

## Chapter 13

# SROs, Marketplaces and Clearing Agencies

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### 13.1 SROs

#### 13.1.1 IIROC Rules Notice – Request for Comment – Dealer Member Rules

*NOTE: The full text of the following proposal has not been reproduced in the OSC Bulletin. Specifically, the published text does not include Attachments A and B to the notice. The full text, with attachments, can be found on the OSC website at <http://www.osc.gov.on.ca/en/20447.htm>.*

#### **RULES NOTICE REQUEST FOR COMMENT DEALER MEMBER RULES**

**10-0230  
August 27, 2010**

#### **Amendments to Form 1 to adopt IFRS for regulatory reporting purposes**

##### **Summary of the nature and purpose of the proposed amendments**

On August 11, 2010, the Board of Directors (“the Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of the proposed amendments to Form 1 regarding the change in accounting standards from Canadian Generally Accepted Accounting Principles (CGAAP) to International Financial Reporting Standards (IFRS).

IIROC’s main objective with these proposals is to harmonize the standards used for regulatory financial reporting as much as is feasible with IFRS. In order to determine which changes in standards are feasible, IIROC staff considered:

- the investor protection issues, if any, associated with adopting a particular IFRS standard;
- the Dealer Member and Dealer Member service provider costs associated with adopting a particular IFRS standard;
- the value of using one standard for both statutory and regulatory reporting purposes; and
- the incremental regulatory value provided by adopting a particular IFRS standard.

Since Form 1 is a special purpose report used by IIROC and CIPF to assess and monitor Dealer Member financial solvency, IIROC staff was also mindful of the potential impact of the adoption of IFRS on Dealer Members’ capital and early warning calculations.

##### **Issues and specific proposed amendments**

###### ***Current Form 1***

Form 1 is a special purpose report that is used by IIROC and CIPF to monitor the financial solvency of Dealer Members. To monitor financial solvency, IIROC monitors the Risk Adjusted Capital (RAC) level and Early Warning Test (EW) compliance of each Dealer Member. The RAC level is calculated on Statement B of Form 1 and EW compliance is on Schedules 13 and 13A of Form 1. Existing Form 1 is to be prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP), except as modified by IIROC rules.

### **Proposed amendments to Form 1**

The proposed amendments are a combination of significant and minor changes. Most of the significant changes occur in Part I of Form 1, which contains the Dealer Member financial statements including the statement of financial position, the statement of income, and the statement of changes in capital and retained earnings. Minor changes have been proposed throughout Form 1.

#### **Significant amendments**

The following significant amendments are proposed:

- **Prescribed departures from IFRS:** The following are the six departures from IFRS that IIROC proposes to mandate:
  1. reporting of client and broker trading balances on a net basis;
  2. treating preferred shares as regulatory capital;
  3. presenting certain terms, classifications and financial statements that are not contemplated under IFRS but which are necessary for regulatory reporting purposes;
  4. presenting the financial statements on a non-consolidated basis;
  5. excluding the statement of cash flow from Form 1; and
  6. using a different valuation approach for investment product positions held in Dealer Member inventory and client accounts.

Each of these departures, with the exception of the valuation approach used for investment product positions, will result in no change to the current approach used by IIROC Dealer Members in preparing Form 1.

#### **Proposed Form 1 valuation approach**

In the case of the valuation approach used for investment product positions, IIROC staff is proposing to amend the existing Form 1 “market value” definition to adopt the mandated IFRS valuation approaches (Items 1 through 4 of the proposed revised “market value” definition).

It should be noted, however, that in order to address situations where a current “fair value” cannot otherwise be reliably determined through the use of the mandated IFRS valuation approaches, IIROC has proposed a fifth valuation approach (Item 5 in the proposed revised “market value” definition). This fifth valuation approach would permit a Dealer Member to assign no value to an investment product position “Where value cannot be reliably measured under Items 1 through 4 above (including where cost does not represent the best estimate of value)...” and would represent a departure from IFRS.

IIROC staff has proposed this fifth valuation approach as part of the proposed Form 1 amendments for the following practical, investor protection and Dealer Member solvency reasons:

- **Practical:** Daily valuation of Dealer Member inventory and client account positions is now an investment dealer industry standard<sup>1</sup>. As a result, where a number of investment product positions do not trade or are inactively traded, such that a current price quote is unavailable, we believe the daily use of other valuation techniques such as modeling and marking to estimated value would be impractical.
- **Investor protection:** IIROC staff believes that the use of multiple IFRS valuation approaches of varying degrees of reliability raises investor protection concerns given that the use of multiple approaches may lead to investor confusion as to the realizable value of their holdings. As a result, in instances where the values determined are considered to be less reliable and/or there is a wide range of possible values, Dealer Members should have the option of assigning no value to a client account position rather than being required to provide the client with an unreliable and/or imprecise value.
- **Solvency:** The IFRS valuation methods were specifically designed for the preparation of statutory financial statements; they were not designed for the preparation of special purpose regulatory financial statements that assess near-term investment dealer solvency. As a result, in instances where the values determined are

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<sup>1</sup> Investment dealers are required to “mark-to market” Dealer Member inventory positions on a daily basis and most investment dealers provide daily account investment valuations to clients over the internet.

considered to be less reliable and / or there is a wide range of possible values, Dealer Members should have the option of assigning no value to a Dealer Member inventory position rather than being required to assign an unreliable and/or imprecise value to that position.

**Proposed valuation approach for CSA registrants**

The CSA (as part of its proposed one year amendments to NI 31-103) is proposing to adopt the mandated IFRS valuation approaches and to use the IFRS term “fair value”, but it will also allow the assignment of no value to a security position in limited circumstances. Precisely what these limited circumstances would be is unclear at this time but it is clear under the CSA proposal that the expectation is that a registrant would need to attempt to value positions by each of the possible IFRS valuation approaches, and in turn conclude that a value could not be determined, before the assignment of no value could be considered.

The CSA has also proposed that for client statements, the “fair value” approach be used on a quarterly basis. Further, for illiquid securities, the proposal allows that the value determined at each quarter-end can be used as an indication of value throughout the subsequent quarter or until a current market quote becomes available, whichever occurs sooner.

**Questions for commenters**

In order to assess the impact of the IIROC proposals relating to valuation, we have developed a number of questions for commenter response. The responses to these questions will also assist us in finalizing the valuation requirements set out in the General Notes and Definitions to Form 1.

<p><b>FOR INVESTMENT DEALERS</b></p> <ol style="list-style-type: none"><li><b><i>1. The adoption of the IFRS valuation approach or a similar approach<sup>2</sup> involves the use of various alternative valuation approaches when a current market quote is unavailable. What are the approximate percentage(s)<sup>3</sup> of your current Dealer Member inventory and client account holdings, where stale pricing is a concern or for which no value has been assigned and which would therefore be directly impacted by these proposals?</i></b></li><li><b><i>2. Do you have the in-house expertise to apply the alternative valuation approaches mandated by IFRS when a current market quote is unavailable? Do you intend to rely on a third party pricing provider to provide this expertise and are they equipped to provide it?</i></b></li></ol> <p><b>FOR ALL COMMENTERS</b></p> <ol style="list-style-type: none"><li><b><i>3. The adoption of the IFRS valuation approach involves the use of alternative valuation approaches. Some approaches provide a much more reliable estimate of the potential realization value of account positions than others<sup>4</sup>. Where different approaches with different reliability levels are used, should the valuation approach used for each account position be disclosed?</i></b></li><li><b><i>4. The IIROC proposals address situations where the value of an investment product is extremely difficult to determine. Should an investment dealer always report to the client its best estimate as to a investment product's value or should they be allowed to report “value not determinable” when they've concluded that the estimated value of the product is unreliable and/or the estimated value has been selected from a wide range of values?</i></b></li></ol>
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[General Notes and Definitions, Note 1 - IFRS departures and Definition (g) - “market value”]

- **Extraordinary items:** It is also proposed that the line item “Extraordinary items” be removed from Statement E, “Statement of Income and Comprehensive Income”. This proposal flows from the fact that under IFRS there is no concept of extraordinary items. As a result, any amounts that were previously considered to be “extraordinary” will now

<sup>2</sup> IIROC's proposed approach would be described as a “similar approach” because of the proposed departure from IFRS (Item 5) relating to the valuation of hard to value securities.

<sup>3</sup> Please provide percentages determined for both number of investment products affected and dollar value of investment products affected. The number-based percentage will give us an indication of the impact of the proposed change in valuation approach on Dealer Member valuation procedures, the dollar value-based percentage will give us an indication of the impact of the proposed change in valuation approach on the positions held in Dealer Member inventory and client accounts.

<sup>4</sup> Valuing a position based on a currently available market quote is a more reliable estimate of the potential realization value of an account position than if the value is determined using a mark-to-estimate approach.

be included in the calculation of "Profit [loss] for Early Warning test" and will therefore, affect the outcome of the Early Warning profitability tests set out in Schedules 13 and 13A. However, if an Early Warning profitability test is triggered due to an extraordinary item reclassification, IIROC has the ability to exercise discretion to waive any early warning restrictions, in accordance with Dealer Member Rule 30.8, if warranted.

*[Statement E]*

- **Taxes on partnership profits:** It is also proposed that the requirement for Dealer Members to report taxes at 33 1/3% on partnership profits as a notional income tax expense be repealed. Currently, IIROC requires Dealer Members that are structured as partnerships to recognize a notional income tax expense equal to 33 1/3% of undistributed partnership income. Dealer Members reverse the income tax accrued over the year once the partnership income is allocated to the partners. The purpose of this proposed amendment is to recognize that the Dealer Member itself is not accountable to pay income taxes related to the partnership income. Rather, it is the individual partners who must pay income taxes at the personal level.

*[Statement E]*

### Minor amendments

The following amendments, which have been classified as minor because they do not impact on the calculation of RAC and early warning tests, are proposed:

- **Prescribed accounting treatment:** These proposed amendments list IIROC's three prescribed accounting treatments in relation to: prohibiting the use of hedge accounting; categorizing all inventory positions as held-for-trading financial instruments; and valuing a subsidiary at cost. The prescribed treatment for categorizing inventory positions was previously mandated by the IDA through the issuance of IDA Member Regulation Notice MR0431. The other two prescribed treatments reflect current industry practice.

*[General Notes and Definitions, Note 3 and Statement A, Line 26 and related notes and instructions]*

- **List of unresponsive brokers to year-end audit confirmation request:** This proposed amendment removes the requirement for Dealer Members to enclose a list of brokers that have not responded to a year-end audit confirmation request. This requirement was removed because there is no additional regulatory value to receiving it, given that Dealer Members are already required to reconcile broker account statement balances on a monthly basis and capital penalties arise if there are unreconciled differences.

*[General Notes and Definitions, Note 11]*

- **List of unresponsive guarantors to year-end audit confirmation request:** This proposed amendment removes the requirement for Dealer Members to enclose a list of guarantors that have not responded to a year-end audit confirmation request. This requirement was removed because there is no additional regulatory value to receiving it, given that capital penalties arise if a guarantee agreement, which is subject to year-end audit confirmation, is unconfirmed. Furthermore, the auditors test the validity of guarantee agreements throughout the year.

*[General Notes and Definitions, Note 12]*

- **Lists of other acceptable foreign securities locations:** This proposed amendment removes the requirement for Dealer Members to enclose certain information regarding securities held at other acceptable foreign securities locations. This requirement was removed because there is no additional regulatory value to receiving it, given that Dealer Members are required to reconcile their custody holdings on a monthly basis with all custodial locations and to provide 100% margin for any unresolved differences.

*[General Notes and Definitions, Note 13]*

- **Signatories to the management certificate filed with Form 1:** These proposed amendments update who may sign the management certificates that accompany Form 1, thereby incorporating post "Registration Reform" terminology. The revised signatory requirements specify that the Ultimate Designated Person (UDP) and the Chief Financial Officer (CFO) must sign each certificate, along with one additional Executive where the CFO is not an Executive or where the UDP and the CFO are the same person. In substance, the revised requirements mandate that at least two Dealer Member Executives must sign the management certificates that are filed with Form 1.

*["UDP and CFO Certificate" and "Separate UDP and CFO Certificate on Statement G of Part I"]*

- **Receivable from carrying broker or mutual fund:** This proposed amendment requires a Dealer Member that is an introducing broker to report unsecured balances from its carrying broker, such as commissions and deposits on a gross basis instead of on a net basis. The purpose of the amendment is to ensure compliance with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 11 and related notes and instructions]*

- **Recoverable and overpaid taxes:** This proposed amendment adds Harmonized Sales Tax (HST) receivables, in recognition of the introduction of this tax in some provinces.

*[Statement A, Line 14 and related notes and instructions]*

- **Advances to subsidiaries and affiliates:** This proposed amendment requires a Dealer Member to report non-trading inter-company receivables on a gross basis instead of a net basis. Its purpose is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 27 and related notes and instructions]*

- **Other assets:** This proposed amendment requires a Dealer Member to report non-trading receivables that are not from acceptable institutions on a gross rather than net basis. Its purpose is to comply with IFRS, which requires balances to be reported on a gross basis, unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 28 and related notes and instructions]*

- **Capitalized leases:** These proposed amendments: (a) move the line item “capitalized leases” from within the “Non Allowable Assets” category of assets to a separate category on its own; and (b) rename “capitalized leases” as “finance lease assets”, in order to adopt IFRS terminology. The amendments are necessary because under IFRS, it is likely that more leases, which would have been formerly classified as operating leases, will be classified as finance leases. Without the above amendments, these finance lease assets would be classified as non-allowable assets and the Dealer Member’s RAC would be negatively affected. These proposed amendments are justified given that in the event of a Dealer Member’s insolvency, the corresponding liability owing to general creditors for capitalized leases ranks behind client claims. There is therefore no need for Dealer Members to provide regulatory capital for finance lease assets.

*[Statement A, Line 30]*

- **Provisions:** These proposed amendments add the line items “Provisions” under the “Current Liabilities” category and the “Non-current Liabilities” category. Their purpose is to meet the IFRS requirement to separately disclose specific amounts relating to legal and constructive obligations. A constructive obligation under IFRS is an obligation that derives from an entity’s actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and (b) as a result, the entity has created a valid expectation in those parties that they can reasonably rely on it to discharge those responsibilities. Currently provisions would be included in the line items “Other current liabilities” and “Other long-term liabilities” under the “Current Liabilities” category and “Long Tem Liabilities” category, respectively.

*[Statement A, Lines 55 and 62]*

- **Deferred income taxes - current portion:** This proposed amendment removes the line item “Deferred income taxes - current portion” from within the “Current Liabilities” category, because under IFRS, when an entity presents current and non-current liabilities as separate classifications within its statement of financial position, as is the case with Form 1, the entity is prohibited from classifying any portion of its deferred income taxes as a current liability. Rather, under IFRS, all deferred tax liability amounts must be reported as “Deferred tax liabilities” within the “Non-current liabilities” category of the statement of financial position.

*[Statement A, Line 63]*

- **Non-current portion of capitalized leases qualifying as capital:** These proposed amendments rename the line item “Non-current portion of capitalized leases qualifying as capital” with the name “Finance lease - leasehold inducements” within the former “Financial Statement Capital” category and move this line item to within the “Non-current Liabilities” category. The purpose of the rename is to adopt IFRS terminology. The purpose of the reclassification is to comply with IFRS balance sheet presentation. Since this line item will be added back on Statement B, Line 2 in determining “Regulatory Financial Statement Capital”, the amendments do not impact on the calculation of RAC and early warning tests.

*[Statement A, Line 65 and Statement B, Line 2]*

- **Subordinated loans:** These proposed amendments combine the line items “Subordinated loans - approved non-industry investors” and “Subordinated loans - industry investors” within the former “Financial Statement Capital” category, rename the resulting line item as “Subordinated loans” and move the line item to under the “Non-current Liabilities” category. The purpose of combining line items is that IIROC no longer needs to make a distinction between a subordinated loan from a non-industry investor and from an industry investor, because all subordinated loans must be processed and approved by IIROC. The purpose of the reclassification from a financial capital item to a liability item is to comply with IFRS statement of financial position presentation. Since this line item will be added back on Statement B, Line 3 in determining “Regulatory Financial Statement Capital”, the amendments do not impact on the calculation of RAC and early warning tests.

*[Statement A, Line 67 and Statement B, Line 3]*

- **Reserves and the various reserve accounts:** The proposed amendment adds the line item “Reserves” under the “Capital and reserves” category. The purpose of separately presenting this line item is to comply with IFRS balance sheet presentation. “Reserves” are amounts set aside for future use, expense, loss or claim. They include amounts appropriated from retained earnings and accumulated other comprehensive income.

*[Statement A, Line 71]*

A section has also been added as part of Statement F to detail the three types of reserve accounts “General”, “Properties revaluation” and “Employee benefits”. A “General” reserve is the amount a Dealer Member may transfer from retained earnings as an added measure of protection against unforeseen losses. A “Properties revaluation” reserve is used when a Dealer Member adopts the revaluation model to value PPE and intangibles. An “Employee benefits” reserve is made up of two components, defined benefit pension plan and stock option or share award. Regarding the defined benefit pension plan component, the employee benefits reserve is the accumulated actuarial gains and losses that are recognized in other comprehensive income (OCI) when a Dealer Member has a defined benefit pension plan and has adopted a policy of recognizing in full actuarial gains and losses in OCI. Regarding the stock option or share reward component, the employee benefits reserve is the corresponding increase in this reserve account when a Dealer Member recognizes the fair value of the stock option or shares award granted to its employees as an expense.

*[Statement F, Part B]*

- **Finance leases - leasehold inducements:** The proposed amendment adds the criterion upon which the non-current portion of a finance lease liability for leasehold inducements can be reported as an adjustment to RAC. The criterion is that the leasehold inducement presents no additional liability to the Dealer Member (i.e. the Dealer Member does not “owe” the unamortized portion of the lease inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member).

*[Statement B, Line 2 and related notes and instructions]*

- **Contingent liabilities:** The proposed amendment requires a Dealer Member to retain the details of the margin calculations for contingencies for IIROC review instead of providing it as an attachment with Statement B.

*[Statement B, Line 15 and related notes and instructions]*

- **Netting for margin calculation:** These proposed amendments allow a Dealer Member to net allowable assets and liabilities, as well as security positions, for regulatory margin purposes only, but prohibit their netting for presentation purposes.

*[Statement B, notes and instructions]*

- **Other options:** These proposed amendments allow for the separate reporting of listed and over-the counter derivatives commission revenue by separating the line item “Other options” into two line items, “Other listed options” and “OTC derivatives”, within the “Commission Revenue” category of the statement of income and comprehensive income. This is strictly a presentation change.

*[Statement E, Lines 5 and 8 and related notes and instructions]*

- **OTC derivatives:** The proposed amendment allows for the separate reporting of listed and over-the counter derivatives principal revenue by adding the item “OTC derivatives” within the “Principal Revenue” category of the statement of income and comprehensive income. The purpose of broadening the revenue line items is to separately present over-the-counter derivatives such as forwards and swaps. This is strictly a presentation change.

*[Statement E, Line 14 and related notes and instructions]*

- **Net interest:** The proposed amendment renames “Net interest” with the name “Interest”, within the “Other Revenue” category of the statement of income and comprehensive income and permits only interest revenue to be reported on this line. The purpose of the proposed amendment is to comply with IFRS, which requires balances, in this case interest balances, to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. A related “Financing cost” interest expense account is also being set up as a separate amendment (see discussion below).

*[Statement E, Line 18 and related notes and instructions]*

- **Commissions and fees paid to third parties:** The proposed amendment adds the line item “Commissions and fees paid to third parties”, under the “Expenses” category. The purpose of the proposed amendment is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.

*[Statement E, Line 23 and related notes and instructions]*

- **Financing cost:** The proposed amendment adds the line item “Financing cost”, within the “Expenses” category of the statement of income and comprehensive income and permits only interest expenses (other than those relating to subordinated debt) to be reported on this line. The purpose of the proposed amendment is to comply with IFRS, which requires balances, in this case interest balances, to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. This new interest expense account is the contra account to the “Interest” revenue account discussed above.

*[Statement E, Line 26 and related notes and instructions]*

- **Corporate finance cost:** The proposed amendment adds the line item “Corporate finance cost”, under the category “Expenses”. The purpose of the proposed amendment is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. This new corporate finance expense account is related to the existing corporate finance revenue accounts set out on Lines 15 through 17 of Statement E.

*[Statement E, Line 27 and related notes and instructions]*

- **Profit (loss) for the year from discontinued operations:** The proposed amendment adds the line item “Profit (loss) for the year from discontinued operations” as IFRS requires separate disclosure of any such amounts.

*[Statement E, Line 29 and related notes and instructions]*

- **Operating expenses:** These proposed amendments require Dealer Members to report as operating expenses all transaction costs associated with the buying and selling of inventory positions. Their purpose is to comply with IFRS, which require these costs to be expensed and not capitalized.

*[Statement E, Line 30 and related notes and instructions]*

- **Income – Asset revaluation:** The proposed amendment adds the line item “Income – Asset revaluation”, under the category “Expenses”. The purpose of the proposed amendment is to accommodate the IFRS revaluation model in which changes to the fair value of a Dealer Member’s plant, property & equipment and intangible assets may result in recognizing income (i.e. from a write-up of these non-allowable assets) after considering accumulated depreciation (or amortization) and an OCI surplus. Although IIROC does not expect Dealer Members to choose the revaluation model, the proposed amendment has been made in order to give Dealer Members that option. The proposed amendment will not affect the early warning calculations, because the line item is not included in the line item “Profit (loss) for Early Warning test”.

*[Statement E, Line 32 and related notes and instructions]*

- **Expense – Asset revaluation:** The proposed amendment adds the line item “Expense – Asset revaluation” under the category “Expenses”. The purpose of the proposed amendment is to accommodate the IFRS revaluation model in which changes to the fair value of a Dealer Member’s plant, property & equipment and intangible assets may result in recognizing expense (i.e. from a write-down of these non-allowable assets) after considering accumulated depreciation

(or amortization) and an OCI surplus. Although IIROC does not expect Dealer Members to choose the revaluation model, the proposed amendment have been made in order to give Dealer Members that option. The proposed amendment will not affect the early warning calculations, because the line item is not included in the line item "Profit (loss) for Early Warning test".

*[Statement E, Line 33 and related notes and instructions]*

- **Other comprehensive income:** These proposed amendments add the category "Other comprehensive income" (OCI) to comply with IFRS presentation of profit or loss for the period. Under this category, these proposed amendments add two components of OCI that are acceptable to IIROC, line items "Gain (loss) arising on revaluation of properties" and "Actuarial gain (loss) on defined benefit pension plans". Furthermore, these proposed amendments add the line item "Other comprehensive income for the year, net of tax", which is the sum of the two previously mentioned OCI components. Because of IIROC's prescribed departures from IFRS, which disallow Dealer Members from: consolidating subsidiaries, applying hedge accounting and categorizing inventory positions as available-for-sale, their corresponding components of OCI will be excluded from the OCI category.

*[Statement E, Lines 39 and 40 and related notes and instructions]*

- **Total comprehensive income for the year:** The proposed amendment adds the line item "Total comprehensive income for the year", which is the sum of the profit or loss for the period and other comprehensive income for the year, net of tax. The purpose of the proposed amendment is to present OCI in accordance with one of the IFRS presentation formats. In this case OCI is being presented along-side the income for the period as part of one statement.

*[Statement E, Line 41 and related notes and instructions]*

- **Share premium and share capital:** These proposed amendments add new columns to separately disclose the share premium and share capital portions of Dealer Member issued capital.

*[Statement F, Part A]*

- **Retroactive adjustment of prior year's retained earnings:** These proposed amendments require a Dealer Member to retroactively adjust its prior year's retained earnings if it makes a change in accounting policy in the current year. Furthermore, these proposed amendments require that the beginning balance of the current year be the ending balance of the prior year. While any adjustment reported on this line will impact on the calculation of RAC and early warning amounts, the requirement itself is unchanged from current CGAAP.

*[Statement F, Part C]*

- **Statement of Changes in Subordinated Loans:** This proposed amendment repeals the Statement of Changes in Subordinated Loans in its entirety. This statement is no longer needed as IIROC obtains all necessary details of the subordinated loans outstanding at each Dealer Member at the time IIROC approves changes to such loans.

*[Current Statement G]*

- **Opening IFRS Statement of Financial Position and Reconciliation of Equity:** This proposed amendment introduces a new one-time statement, to be completed at the time of Dealer Member IFRS adoption, which requires Dealer Members to reconcile their closing statement of financial position prepared using CGAAP to their opening statement of financial position prepared using IFRS. This one-time transitional filing and management certification will establish the basis for the opening retained earnings for subsequent monthly financial report filings. Adjustments to opening retained earnings to reflect the adoption of IFRS will be listed and explained.

*[Proposed Statement G]*

- **Analysis of Deferred Income Taxes:** This proposed amendment removes Part B, "Analysis of deferred income taxes", from Schedule 6, because it does not have any regulatory value to IIROC.

*[Schedule 6]*

- **Other corollary amendments:** Other corollary amendments have been made throughout Form 1 to, among other things:
  - update terminology used within the form to adopt IFRS terms;

- update terminology used within the form to reflect changes in securities legislation (i.e., Registration Reform);
- removal of redundant line items (i.e., “syndicate and joint trading accounts” and “stock exchange seats”);
- inclusion of additional line items to adopt IFRS requirements for separate disclosure (i.e., “deferred tax assets” and “intangible assets”);
- update cross referencing within the form; and
- remove references to other self regulatory organizations no longer involved in investment dealer regulation.

The full text of the proposed amendments to Form 1 is attached.

### **Rule-making process**

The following is the process IIROC staff followed in developing these proposed amendments:

- IIROC staff assessed the adoption of IFRS for regulatory reporting by its Dealer Members.
- IIROC staff analyzed and reviewed the changes in accounting standards, conducted an impact assessment survey by Dealer Members, which led to a decision by the IIROC Board to adopt IFRS for purposes of regulatory reporting, and allowing for accounting departures where justified. IIROC staff published for a 60-day comment period the survey results and staff recommendations and incorporated the comments received from Dealer Members as part of the proposed amendments to Form 1.
- IIROC staff worked closely with the CSA IFRS working group on matters, such as permitting IFRS accounting departures as prescribed by IIROC for the filing of Form 1 – a special purpose regulatory financial report.
- IIROC staff worked closely with the Panel Auditors on matters, such as revisions to the audit opinion for special purpose financial statements required by a regulatory authority as permitted by IFRS.
- IIROC staff engaged and consulted Dealer Members and Panel Auditors in a focus group to assist in assessing the industry survey results and in providing guidance and feedback on proposed amendments to Form 1.
- IIROC staff presented the proposed amendments to the FAS Capital Formula Subcommittee, the FAS Executive Committee and the FAS and their feedback were taken into consideration in the development of the proposed Rules.

The proposed Rules were approved for publication by the IIROC Board of Directors on August 11, 2010.

The proposed amendments to Form 1 are set out in Attachment A. A black-line of proposed Form 1 is set out in Attachment B.

### **Issues and alternatives considered**

An alternative to converging as much as possible to IFRS was to adopt IFRS and allow more prescribed departures as is currently with Form 1 under CGAAP. This alternative was not recommended, because IIROC staff believe the prescribed departures from IFRS should be limited to only situations where the effort and cost to converge outweigh the regulatory value or benefit of complying with IFRS. In addition, the alternative was not recommended, because IIROC staff’s objective was to minimize the reconciliation effort for those Dealer Members that want or need to prepare audited statutory financial statements that are IFRS compliant.

### **Proposed rule classification**

Statements have been made elsewhere as to the nature and effects of the proposed Rules. The purposes of the proposed Rules are to:

- Ensure compliance with securities laws;
- Prevent fraudulent and manipulative acts and practices;
- Promote just and equitable principles of trade and emphasize the duty to act fairly, honestly and in good faith;

- Foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities;
- Foster fair, equitable and ethical business standards and practices; and
- Promote the protection of investors.

IIROC staff proposes that rules regarding Form 1 should be rewritten to adopt IFRS except for where there are prescribed departures mandated by IIROC. The Board has determined that the proposed amendments are not contrary to the public interest.

Due to the extent and substantive nature of these proposed amendments, they have been classified as Public Comment Rule proposals.

**Effects of proposed amendments on market structure, Dealer Members, non-members, competition and costs of compliance**

With the adoption of the proposed amendments to Form 1, Dealer Members and Panel Auditors will benefit from the close convergence of Form 1 reporting standards to IFRS, because it will minimize the reconciliation effort by any Dealer Member that wants to, or needs to prepare IFRS compliant statutory financial statements.

The proposed amendments will not have significant effects on Dealer Members, other than the increases that are expected in audit and consultant fees, or on non-Dealer Members, market structure or competition. It is not expected that there will be any other increases in the costs of compliance.

The proposed amendments do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in the furtherance of IIROC's regulatory objectives. The proposed amendments do not impose costs or restrictions on the activities of market participants that are disproportionate to the goals of the regulatory objectives sought to be realized.

**Technological implications and implementation plan**

As a result of the proposed amendments, there should not be significant technological implications for Dealer Members except in the cases already discussed above relating to the grossing up of balances and the valuation of securities that trade in an inactive market or where no secondary market exists. For most Dealer Members the implementation will begin on January 1, 2011. However for Dealer Members that are Type 1 or 2 introducing brokers whose financial reporting year begin on January 1 to April 1 of 2011 and who do not meet the definition of a publicly accountable enterprise (PAE), they will be allowed to defer the implementation for one year. From the IIROC IFRS 2009 survey results of Dealer Members, IIROC recognized that approximately one-quarter of Dealer Members do not meet the definition of PAE and would not be required to adopt IFRS by the Canadian Accounting Standards Board (AcSB) and therefore, IIROC will allow this group to defer the implementation. A Dealer Member meeting the previously stated criteria must notify IIROC of this election at the start of their 2011 fiscal year in order to make use of the implementation deferral.

**Request for public comment**

Comments are sought on the proposed amendments. Comments should be made in writing. Two copies of each comment letter should be delivered within 60 days of the publication of this notice. One copy should be addressed to the attention of:

Answerd Ramcharan  
Specialist, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-5850  
aramcharan@iiroc.ca

A second copy should be addressed to the attention of:

Manager of Market Regulation  
Ontario Securities Commission  
20 Queen Street West  
19th Floor, Box 55  
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 IROC website (www.iroc.ca under the heading "IROC Rulebook - Dealer Member Rules – Proposed Policy").

Questions may be referred to:

Anwerd Ramcharan  
Specialist, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-5850  
aramcharan@iroc.ca

Mindy Kwok,  
Information Analyst, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-6979  
mkwok@iroc.ca

**Attachments**

Attachment A - Proposed amendments to Form 1

Attachment B - Black-line copy of proposed Form 1