

IIROC NOTICE

Rules Notice Request for Comments

Dealer Member Rules

Comments Due By: May 14, 2018

Please distribute internally to:

Institutional
Legal and Compliance
Senior Management
Trading Desk
Retail

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18-0079
April 12, 2018

Republication of Proposed Amendments to Client Identification and Verification Requirements

Executive Summary

IIROC is republishing for comment revisions to previously published proposed changes to Part A of Rule 3200 (**2018 Proposed Amendments**) of the proposed IIROC Dealer Member Plain Language Rule Book (**proposed PLR Rule Book**). The 2018 Proposed Amendments deal with client identification and verification requirements and would make our rules consistent with other domestic standards.

We originally published proposed amendments for comment on July 6, 2017 in [Notice 17-0139 – Proposed Amendments to Client Identification and Verification Requirements](#) (**2017 Proposed Amendments**). We received five comment letters. We propose material changes in response to public comments and discussions with stakeholders and the Canadian Securities Administrators (**CSA**).



The primary difference between the 2018 Proposed Amendments and the 2017 Proposed Amendments relate to the expansion of the exceptions from the identification requirements to align with federal standards.

Impact

The 2018 Proposed Amendments relating to the exceptions to the identification requirements are consistent with the current Dealer Member Rules and accordingly should have no impact on Dealer Member's current practice.

How to Submit Comments

Comments on the Proposed Amendments should be made in writing and delivered by **May 14, 2018** to:

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Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iroc.ca.



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1. Background

Under the current Dealer Member Rules and the proposed PLR Rule Book, Dealer Members must use due diligence to establish the identity of every new client.¹ The following federal and provincial regulations also govern client identification due diligence:

- anti-money laundering and anti-terrorist financing requirements (**AML Rules**²)
- [National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations \(NI 31-103\)](#).

1.1 Key differences

The key differences between the IIROC Rules, AML Rules and NI 31-103 relate to the identification of non-individual clients, such as corporations, partnerships and trusts. While Dealer Members are exempt from NI 31-103 requirements, they are required to comply with AML Rules and IIROC Rules.

2. Discussion of 2017 Proposed Amendments

On July 6, 2017, we published the 2017 Proposed Amendments for comment in [Notice 17-0139 – Proposed Amendments to Client Identification and Verification Requirements](#).

The 2017 Proposed Amendments proposed changes to the IIROC Rules to align with the most stringent of AML Rules and NI 31-103 requirements. The changes initially proposed were as follows:

2.1 Beneficial owners and beneficiaries

We proposed requiring Dealer Members establish:

- the identity of any beneficial owner of more than 25% of a corporation and obtain the names of all its directors
- the identity of any individual who exercises control over the affairs of a trust or partnership and obtain the names and addresses of all trustees and known beneficiaries and settlors of the trust.

Under the 2017 Proposed Amendments, Dealer Members had to establish the identity of beneficial owners of more than 25% of a corporate client, as opposed to those who have more than 10%.

The 2017 Proposed Amendments also required that Dealer Members collect information on all trustees and known beneficiaries and settlors of a trust, where current IIROC Rules do not ask for trustee information. Dealer Members were also required to collect the names of all directors of a corporation. Functionally, however, this 2017 Proposed Amendment did not affect Dealer Members because they were already required to collect this information under the AML Rules

¹ See Dealer Member Rules 1300.1, 2500II and 2700II. We redrafted these requirements in plain language as Part A of Rule 3200 of the proposed PLR Rule Book. Because the client identification requirements under the current Dealer Member Rules and the proposed PLR Rule Book are materially the same, for the purposes of this Notice we will refer to both the current Dealer Member Rules and the proposed PLR Rule Book as the **IIROC Rules**.

² “AML Rules” means the [Proceeds of Crime \(Money Laundering\) and Terrorist Act](#) and its accompanying regulations, including the [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Regulations](#).

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2.2 Establishing identity

We proposed requiring Dealer Members to:

- establish the identity of the individuals listed in 2.1 above by using methods that allow them to form a reasonable belief they knew the identity of the individual and by taking reasonable measures to confirm the accuracy of that information
- keep a record that sets out the information obtained and the measures to confirm the accuracy of that information.

Dealer Members no longer needed to collect details such as citizenship, occupation and employer.

2.3 Timing

We proposed providing Dealer Members with 30 days to take reasonable measures to establish the identity of those individuals for whom they were required to do so. Compared to the current IIROC Rules, Dealer Members would have less time to establish the identity of key individuals involved in their clients, but they would have less documentation to collect.

2.4 Exceptions

We proposed exempting only the following types of entities from the IIROC Rules:

- firms registered under Canadian securities laws to trade in or advise on securities
- Canadian investment funds
- Canadian financial institutions
- Canadian Schedule III banks
- large corporations whose shares are publicly traded.

2.5 Other amendments to align with NI 31-103

To better align with NI 31-103, we also proposed that Dealer Members:

- establish the creditworthiness of the client if they are financing that client's acquisition of securities
- take reasonable steps to keep client identification information current
- establish the nature of the client's business.

3. Discussion of 2018 Proposed Amendments

3.1 Material Changes

Following publication of the 2017 Proposed Amendments, we received five comment letters. We propose material changes in response to these public comments and discussions with stakeholders and the CSA.

The material changes primarily concern the exceptions to the client identification requirement (**Identification Exceptions**) set out in the proposed PLR Rule Book, Section 3207. We propose extending Identification Exceptions to:

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- (i) affiliates of:
 - o exempt Canadian financial institutions
 - o exempt Canadian public bodies or large publicly traded corporations (**Affiliates**)
- (ii) registered pension funds.

These Identification Exceptions are available under the current IIROC Rules although we proposed eliminating these exceptions in the 2017 Proposed Amendments.

We propose exempting the foregoing entities for the following reasons:

- These exceptions are consistent with the exceptions permitted under the current IIROC Rules and AML Rules regarding client identification.
- Obtaining beneficial ownership information about individuals with direct or indirect control of registered pension funds or affiliates of excepted Canadian financial institutions, corporations and public bodies is unduly onerous and disproportionate to the potential risk arising from a lack of identification information of these individuals.

3.2 Non-Material Changes

The non-material changes would clarify the language in the following sections:

- (i) clauses 3203(1)(iii) and 3204(1)(iii) regarding establishing the identity of individuals exercising control over a particular entity in accordance with section 3206
- (ii) section 3204 to indicate that the threshold for establishing the identify of a beneficial owner of a corporation is “25% or more” rather than “more than 25%” to be consistent with the AML Rules
- (iii) subsection 3202(2) to clarify that a Dealer Member must complete an account application for each new client, not each new account. This is consistent with the current IIROC Rules and was inadvertently amended in the 2017 Proposed Amendments
- (iv) subsection 3207(1) to describe more accurately the sections of Part A, Rule 3200 from which the listed entities are exempt.

4. Impact of 2018 Proposed Amendments

The 2018 Proposed Amendments relating to the Identification Exceptions are consistent with the current IIROC Rules and accordingly should have no impact on Dealer Members’ current practice. The other proposed amendments relating to the clarification of language will enable Dealer Members to understand more clearly their obligations under the PLR Rules.

5. Implementation

We plan to implement the 2018 Proposed Amendments when the proposed PLR Rule Book becomes effective. Depending on timing, we would incorporate the 2018 Proposed Amendments into the PLR Rule Book either:



- when the Notice of Approval (or republication for comment) of the proposed PLR Rule Book is published, or
- after publication of the Notice of Approval of the PLR Rule Book but before it becomes effective (in a separate notice).

6. Policy Development Process

6.1 Regulatory Purpose

The 2018 Proposed Amendments would ensure consistency with the AML Rules, promote protection of investors and support healthy capital markets.

6.2 Regulatory Process

IIROC's Board of Directors (the **Board**) has determined the 2018 Proposed Amendments to be in the public interest and on March 28, 2018 approved them for republication for public comment.

After considering the comments to the 2018 Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may revise the applicable proposed amendments. If the revisions and comments received are not material, the Board has authorized the President to approve the revisions on behalf of IIROC and the 2018 Proposed Amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, we will submit to the Board the 2018 Proposed Amendments and any revisions for approval for republication or implementation as applicable.

7. Appendices

[Appendix 1](#) – proposed Part A of proposed IIROC Dealer Member Plain Language Rule Book Rule 3200 (clean)

[Appendix 2](#) – blackline of proposed Part A of proposed IIROC Dealer Member Plain Language Rule Book Rule 3200 showing the changes since the previous publication (July 6, 2017)

[Appendix 3](#) – Response to public comments