

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
Dealer Member Rules

Please distribute internally to:

Credit
Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Retail
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16-0262
November 10, 2016

Amendments to Dealer Member Rule 300.2(a)(vii) regarding the audit requirement to send second positive confirmation requests

The applicable securities regulatory authorities have approved amendments to IIROC Dealer Member Rule 300.2(a)(vii) regarding the audit requirement to send second positive confirmation requests (**Amendments**).

The Amendments were published for comment on February 25, 2016 in IIROC Rules [Notice 16-0038](#) - *Proposed amendments to Dealer Member Rule 300.2(a)(vii) regarding the audit requirement to send second positive confirmation requests* (**Notice 16-0038**). All relevant background information, including the objectives of the amendments, is set out in Notice 16-0038.

Comments Received

We received no comment letters in response to Notice 16-0038.



Amendments

Attached are the Amendments and accompanying attachments. There have been no revisions to the Amendments from those previously published in Notice 16-0038.

Attachment A - Text of the Amendments to Dealer Member Rule 300.2(a)(vii)

Attachment B - Clean copy of the Amendments to Dealer Member Rule 300.2(a)(vii)

Attachment C - Black-line copy of the Amendments to Dealer Member Rule 300.2(a)(vii).

Implementation

The Amendments will be effective on **November 17, 2016**.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO DEALER MEMBER RULE 300.2(A)(VII) REGARDING THE AUDIT REQUIREMENT TO
SEND SECOND POSITIVE CONFIRMATION REQUESTS

TEXT OF AMENDMENTS

1. Dealer Member Rule 300.2(a)(vii) is as amended by:
 - (a) deleting the word “and” immediately after the words “Auditor’s return address”;
 - (b) adding the words “. The Dealer Member’s Auditor has the option to send out” immediately after “Auditor’s return address”;
 - (c) deleting the word “are” immediately before the words “similarly mailed to”;
 - (d) deleting the word “where” immediately after the words “procedures must be used”;
and
 - (e) adding the words “to obtain relevant and reliable audit evidence where second requests are not sent out or” immediately before the words “replies to second requests”.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO DEALER MEMBER RULE 300.2(A)(VII) REGARDING THE AUDIT REQUIREMENT TO
SEND SECOND POSITIVE CONFIRMATION REQUESTS
CLEAN COPY OF AMENDMENTS

1. A clean copy of the amendments to Dealer Member Rule 300.2(a)(vii) is as follows:

“The Dealer Member's Auditor shall:

(a) As of the audit date:

- .
- .
- .

(vii) Obtain written confirmation with respect to the following:

- .
- .
- .

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been mailed by the Dealer Member's Auditor in an envelope bearing the Auditor's return address. The Dealer Member's Auditor has the option to send out second requests similarly mailed to those not replying to the initial request. Appropriate alternative verification procedures must be used to obtain relevant and reliable audit evidence where second requests are not sent out or replies to second requests have not been received. For accounts mentioned in (4), (6) and (7) above, the Dealer Member's Auditor shall (i) select specific accounts for positive confirmation based on (a) their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and (b) other characteristics such as accounts in dispute, accounts that are significantly undermargined, nominee accounts, and accounts that would require significant margin during the year or as at year-end without the existence of an effective guarantee, and (ii) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (4), (6) and (7) above that are not confirmed positively, the Dealer Member's Auditor shall

Attachment B

mail statements with a request that any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;”

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
AMENDMENTS TO DEALER MEMBER RULE 300.2(A)(VII) REGARDING THE AUDIT REQUIREMENT TO
SEND SECOND POSITIVE CONFIRMATION REQUESTS

BLACK-LINE OF AMENDMENTS

1. A black-line copy of the amendments to Dealer Member Rule 300.2(a)(vii) is as follows:

“The Dealer Member's Auditor shall:

(a) As of the audit date:

-
-
-

(vii) Obtain written confirmation with respect to the following:

-
-
-

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been mailed by the Dealer Member's Auditor in an envelope bearing the Auditor's return address ~~and~~. The Dealer Member's Auditor has the option to send out second requests ~~are~~ similarly mailed to those not replying to the initial request. Appropriate alternative verification procedures must be used ~~where~~ to obtain relevant and reliable audit evidence where second requests are not sent out or replies to second requests have not been received. For accounts mentioned in (4), (6) and (7) above, the Dealer Member's Auditor shall (i) select specific accounts for positive confirmation based on (a) their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and (b) other characteristics such as accounts in dispute, accounts that are significantly undermargined, nominee accounts, and accounts that would require significant margin during the year or as at year-end without the existence of an effective guarantee, and (ii) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (4), (6) and (7) above that are not confirmed positively, the Dealer Member's Auditor shall mail statements with a request that any differences be

Attachment C

reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;”