other payment, either directly or indirectly, to the Dealer Member or any of its registered individuals during the period covered by the report.

(ii) The annual fee/charge report must include all of the following combined information about the client's account and outside holdings at the end of the period for which the report is made:

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- (A) A discussion of the operating charges which might be applicable to the client's account;
- (B) The total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report;
- (C) The aggregate total amount of all operating charges related to the client's account paid by the client during the period covered by the report;
- (D) The total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report;
- (E) The aggregate total amount of all transaction charges related to the client's account paid by the client during the period covered by the report;
- (F) The aggregate total amount of all charges reported under subparagraphs 200.2(h)(ii)(C) and 200.2(h)(ii)(E);
- (G) If the Dealer Member purchased or sold debt securities for the client during the period of the report, either of the following:
 - (I) The total amount of any mark-ups, mark-downs, commissions or other fees or charges the Dealer Member applied on the purchases or sales of debt securities;
 - (II) The total amount of any commissions charged to the client by the Dealer Member on the purchases or sales of debt securities and, if the dealer Member applied mark-ups, mark-downs or other fees or charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

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"For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged." ;

(H) The total amount of each type of payment, other than trailing commissions, that is made to the Dealer Member or any of its registered individuals by a securities issuer or another registrant in relation to registerable services provided to the client during the period covered by the report, accompanied by an explanation of each type of payment ;

(I) If the Dealer Member received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

"We received \$[amount] in trailing commissions in respect of securities you owned during the period covered by this report. Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission of the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to you investment funds is included in the prospectus or fund facts document for each fund."

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- (iii) For the purposes of this subsection 200.2(g), the information in respect of securities of a client required to be reported under subsection 200.2(d) [*Client account statements*] must be provided in a separate report for each of the client's accounts.
- (iv) For the purposes of this subsection 200.2(g), the information in respect of securities of a client required to be reported under subsection 200.2(e) [*Report on client positions held outside of the Dealer Member*] must be included in the report for each of the client's accounts through which the securities were transacted.
- (v) Paragraphs 200.2(g)(iii) and 200.2(g)(iv) do not apply if the Dealer Member sends a single report to the client that consolidates the required information for more than one of a client's accounts and any securities of a client required to be reported under subsection 200.2(e) [*Report on client positions held outside of the Dealer Member*] provided:
 - (A) The client has consented in writing to receiving a consolidated report; and
 - (B) The report that is sent specifies the accounts and securities for which the consolidated information is being provided.
- (vi) Where a consolidated fee / charge report is sent to the client pursuant to 200.2(g)(v) and a consolidated performance report is sent to a client pursuant to 200.2(f)(vii), both consolidated reports must consolidate information for the same accounts and securities.
- (h) **Secondary or subsidiary records**
Ledgers (or other records) reflecting the following:
 - (i) Securities in transfer;
 - (ii) Dividends and interest received;

- (iii) Securities borrowed and securities loaned;
 - (iv) Monies borrowed and monies loaned (together with a record of the collateral therefor and any substitutions in such collateral);
 - (v) Securities failed to receive and failed to deliver;
 - (vi) Money, securities and property received to margin, guarantee or secure the trades or contracts of clients, and all funds accruing to clients, which must be segregated for the benefit of clients under any applicable legislation;
- (i) **Securities record**
- A securities record or ledger reflecting separately for each security as of the trade or settlement dates all long and short positions (including securities in safekeeping) carried for the Dealer Member's account or for the account of clients, showing the location of all securities long and the offsetting position to all securities short and in all cases the name or designation of the account in which each position is carried;
- (j) **Commodity record**
- A commodity record or ledger showing separately for each commodity as of the trade date all long positions or short positions in commodity futures contracts carried for the Dealer Member's account or for the account of clients and, in all cases, the name or designation of the account in which each position is carried;
- (k) **Memoranda of orders**
- An adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities or with respect to a trade in a commodity futures contract or a commodity futures contract option, whether executed or unexecuted, showing:
- (i) The terms and conditions of the order or instruction and of any modification or cancellation thereof,

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- (ii) The account to which the order or instruction relates,
 - (iii) The time of entry of the order or instruction and, where the order is entered pursuant to the exercise of discretionary power of a Dealer Member, a statement to that effect,
 - (iv) Where the order relates to an omnibus account, the component accounts within the omnibus account on whose behalf the order is to be executed, and the allocation among the component accounts intended on execution,
 - (v) Where the order or instruction is placed by an individual other than,
 - (A) The person in whose name the account is operated, or
 - (B) An individual duly authorized to place orders or instructions on behalf of a client that is a company,
the name, sales number or designation of the individual placing the order or instruction,
 - (vi) To the extent feasible, the time of execution or cancellation,
 - (vii) The price at which the order or instruction was executed, and
 - (viii) The time of report of execution;
- (1) **Trade confirmations**

Copies of confirmations of all purchases and sales of securities and of all trades in commodity futures contracts and commodity futures contract options and copies of notices of all other debits and credits of money, securities, property, proceeds of loans and other items for the account of clients. Such written confirmations are required to be sent promptly to clients and shall set forth at least the day and the stock exchange or commodity futures exchange upon which the trade took place; the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction; the total amount of all charges in respect of the transaction; the fee or other charge, if any,

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levied by any securities regulatory authority in connection with the trade; the name of the salesman, if any, involved in the transaction; the name of the dealer, if any, used by the Dealer Member as its agent to effect the trade, the settlement date of the trade;

And,

- (i) In the case of trades in securities:
 - (A) The quantity and description of the security;
 - (B) The consideration,
 - (C) Whether or not the person or company that executed the trade acted as principal or agent,
 - (D) If acting as agent in a trade upon a stock exchange the name of the person or company from or to or through whom the security was bought or sold,

And

- (ii) In the case of trades in commodity futures contracts:
 - (A) The commodity and quantity bought or sold,
 - (B) The price at which the contract was entered into,
 - (C) The delivery month and year,

And

- (iii) In the case of trades in commodity futures contract options:
 - (A) The type and number of commodity futures contract options,
 - (B) The premium,
 - (C) The delivery month and year of the commodity futures contract that is the subject of the commodity futures contract option,
 - (D) The declaration date,
 - (E) The striking price;

And

- (iv) In the case of trades in mortgage-backed securities, and subject to the proviso below:

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- (A) The original principal amount of the trade,
- (B) The description of the security (including interest rate and maturity date),
- (C) The remaining principal amount (RPA) factor,
- (D) The purchase/sale price per \$100 of original principal amount,
- (E) The accrued interest,
- (F) The total settlement amount,
- (G) The settlement date,

provided that in the case of trades entered into from the third clearing day before month end to the fourth clearing day of the following month, inclusive, a preliminary confirmation shall be issued showing the trade date and the information in clauses (A), (B), (D) and (G) and indicating that the information in clauses (C), (E) and (F) cannot yet be determined and that a final confirmation will be issued as soon as such information is available. After the remaining principal amount factor for the security is available from the central payor and transfer agent, a final confirmation shall be issued including all of the information required above;

And

- (v) In the case of debt securities:
 - (A) In the case of a purchase, where the debt security is a stripped coupon or a residual debt instrument:
 - (I) The yield thereon calculated on a semi-annual basis in a manner consistent with the yield calculation for the debt instrument which has been stripped,
 - (II) The yield thereon calculated on an annual basis in a manner consistent with the yield calculation for other debt securities which are commonly

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regarded as being competitive in the market with such coupons or residuals such as guaranteed investment certificates, bank deposit receipts and other indebtedness for which the term and interest rate is fixed.

(B) In the case of a purchase, where the debt security is neither a stripped coupon nor a residual debt instrument:

(I) The yield to maturity calculated in a manner consistent with market conventions for the security traded,

(II) Where the debt security is subject to call prior to maturity through any means, the notation of "callable" must be included,

(III) Where the debt security has a variable coupon rate, the notation "The coupon rate may vary." must be included.

(C) Where the debt security trade is not a primary market transaction and the trade confirmation is being sent to a Retail Customer, either of the following:

(I) The total amount of any mark-up or mark-down, commission or other service charges the Dealer Member applied to the transaction;

(II) The total amount of any commission charged to the client by the Dealer Member and, if the Dealer Member applied a mark-up or mark-down or any service charge other than a commission, the following notification or a notification that is substantially similar:

"Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission

this trade confirmation shows
was charged to you."

And

- (vi) In the case of all over-the-counter traded securities other than debt securities, including contracts for difference and foreign exchange contracts, but excluding primary market transactions and over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market, either of the following:
- (I) The total amount of any mark-up or mark-down, commission or other service charges the Dealer Member applied to the transaction;
 - (II) The following notification or a notification that is substantially similar:
 - "Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale)."

And

- (vii) In the case of transactions involving securities of the Dealer Member or a related issuer of the Dealer Member, or in the course of a distribution to the public, securities of a connected issuer of the Dealer Member, such trade confirmation shall state that the securities are securities of the Dealer Member, a related issuer of the Dealer Member or a connected issuer of the Dealer Member, as the case may be. For the purposes of this paragraph, the terms "related issuer" and "connected issuer" shall have the same meaning as ascribed to them in the Regulation made under the Securities Act (Ontario).

And

- (viii) In the case of a Dealer Member controlled by or affiliated with a financial

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institution, the relationship between the Dealer Member and the financial institution shall be disclosed on each trade confirmation issued in connection with a trade in securities of a mutual fund sponsored by the financial institution or a corporation controlled by or affiliated with the financial institution.

And

- (ix) Notwithstanding the provisions of this subsection 200.2(1), a Dealer Member shall not be required to provide a confirmation to a client in respect of a trade:
 - (A) In a managed account, provided that:
 - (I) Prior to the trade, the client has consented in writing to waive the trade confirmation requirement;
 - (II) The client may terminate a waiver by notice in writing. The termination notice shall be effective upon receipt of the written notice by the Dealer Member, for trades following the date of receipt;
 - (III) The provision of a confirmation is not required under any applicable securities law, regulation or policy of the jurisdiction in which the client resides or the Dealer Member has obtained an exemption from any such law, regulation or policy by the responsible securities regulatory authority; and
 - (IV) Where:
 - (a) A person other than the Dealer Member manages the account
 - (i) A trade confirmation has been sent to the manager of the account, and
 - (ii) The Dealer Member complies with the requirements of subsection 200.2(d); or

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- (b) The Dealer Member manages the account:
 - (i) The account is not charged any commissions or fees based on the volume or value of transactions in the account;
 - (ii) The Dealer Member sends to the client a monthly statement that is in compliance with subsection 200.2(d) and contains all of the information required to be contained in a confirmation under this subsection 200.2(1) except:
 - (A) The day and the stock exchange or commodity futures exchange upon which the trade took place;
 - (B) The fee or other charge, if any, levied by any securities regulatory authority in connection with the trade;
 - (C) The name of the salesman, if any, in the transaction;
 - (D) The name of the dealer, if any, used by the Dealer Member as its agent to effect the trade; and,
 - (E) If acting as agent in a trade upon a stock exchange the name of the person or company from or to or through whom the security was bought or sold,
 - (iii) The Dealer Member maintains the information

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not required to be in the monthly statement pursuant to paragraph 200.2(1)(ii) and discloses to the client on the monthly statement that such information will be provided to the client on request.

- (B) In delivery against payment (DAP) and receipt against payment (RAP) trade accounts, provided that:
- (I) The trade is either subject to or matched in accordance with broker-to-broker or institutional trade matching requirements under *the Corporation's Rules* or securities legislation;
 - (II) The *Dealer Member* maintains an electronic audit trail of the trade under *the Corporation's Rules* or securities legislation;
 - (III) Prior to the trade, the client has agreed in writing to waive receipt of trade confirmations from the *Dealer Member*;
 - (IV) The client is either:
 - (a) another Dealer Member who is reporting or affirming trade details through an acceptable trade matching utility in accordance with section 800.49; or
 - (b) An Institutional Customer who is matching DAP/RAP account trades (either directly or through a custodian) in accordance with National Instrument 24-101- Institutional Trade Matching and Settlement;
 - (V) The Dealer Member and the client have real-time access to, and can download

into their own system from the acceptable trade matching utility's or the matching service utility's system, trade details that are similar to the prescribed information under subsection 200.2(1); and

- (VI) The Dealer Member has not filed a report as required under subsection 800.49(6) informing the Corporation that it has not met the quarterly compliant trade percentage or has not filed a trade matching exception report as required under securities legislation relevant to the trade, for a minimum of three consecutive quarters.

A client may terminate their trade confirmation waiver, referred to in subparagraph 200.2(1)(x)(B), by providing a written notice confirming this fact to the Dealer Member. The termination notice takes effect upon the Dealer Member's receipt of the notice.

(m) Records of cash and margin accounts

A record in respect of each cash and margin account:

- (i) The name and address of the beneficial owner (and guarantor, if any) of such account,
- (ii) In the case of a margin account a properly executed margin agreement containing the signature of such owner (and guarantor, if any), and
- (iii) Where trading instructions are accepted from a person or corporation other than the client, written authorization or ratification from the client naming the person or company,

But, in the case of a joint account or an account of a corporation, such records are required only in respect of the person or persons authorized to transact business for such account;

(n) Puts, calls and other options

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A record of all puts, calls, spreads, straddles and other options in which the Dealer Member has any direct or indirect interest or which the Dealer Member has granted or guaranteed, containing at least an identification of the security and the number of units involved;

(o) **Money trial balances and capital computations**

A record of the proof of money balances of all ledger accounts in the form of trial balances and a record of the computation of risk adjusted capital. Such trial balances and computations shall be prepared currently at least once a month;

(p) **Margin call records**

A record of all margin calls whether such calls are made in writing, by telephone or other means of communication;

(q) **Money trial balances and capital computations**

A record of the proof of money balances of all ledger accounts in the form of trial balances and record of a reasonable calculation of minimum risk adjusted capital prepared for each month within a reasonable time after each month end; and

(r) **Account transfer records**

A record of all communications required or made in respect of account transfers pursuant to Rule 2300.

200.3. Timing of the sending of documents to clients

- (a) All confirmations, statements, reports and other documents that are required pursuant to section 200.2 shall be sent promptly to clients.
- (b) The following documents shall be sent to Retail Customers within 10 days after the client account statement for the monthly or quarterly period ending on the same date is sent:
 - (I) Report on client positions held outside of the Dealer Member [*Subsection 200.2(e)*];
 - (II) Performance report [*Subsection 200.2(f)*];
 - (I) Fee / charge report [*Subsection 200.2(g)*].

Guide to interpretation of Section 200.2

Section 200.2 specifies the various items of information which must be reflected on the firm's books as required by the applicable provincial securities legislation. The Rule does not require the various books and records to be kept in any prescribed form. It is expected, however, that the means of recording the information will be complemented by appropriate internal controls to guard against the risk of falsification and will make available clear and accurate information to the Corporation within a reasonable length of time.

(a) "Trade Blotters"

This term was historically used to describe a dealer's or broker's books of original entry of daily transactions as principals or on behalf of clients. Larger firms now maintain separate data files and daily reports to record each type of transaction such as purchases versus sales, unlisted securities, bonds, cash receipts, cash disbursements and stock record journals.

Blotters generally should record on purchases and sales the party on the other side, security description, quantity, price, accrued interest, commission, settlement amount, trade date, settlement date and the account for which the transaction was done.

(b) "General ledger of accounts"

The general ledger is the primary financial record of the company in which all assets, liabilities, capital, income and expense accounts are summarized. The general ledger

is the basis for preparing financial statements and regulatory reports as required by the self-regulatory organizations. Entries made to the general ledger are derived from the various blotters and sub ledgers referred to in subsection 200.2(a).

(c) **"Itemized client ledger accounts"**

Accounts must show all trades, settlement dates, cash disbursements and receipts and deliveries or receipts of securities or commodities. This section requires that client account sub ledgers be kept for each client cash and margin account and firm inventory account.

(d) **"Client account statements"**

Monthly and quarterly statements must be produced for each active account showing a date column, quantity of securities bought or sold, security description and cash debits or credits.

In addition, statements must show the dollar balance carried forward from the previous monthly or quarterly statement; all entries shown in the account since the previous statement date; and the final dollar balance and the security position as of the statement date. The statements must also indicate the items included in the final security position which are held in safekeeping. Where the market value for a particular position is not determinable, a notification shall be included in the statement informing the client that the market value of the position cannot be determined.

Where the cost for a particular position is not determinable, a notification shall be included in the statement informing the client that the cost of the position cannot be determined.

For purposes of section 200.2 only, the definition of "client" includes the investing public, financial institutions, other investment dealers and stock brokers, affiliates and partners, shareholders, directors, officers and employees of a Dealer Member firm and its affiliates.

Dealer Members not depositing clients' free credit balances in a trust bank account should refer to section 1200.1 for details of the special notation that must be affixed to all statements sent to clients.

(e) **"Report on client positions held outside of the Dealer Member"**

A quarterly report must be produced for any security positions held outside of the Dealer Member, either in book-based client name or physical client name, on which the Dealer Member 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.

Where the market value for a particular position is not determinable, a notification shall be included in the statement informing the client that the market value of the position cannot be determined.

Where the cost for a particular position is not determinable, a notification shall be included in the statement informing the client that the cost of the position cannot be determined.

(f) **"Performance report"**

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

- all client account security and other investment product positions held by the Dealer Member for the client in nominee name or physically in client name; and
- all other security and other investment product positions outside of the Dealer Member, either in book-based client name or physical client name, on which the Dealer Member receives continuing compensation payments,

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) shall be considered to have no value in the determination of cumulative account performance. In such instance, a disclosure in the performance report shall 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) cumulative account performance information. Where the client consents to this alternative, the Dealer Member would not be required to provide performance information for each of the accounts included in the portfolio level reporting.

At the option of the Dealer Member, clients may instead be provided with combined performance information that delineates between recommended and non-recommended positions.

(g) **"Fee / charge report"**

The combined performance information included in the fee / charge report must be determined based on:

- all client account security and other investment product positions held by the Dealer Member for the client in nominee name or physically in client name; and
- all other security and other investment product positions outside of the Dealer Member, either in book-based client name or physical client name, on which the Dealer Member receives continuing compensation payments.

(h) **"Secondary or subsidiary records"**

These records are made up from the blotters or other records of original entry. A brief description of such subsidiary records follows:

(i) **"Securities in transfer"**

The purpose of this item of subsection 200.2(h) is to require the keeping of a record showing all securities "sent to and held by transfer agents". This record usually shows the number of shares or the par value, name of security, name in which it was registered, new name, date sent out to transfer, old certificate number, date received back from transfer, new certificate numbers and date on new certificate.

(ii) **"Dividends and interest received"**

For the purpose of this item of subsection 200.2(h) it is necessary that a record be maintained by the firm with respect to interest or dividends paid on bonds or stocks, held by the Dealer Member for the clients but registered in some name other than that

of the client. The general practice, which would represent compliance with the rule, is to record on a ledger the security, the record date, the ex-dividend date, the payable date and the entitlement rate. The information is then recorded on the dividend sub ledger. All clients who are "long" are credited with their share of the funds received by the firm on account of the dividend or interest. All clients who are "short" on the dividend record date or the interest payable date are charged with the amount payable on their short position. All bearer securities in the firm's possession or in hypothecation on the record or interest date must be examined to determine against whom the firm must claim for payment.

(iii) **"Securities borrowed and securities loaned"**

In borrowing securities or in lending securities to other dealers or brokers, it is necessary to enter such transactions in borrowed or loaned accounts set up for each client. The securities borrowed or loaned account records the date borrowed or date loaned, name of firm from whom borrowed or to whom loaned, quantity, name of security, certificate numbers and the date returned. In some cases, these records also provide an additional column showing the interest rate or premium on stock borrowed or loaned and any collateral provided or received.

(iv) **"Monies borrowed and monies loaned, etc."**

A record must be kept of all borrowings. This record should show the name of the client, the date, the interest rate, the amount of the loan, terms of the loan, and the date when the loan is made and when repaid. The number of shares, or principal amount in the case of bonds, name of the security, and certificate numbers of securities pledged as collateral must be recorded.

(v) **"Securities failed to receive or deliver"**

These are subsidiary records and are based on information contained on the blotters or other records of original entry. Upon learning that a dealer or broker will fail to deliver on the

settlement day, either under the agreement between the buyer and the seller or under clearing house rules, this item requires that records must be kept which show the "fail date" (i.e. the date on which delivery was due but not made), name of security, purchase price, broker or dealer from whom delivery is due, and date received. Conversely, when the firm fails to deliver, it must record the date on which delivery was due, number of shares or principal amount of bonds), name of security, to whom sold, sales price and date on which delivery is made. The total dollar amount of open items on the "fail to receive" and "fail to deliver" records should agree with the "fail to receive" and "fail to deliver" accounts in the firm's general ledger kept pursuant to subsection 200.2(b).

(i) & (j) **"Securities and commodity record or ledger"**

These sections require that the securities and commodity record be posted currently to show all positions no later than the settlement date. The record may, of course, be posted on the "trade" or execution date or any other date prior to the settlement date. Dealer Members may keep separate "securities and commodity records" or "position records" as they are often called, for equities, debt, options and for commodities. The record should show the name of the security, the clients' and other accounts which are "long" and "short" that security, the daily changes in their position, the location of each security, and the total of the long or short position for the account of clients and the firm and partners. This record should be reviewed frequently to ensure it is "in balance" (i.e. for each security or commodity the total long positions should equal the total short positions).

(k) **"Memoranda of orders"**

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

(l) **"Trade confirmations"**

The provincial securities commissions require that every person or company registered for trading in securities who has acted as principal or agent in connection with any trade in a security shall promptly send or deliver to the client a written confirmation of the transaction, setting forth the details required in this subsection 200.2(1). A person or 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 furnished to the client on request.

(m) **"Records of cash and margin accounts"**

A margin agreement between a Dealer Member and a client shall define at least the following:

- (i) The obligation of the client in respect of the payment of his or her indebtedness to the Dealer Member and the maintenance of adequate margin and security;
- (ii) The obligation of the client in respect of the payment of interest on debit balances in his or her account;
- (iii) The rights of the Dealer Member in respect of raising money on and pledging securities and other assets held in the client's account;
- (iv) The extent of the right of the Dealer Member to make use of free credit balances in the client's account;
- (v) The rights of the Dealer Member in respect of the realization of securities and other assets held in the client's account and in respect of purchases to cover short sales, and whether any prior notice is required, and if notice be required, the nature and extent of it and the obligations of the client in respect of any deficiency;
- (vi) The extent of the right of the Dealer Member to utilize a security in the client's account for the purpose of making a delivery on account of a short sale;
- (vii) The extent of the right of the Dealer Member to use a security in the client's account for delivery on a sale by the Dealer Member for his or her or its own account or for any account in which the Dealer

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Member, any partner therein or any director thereof, is directly or indirectly interested;

(viii) The extent of the right of the Dealer Member to otherwise deal with securities and other assets in the client's account and to hold the same as collateral security for the client's indebtedness; and

(ix) That all transactions entered into on behalf of the client shall be subject to the Rules of the Investment Industry Regulatory Organization of Canada and/or any securities exchange if executed thereon.

(n) **"Puts, calls, and other options"**

Such a record may be kept in any suitable form which shows the date, details regarding the option, name of security, number of shares, and the expiration date; letters pertaining to such options, including those received from and addressed to clients, should be kept together with the record.

(o) & (q) **"Money trial balances and capital computations"**

Such trial balances and computations will serve as a check upon the current status and accuracy of the ledger accounts which Dealer Members are required to maintain and keep current and will also help to keep Dealer Members currently informed of their capital positions as required under section 17.1.

A Dealer Member must keep currently informed as to the excess capital position and make a computation as often as necessary to ensure that there is adequate capital at all times; but Dealer Members must preserve only the monthly computation mentioned above. On the other hand, Dealer Members whose capital position is substantially in excess of that required, may omit detailed schedules and analyses in support of the computation if they apply a more stringent application of the Rule governing the computation.

For example, when calculating risk adjusted capital, inventories can be grouped into broader margin categories and maximum margin rates applied; offsetting provisions such as those contained in section 100.4 can be ignored; and assets partly allowable or of questionable value can be excluded in their entirety.

When a Dealer Member cannot prove that adequate capital exists, the firm must notify the Corporation immediately.

(r) **"Account transfer records"**

Documentation required pursuant to Rule 2300 in respect of client account transfers is expected to be by means of electronic communication. In order to protect Dealer Members and clients on account transfers and to ensure that such transfers are effected expeditiously, Dealer Members must ensure that copies of all communications sent or received in respect of account transfers are maintained in an accurate, secure and readily accessible format."

3. Dealer Member Rule subsection 3500.5(2) is amended by:

- (a) At the end of paragraph 3500.5(2)(h), removing the word "and";
- (b) At the end of paragraph 3500.5(2)(i), replacing the period with a semi colon and adding the word "and"; and
- (c) Adding the following paragraph 3500.5(2)(j):

"(j) a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be made available to the client by the Dealer Member."

4. Definition (g) in the definitions section of the General Notes and Definitions to Form 1 is repealed and replaced with the following:

"(g) "market value" of a security means:

- (i) For securities, precious metals bullion and commodity futures contracts quoted on an active marketplace, the published price quotation using:
 - (A) For listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on a consolidated pricing list or exchange quotation sheet as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be,
 - (B) For unlisted investment funds, the net asset value provided by the manager of the fund on the

relevant date,

- (C) For all other unlisted securities (including unlisted debt securities) and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or, in the case of debt securities, based on a reasonable yield rate,
 - (D) For commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date,
 - (E) For money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date,
 - (F) For money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (E) and the commitment price is to be determined in the same manner using the yield stated in the repurchase commitment, and
 - (G) For money market repurchases with borrower call features, the borrower call price
and after making any adjustments considered by the Dealer Member to be necessary to accurately reflect the market value,
- (ii) Where a reliable price for the security, precious metals bullion or commodity futures contract cannot be determined:
- (A) The value determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly;
or
 - (B) Where no observable market data-related inputs are available, the value determined by using unobservable inputs and assumptions; or

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- (C) Where insufficient recent information is available and/or there is a wide range of possible values and cost represents the best value estimate that range, cost.
- (iii) Where a value cannot be reliably determined under subsections (g)(i) and (g)(ii) above, the amount used:
 - (A) To report the total market value of a Dealer Member securities position; and
 - (B) To calculate the margin requirement for a client account securities position;shall be zero."

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PERFORMANCE REPORTING AND FEE / CHARGE DISCLOSURE
AMENDMENTS TO DEALER MEMBER RULES 29, 200 AND 3500
AND TO DEALER MEMBER FORM 1
(THE "IIROC CRM2 AMENDMENTS")

COMPARISON OF EQUIVALENT IIROC CRM2 AMENDMENT AND CSA CRM2 AMENDMENT PROVISIONS

Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
Pre-trade disclosure of charges			
<ul style="list-style-type: none"> Requirement to disclose fees / charges to client prior to a trade 	Section 29.9	Section 14.2.1	<ul style="list-style-type: none"> None
Trade confirmation disclosure requirements			
<ul style="list-style-type: none"> Definition of "market value" 	Subsection 200.1(c)	Subsection 14.11.1(1) for client positions only	<ul style="list-style-type: none"> IIROC definition is similar but contains additional provisions for the valuation of specific investment products IIROC rules require that the same valuation approach be used to value both proprietary inventory positions and client account positions

¹ References are to IIROC Dealer Member Rules

² References are to National Instrument 31-103

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> Requirement to disclose each transaction charge, deferred sales charge or other charge 	Subsection 200.2(1), preamble	Paragraph 14.12(1)(c)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose total amount of all charges 	Subsection 200.2(1), preamble	Paragraph 14.12(1)(c)	<ul style="list-style-type: none"> None
Trade confirmation disclosure requirements [continued]			
<ul style="list-style-type: none"> Requirement to disclose annual yield on debt trades 	Subparagraphs 200.2(1)(v)(A) and 200.2(1)(v)(B)	Paragraph 14.12(1)(b.1)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose either total compensation or gross commission on Retail Customer debt trades 	Subparagraph 200.2(1)(v)(C)	Paragraph 14.12(1)(c.1)	<ul style="list-style-type: none"> The IIROC rule only applies to Retail Customer trades to be consistent with the pre-trade disclosure of transaction charge requirements and the fee / charge report requirement
Account statement disclosure requirements			
<ul style="list-style-type: none"> Definition of "book cost" 	Subsection 200.1(a)	Section 1.1	<ul style="list-style-type: none"> IIROC definition differentiates between the calculation of "book cost" for long positions and for short positions
<ul style="list-style-type: none"> Definition of "cost" 	Subsection 200.1(b)	No equivalent definition; based on subsections 14.14.2(2) and 14.14.2(3)	<ul style="list-style-type: none"> No real differences - IIROC adopted a definition to simplify rule drafting
<ul style="list-style-type: none"> Definition of "market" 	Subsection 200.1(c)	Subsection 14.11.1(1) for	<ul style="list-style-type: none"> IIROC definition is similar but contains

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<p>value"</p> <ul style="list-style-type: none"> • Definition of "original cost" 	<p>Subsection 200.1(e)</p>	<p>client positions only</p> <p>Section 1.1</p>	<p>additional provisions for the valuation of specific investment products</p> <ul style="list-style-type: none"> • IIROC rules require that the same valuation approach be used to value both proprietary inventory positions and client account positions - the CSA rules do not • IIROC definition differentiates between the calculation of "original cost" for long positions and for short positions
Account statement disclosure requirements [continued]			
<ul style="list-style-type: none"> • Conditions under which a statement must be sent on a monthly basis • Conditions under which a statement must be sent on a quarterly basis • Requirement to disclose security position market value information • Requirement to disclose security position cost information 	<p>Subparagraph 200.2(d)(i)(A)</p> <p>Subparagraph 200.2(d)(i)(B)</p> <p>Subparagraphs 200.2(d)(ii)(E) and (G)</p> <p>Subparagraphs 200.2(d)(ii)(F) and (H)</p>	<p>Subsections 14.14(1) and (2)</p> <p>Subsection 14.14(1)</p> <p>Subsections 14.11.1(2), 14.11.1(3), 14.14(5)</p> <p>Subsections 14.14.2(2) and 14.14.2(3)</p>	<ul style="list-style-type: none"> • None • None • None • None

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> • Other client statement disclosure requirements • Requirement to discuss investor protection coverage available, if any • Requirement to add a notation identifying any security position that may be subject to a deferred sales charge 	<p>Subparagraphs 200.2(d)(ii)(A) through (D)</p> <p>Section 29.14 [this is an existing IIROC rule requirement]</p> <p>Paragraph 200.2(d)(iii)</p>	<p>Subsection 14.14(4)</p> <p>Paragraph 14.14(5)(f)</p> <p>Paragraph 14.14(5)(g)</p>	<ul style="list-style-type: none"> • IIROC requirements are similar but contain additional disclosure provisions for specific investment products • None • None
Report on client positions held outside of the Dealer Member			
<ul style="list-style-type: none"> • Definition of "book cost" 	<p>Subsection 200.1(a)</p>	<p>Section 1.1</p>	<ul style="list-style-type: none"> • IIROC definition differentiates between the calculation of "book cost" for long positions and for short positions
Report on client positions held outside of the Dealer Member [continued]			
<ul style="list-style-type: none"> • Definition of "cost" 	<p>Subsection 200.1(b)</p>	<p>No equivalent definition; based on subsections 14.14.2(2) and 14.14.2(3)</p>	<ul style="list-style-type: none"> • No real differences - IIROC adopted a definition to simplify rule drafting

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> • Definition of "market value" 	Subsection 200.1(c)	Subsection 14.11.1(1) for client positions only	<ul style="list-style-type: none"> • IIROC definition is similar but contains additional provisions for the valuation of specific investment products • IIROC rules require that the same valuation approach be used to value both proprietary inventory positions and client account positions - the CSA rules do not
<ul style="list-style-type: none"> • Definition of "original cost" 	Subsection 200.1(e)	Section 1.1	<ul style="list-style-type: none"> • IIROC definition differentiates between the calculation of "original cost" for long positions and for short positions
<ul style="list-style-type: none"> • Conditions under which a report must be sent on a quarterly basis 	Paragraph 200.2(e)(i)	Subsection 14.14.1(3)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose security position market value information 	Subparagraphs 200.2(e)(ii)(B) and (D)	Subsections 14.11.1(2), 14.11.1(3) and 14.14.1(2)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose security position cost information 	Subparagraphs 200.2(e)(ii)(C) and (E)	Subsections 14.14.2(2) and 14.14.2(3)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Other report disclosure requirements 	Subparagraphs 200.2(e)(ii)(A) and 200.2(e)(ii)(F)	Paragraphs 14.14.1(2)(a) and 14.14.1(2)(f)	<ul style="list-style-type: none"> • None

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> Requirement to disclose total combined market value of all cash and security positions at certain points in time 	Subparagraph 200.2(f)(ii)(A)	Subsection 14.11.1(3), paragraphs 14.19(1)(a), and 14.19(1)(b) and subparagraph 14.19(1)(e)(i)	<ul style="list-style-type: none"> None
Performance report [continued]			
<ul style="list-style-type: none"> Requirement to disclose total combined market value of all deposits and transfers in of cash and security positions for certain periods of time 	Subparagraph 200.2(f)(ii)(B)	Subsection 14.11.1(3), paragraphs 14.19(1)(c) and 14.19(1)(d) and subparagraph 14.19(1)(e)(i)(ii)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose total combined market value of all withdrawals and transfers out of cash and security positions for certain periods of time 	Subparagraph 200.2(f)(ii)(C)	Subsection 14.11.1(3), paragraphs 14.19(1)(c) and 14.19(1)(d) and subparagraph 14.19(1)(e)(i)(ii)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose total combined change in market value of all cash and security positions for certain periods of time 	Subparagraph 200.2(f)(ii)(D)	Subsection 14.11.1(3) and paragraphs 14.19(1)(f), 14.19(1)(g) and 14.19(1)(h)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose annualized percentage return information 	Subparagraph 200.2(f)(ii)(E)	Paragraph 14.19(1)(i) and subsections 14.19(2) and (3)	<ul style="list-style-type: none"> None

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> • Requirement to provide the definition of "total percentage return", to indicate that performance information is presented net of fees / charges and to explain what the percentage return calculation method used takes into account • Requirement to present information using text, tables and charts 	<p>Subparagraph 200.2(f)(ii)(F)</p> <p>Paragraph 200.2(f)(iii)</p>	<p>Paragraph 14.19(1)(j)</p> <p>Subsections 14.19(5)</p>	<ul style="list-style-type: none"> • None • None
Performance report [continued]			
<ul style="list-style-type: none"> • Requirement to send an annual performance report every 12 months • Requirement to send performance reports for each account and related outside holdings • Conditions under which a consolidated performance report can be sent 	<p>Paragraph 200.2(f)(iv)</p> <p>Paragraphs 200.2(f)(v) and (vi)</p> <p>Paragraph 200.2(f)(vii)</p>	<p>Subsection 14.18(1)</p> <p>Subsections 14.18(2) and 14.18(3)</p> <p>Subsection 14.18(4)</p>	<ul style="list-style-type: none"> • None • None • None

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Requirement	IIROC CRM2 Rule Reference¹	CSA CRM2 Rule Reference²	IIROC Differences
<ul style="list-style-type: none"> Requirement that a consolidated performance report must cover the same accounts as any consolidated fee / charge report that is prepared 	Paragraph 200.2(f)(viii)	No equivalent provision	<ul style="list-style-type: none"> IIROC rule prohibits the preparation of a consolidated performance report that does not cover the same accounts as any consolidated fee / charge report that is prepared
Relationship disclosure - discussion of investment performance benchmarks			
<ul style="list-style-type: none"> New relationship disclosure requirement to discuss investment performance benchmarks 	Paragraph 3500.5(2)(c)(j)	Paragraph 14.2(2)(m)	<ul style="list-style-type: none"> IIROC plans to implement requirement on July 15, 2016 to coincide with implementation date of annual performance report
Fee / charge report			
<ul style="list-style-type: none"> Definition of "operating charge" Definition of "trailing commission" 	Subsection 200.1(d) Subsection 200.1(g)	Section 1.1 Section 1.1	<ul style="list-style-type: none"> None None
Fee / charge report [continued]			
<ul style="list-style-type: none"> Definition of "transaction charge" 	Subsection 200.1(h)	Section 1.1	<ul style="list-style-type: none"> None

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> • Conditions under which a report must be sent on an annual basis 	Paragraph 200.2(g)(i)	No equivalent provision	<ul style="list-style-type: none"> • IIROC rule does not require that an annual fee charge report be sent to the client if no fees or charges were paid by the client, either directly or indirectly, during the year
<ul style="list-style-type: none"> • Requirement to discuss the operating charges which might be applicable to the client's account 	Subparagraph 200.2(g)(ii)(A)	Paragraph 14.17(1)(a)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose the total amount of each type of operating charge 	Subparagraph 200.2(g)(ii)(B)	Paragraph 14.17(1)(b)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose the aggregate total amount of all operating charges 	Subparagraph 200.2(g)(ii)(C)	Paragraph 14.17(1)(b)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose the total amount of each type of transaction charge 	Subparagraph 200.2(g)(ii)(D)	Paragraph 14.17(1)(c)	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Requirement to disclose the aggregate total amount of all transaction charges 	Subparagraph 200.2(g)(ii)(E)	Paragraph 14.17(1)(c)	<ul style="list-style-type: none"> • None

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Requirement	IIROC CRM2 Rule Reference ¹	CSA CRM2 Rule Reference ²	IIROC Differences
<ul style="list-style-type: none"> Requirement to disclose the aggregate total amount of all operating and transaction charges 	Subparagraph 200.2(g)(ii)(F)	Paragraph 14.17(1)(d)	<ul style="list-style-type: none"> None
Fee / charge report [continued]			
<ul style="list-style-type: none"> Requirement to disclose debt security transaction charges 	Subparagraph 200.2(g)(ii)(G)	Paragraph 14.17(1)(e)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose each type of third party payment (other than trailing commissions) and amount 	Subparagraph 200.2(g)(ii)(H)	Paragraph 14.17(1)(g)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to disclose amount and to provide notification for trailing commissions received 	Subparagraph 200.2(g)(ii)(I)	Paragraph 14.17(1)(h)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Requirement to send performance reports for each account and related outside holdings 	Paragraphs 200.2(g)(iii) and (iv)	Subsections 14.17(2) and 14.17(3)	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Conditions under which a consolidated performance report can be sent 	Paragraph 200.2(g)(v)	Subsections 14.17(2) and 14.17(4)	<ul style="list-style-type: none"> None

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Requirement	IIROC CRM2 Rule Reference¹	CSA CRM2 Rule Reference²	IIROC Differences
<ul style="list-style-type: none"> • Requirement that a consolidated fee / charge report must cover the same accounts as any consolidated performance report that is prepared 	Paragraph 200.2(g)(vi)	No equivalent provision	<ul style="list-style-type: none"> • IIROC rule prohibits the preparation of a consolidated fee / charge report that does not cover the same accounts as any consolidated performance report that is prepared