IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
Dealer Member Rules

Please distribute internally to:
Internal Audit
Institutional
Legal and Compliance
Retail
Senior Management
Training

Contacts:

Richard J. Corner
Vice President, Member Regulation Policy
416.943.6908
rcorner@iiroc.ca

14-0133
May 29, 2014

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 of IIROC's Client Relationship Model - Phase 2 amendments

On December 12, 2013 IIROC published for public comment 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 were published for public consideration at that time with the objective of adopting IIROC rule requirements that were substantially the same as the amendments adopted by the Canadian Securities Administrators (CSA) 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") which came into force on July 15, 2013.

Announcement of CSA approval and IIROC implementation of the IIROC CRM2 Amendments that are scheduled to come into effect no later than July 15, 2014

This Rules Notice announces approval by the applicable securities regulatory authorities and implementation by IIROC of the IIROC CRM2 Amendments that are scheduled to come into effect no later than July 15, 2014 (2014 IIROC CRM2 Amendments). Listed below are the components and effective dates of the 2014 IIROC CRM2 Amendments:

2014 IIROC CRM2 Amendment Item	**Effective Date**
The following provisions which were amended to clarify existing requirement language and/or were existing Dealer Member Rule requirements which were renumbered:	
o Subsections 200.2(a) through 200.2(c) and related guidance in "Guide to Interpretation of Rule 200.2"	Immediate
o Subsection 200.2(d) and existing "Guide to Interpretation of Rule 200.2" Item (d) *[client account statements]* with the exception of: ▪ Subparagraphs 200.2(d)(ii)(F) and 200.2(d)(ii)(H) *[position cost]*; and ▪ Paragraph 200.2(d)(iii) *[deferred sales charge notation]*	Immediate
o Subsections 200.2(h) through 200.2(k) and related guidance in "Guide to Interpretation of Rule 200.2"	Immediate
o Subsection 200.2(l) and existing "Guide to Interpretation of Rule 200.2" Item (l) *[trade confirmations]* with the exception of: ▪ Revision to preamble to subsection 200.2(l) *[trade confirmation disclosure of deferred charges]* ▪ Subparagraph 200.2(l)(v)(C) *[trade confirmation disclosure of debt security compensation]*	Immediate
o Subsections 200.2(m) through 200.2(r) and related guidance in "Guide to Interpretation of Rule 200.2"	Immediate
The following new provisions:	
o Section 29.9 *[pre-trade disclosure of charges]*	July 15, 2014
o Subparagraph 200.2(l)(v)(C) *[trade confirmation disclosure of debt security compensation]*	July 15, 2014
o Subparagraph 3500.5(2)(j) *[relationship disclosure relating to investment performance benchmarks]*	July 15, 2014

The remainder of this Rules Notice provides a summary of the nature and the purpose of the new provisions included in the 2014 IIROC CRM2 Amendments for which implementation has been announced.

Summary of the nature and purpose of the amendments

Pre-trade disclosure of charges -
[New section 29.9]

Included in the 2014 IIROC CRM2 Amendments is a formal requirement that a Retail Customer be 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 a codification of a long-standing industry best practice that was previously discussed in IIROC's Client Relationship Model guidance[1] and is consistent with the equivalent requirement introduced in section 14.2.1 of the CSA CRM2 Amendments.

Trade confirmation disclosure of debt security compensation -
[New sub-clause 200.2(l)(v)(C), preamble]

Pursuant to the language in new sub-clause 200.2(l)(v)(C), the prior 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 commission[2] 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 revised requirement is consistent with the equivalent requirement introduced in paragraph 14.12(1)(c) of the CSA CRM2 Amendments, with the exception that the revised IIROC requirement will only apply to Retail Customer trades.

Relationship disclosure relating to investment performance benchmarks -
[New clause 3500.5(2)(j)]

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

---

[1] Refer to IIROC Rules Notice 12-0108, "Client Relationship Model – Guidance", issued on March 26, 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).

This new requirement is consistent with the equivalent requirement introduced in paragraph 14.2(2)(m) of the CSA CRM2 Amendments.

Date of IIROC Board of Directors approval

These amendments were approved for implementation by the IIROC Board of Directors on November 27, 2013. The text of the amendments is set out in Attachment A.

Response to public comments received

These amendments were published for comment with the issuance of IIROC Rules Notice 13-0300 on December 12, 2013. IIROC staff has considered all of the comments received and thank all of the commenters. A summary of the comments received and IIROC staff's response is enclosed as Attachment B.

Summary of revisions

These amendments reflect revisions made to address CSA and public comments received. There were no material revisions made to the previously published proposed rules. Minor clarification changes have also been made throughout the amendments, none of which represent changes in substance to the previously published proposals that were scheduled to come into effect no later than July 15, 2014. A black-lined copy of the revisions made since the publication for comment of the proposed amendments on December 12, 2013 is enclosed as Attachment C.

Attachments

Attachment A - 2014 IIROC CRM2 Amendments

Attachment B - Response to public comments received

Attachment C - Black-line to proposed 2014 IIROC CRM2 Amendments published on December 12, 2013

Attachment A
to Rules Notice 14-0133

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")

CLEAN COPY OF REVISED PROPOSED 2014 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. Reserved.

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 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,

(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,

(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 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); and

(F) Reserved.

(G) The total market value of all cash and security positions in the account.

(H) Reserved.

And

(iii) Reserved.

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) Reserved.

(f) Reserved.

(g) Reserved.

(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,

(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;

(l) **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 marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the Corporation; the commission, if any, charged in respect of the trade; the fee or other charge, if any, 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:

(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 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, 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 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 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(l), 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

(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(l) except:

(A) The day and the marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the Corporation;

(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 not required to be in the monthly statement pursuant to paragraph 200.2(l)(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(l); 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(l)(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**

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. Reserved.

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.

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) Reserved.

(f) Reserved.

(g) Reserved.

(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(l). 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 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."

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

April 8, 2014

Re: IIROC's Client Relationship Model – Phase 2 (CRM2) rule amendment proposals

Response to public comments received on proposed amendments that are scheduled to come into effect no later than July 15, 2014

We are publishing this letter in response to the first set of comment letters received on IIROC's Client Relationship Model - Phase 2 (CRM2) rule amendment proposals, which include proposed amendments to IIROC Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1.

We received 3 comment submissions in response to the first request for public comments[1] set out in IIROC Rules Notice 13-0300. We thank all of the commenters for their helpful submissions.

Although the first request for public comments requested that comments be limited to proposed IIROC rule amendments that are scheduled to be implemented no later than July 15, 2014, we received comments on other elements of IIROC's CRM2 rule amendment proposals. This letter responds to all comments received that are related to the proposed IIROC rule amendments that are scheduled to be implemented no later than July 15, 2014. All comments received that relate to other elements of the proposed IIROC rule amendments will be responded to at a later date, as part of IIROC's response to comments to received relating to the second request for public comments set out in IIROC Rules Notice 13-0300.

GENERAL COMMENTS RECEIVED

Request for confirmation of exemption from equivalent provisions of NI 31-103 for IIROC Dealer Members and other clarification requests

- There are many complexities to implementing the significant systems modifications needed to implement the CRM2 amendments. Implementing these modifications requires co-operation with mutual fund and exempt market dealers; industry service providers, vendors, and central transaction, clearing and settlement infrastructure entities; and companies in other parts of the financial sector, such as mutual fund and portfolio managers. Given the tight timelines and extensive systems, operational and people issues facing Dealer Members in the CRM2

[1] IIROC Rules Notice 13-0300 specifies two public comment periods: (1) a 60-day comment period for IIROC proposed rule amendments scheduled to be implemented no later than July 15, 2014, and (2) a 120-day comment period for IIROC proposed rule amendments scheduled to be implemented no either on July 15, 2015 or July 15, 2016.

implementation, it is crucial for Dealer Members to have certainty immediately that the CSA will both approve the IIROC's proposed CRM2 rule amendments and exempt IIROC Dealer Members from the relevant portions of the CSA Rules. We request immediate confirmation that the CSA will exempt IIROC Dealer Members from the CSA Rules.

- We ask IIROC and CSA staff to indicate whether amendments to the CRM2 aspects of, respectively, the CSA Rules and the IIROC Rules are to be made or are being contemplated.
- We would like to arrange a meeting(s) in the next few weeks to discuss other regulatory considerations with IIROC and CSA Staff.

IIROC staff response

Given that in the view of IIROC staff the proposed IIROC rules are materially harmonized with the approved CSA rules, IIROC staff anticipate that the CSA will take the appropriate action to enable Dealer Members to follow one set of rules and that those rules will be the IIROC rules.

IIROC staff are not planning to make material revisions to the following three main amendments that are scheduled to be implemented on July 15, 2014:

- Proposed Dealer Member Rule section 29.9 [pre-trade disclosure of charges];
- Proposed Dealer Member Rule sub-clause 200.2(l)(v)(C) [trade confirmation disclosure of debt security compensation]; and
- Proposed Dealer Member Rule sub-clause 3500.5(2)(c)(j) [relationship disclosure relating to investment performance benchmarks], for which the revised July 15, 2014 implementation timing was communicated to Dealer Members on January 28, 2014.

IIROC staff are also not planning to make material revisions to the proposed CRM2 amendments that are scheduled to be implemented on July 15, 2015 and July 15, 2016.

IIROC staff meet regularly with IIROC Dealer Members through regular consultation with numerous IIROC policy advisory committees and through meetings arranged by the IIAC and other industry stakeholders. Given the significance of IIROC's proposed CRM2 amendments, IIROC plans to continue these consultations for the foreseeable future, and well beyond the date on which we announce the implementation of the IIROC CRM2 amendments, in order assist Dealer Members in implementing systems to comply with the new disclosure/reporting obligations. We would be glad to participate in any meeting involving IIAC staff, our Dealer Members, IIROC staff and CSA staff or any other meeting arranged to discuss IIROC's proposed CRM2 amendments.

Additional regulatory measures under consideration

- Proceeding with additional regulatory measures under consideration (including changing the fund risk rating methodology, the potential unbundling of fees, and other issues) could unnecessarily jeopardize smooth implementation of all current regulatory changes that are in the process of being implemented (including CRM2). The volume and pace of securities regulatory change that has taken place over the past five years, and the implementations slated

for at least the next three years, are considerable. Reasonable regulation is important for investor protection and strong capital markets; however, sufficient timelines are required to ensure that regulation is implemented effectively, and with risks that are manageable. It will be helpful to have all stakeholders aware of ongoing and expected non-securities rule changes required over the CRM2 implementation period - changes that are needed to help investors meet their legal requirements (for example, with respect to taxes) and for dealers to comply with the law.

IIROC staff response

None of the other regulatory measures listed by the commenter as initiatives that may impact on the successful implementation of CRM2, are IIROC initiatives. Further, IIROC's proposed CRM2 amendments are the only current proposed IIROC rule amendments that seek to change the Dealer Member's reporting obligations to its clients.

IIROC staff are aware of the challenges facing Dealer Members in the current economic environment and the impact of significant changes to both securities and non-securities-related rules on them. With respect to IIROC rule-related initiatives, IIROC has taken steps to become more transparent with its policy priorities and implementation timelines. In determining our priorities/timelines, IIROC staff regularly review policy projects that are underway to verify that they continue to be of high priority and to ensure that adequate time is being given to Dealer Members to comply with any new requirements that are introduced. In determining the rule implementation periods that are set, IIROC staff not only assess the impacts of the new or amended rules themselves, but the number, significance and collective impacts of other securities and non-securities rule amendments that are currently in the process of being implemented by Dealer Members.

Guidance related to CRM2 rules

- As Dealer Members are now in the implementation phase, it has become apparent that IIROC guidance would be helpful to address the interpretation challenges currently experienced by full-service dealers and order execution-only dealers. Consequently we seek clarification as to whether IIROC will be issuing guidance on the interpretation of CRM2 Rules. Examples of the issues in respect of which further discussion would be of benefit to Dealer Members in understanding and implementing the CRM2 Rules are outlined in this letter.

IIROC staff response

IIROC staff will issue guidance on the interpretation of IIROC CRM2 amendments to address any significant implementation and rule interpretation issues that relating to the IIROC CRM2 amendments.

Order execution-only firms

- Given the varied business models of IIROC dealer members, the application of CRM2 Rules should take into account the characteristics, expectations and responsibilities of different client segments and distribution channels. By mandating that certain types of discussions take place before a dealer member accepts an instruction from a client to purchase or sell a security in an account, it appears that the 2014 IIROC CRM2 Amendments and available guidance from the CSA continue to focus on services primarily offered by full-service dealer members. In contrast, clients of order execution-only dealers generally use online platforms to enter their orders directly, competitive rates and access to various informational materials. Such clients do not consult with the firms' registered representatives and are not provided with investment recommendations in respect of their accounts; rather, these clients have chosen to inform themselves as to whatever available information they deem relevant to their circumstances
- The CSA, in a Notice dated June 14, 2012, indicated that they would consider the applicability of the new disclosure rules to discount brokerage accounts when IIROC takes steps to materially harmonize its rules with the NI 31-103. To this end, the following are examples of issues related to pre-trade disclosure of charges from the perspective of order execution-only firms that warrant specific guidance from IIROC:
    - In-person discussions with clients that the CSA may expect to take place on a pre-trade basis and for the purposes of explaining benchmark information would be challenging to implement for order execution-only firms as their clients do not consult with the firms prior to placing their orders.
    - DSC: Order execution-only firms do not generally offer DSC mutual funds to clients hence may not have systems in place to retain specific DSC schedules or provide an estimate of DSC from the fund company. Where a client transfers in a DSC mutual fund into their order execution-only account, a dealer generally has no record of the purchase date or the technology to determine whether or not DSC would apply. Thus we recommend that order execution-only firms should be offered flexibility in their solutions for complying with Dealer Member Rule 29.9(1)(b).
    - Trailing commissions: Given that dealer members may receive trailing commissions in respect of some, but not all exchange-traded funds ("ETF") and closed-end funds, it would be challenging for an order execution-only dealer that provide online platforms to automate its systems to identify whether a specific fund offers trailing commissions. We seek confirmation that a general statement on such dealer's website disclosing that the dealer may receive trailing commissions in respect of certain ETFs and closed-end funds would suffice.
- In our view the above accommodations would be in keeping with the spirit of the CRM2 Rules without requiring order execution-only dealers to incur the additional costs of complying that would ultimately be borne by clients.

IIROC staff response

Communications with clients - Account relationship disclosure

The general requirements to provide clients with account relationship information that are already in effect and are set out in Dealer Member Rule 3500, do not require that the information be reviewed with the client through use of in-person discussions. Further, the IIROC proposals to introduce a new account relationship disclosure information item relating to investment performance benchmarks as set out in proposed Dealer Member Rule clause 3500.5(2)(j), do not propose to introduce any such requirement.

Communications with clients - Pre-trade disclosure

The proposed general requirement to provide clients with information about the trade related charges they will be paying, in advance of the trade taking place, does not require that the disclosure be done on an in-person basis. Specifically, the rule does not specify the disclosure methods that must be used to meet this new obligation. So, in the case of trades conducted online by clients, it would be acceptable for the information to be provided to the client through electronic communication methods such as pre-trade online client notifications.

Pre-trade disclosure of deferred sales charges

The requirement in proposed Dealer Member Rule 29.9(1)(b) to provide pre-trade disclosure that deferred sales charges may apply in the future and to provide a schedule of possible deferred sales charges only applies to purchase transactions. The commenter's example of transfer in of a mutual fund position is not a purchase transaction.

However, there are other proposed rule provisions that would be applicable to the commenter's example situation where a client transfers in a mutual fund position to which future deferred sales charges may apply. Specifically, while there would be no disclosure requirements at the time the mutual fund position is transferred in, the Dealer Member would be required in the commenter's example situation:

- To include a notation in all subsequent account statements and outside position reports provided to the client identifying that the mutual fund position might be subject to a deferred sales charge [pursuant to proposed Dealer Member Rule clauses 200.2(d)(iii) and 200.2(e)(iii)]; and
- To include on the trade confirmation that is issued if and when the position is sold, any deferred sales charges that the client ends up paying [pursuant to proposed Dealer Member Rule subsection 200.2(l)].

In our view an order execution only dealer is no less equipped to meet the above proposed disclosure obligations than any other type of dealer and, as a result, there is no need to provide specific flexibility to order execution only dealers in meeting these obligations.

Trailing commissions

The pre-trade compensation disclosure requirements set out in proposed Dealer Member Rule

subsection 29.9(1) only apply to purchase and sale transactions. The commenter' statement about its inability to identify whether a specific mutual fund offers trailing commissions suggests that either:

- The Dealer Member is unable in all cases to identify the type and percentages of the charges it earns on the various ETFs and closed-end funds it makes available to its clients on its product shelf; and/or
- The Dealer Member is unable in all cases to identify the type and percentages of the charges it earns on the various ETFs and closed-end funds that it is a transferred-in client holding that the firm does not makes available to its clients on its product shelf.

Again, in our view an order execution only dealer is no less equipped to meet the proposed disclosure obligations than any other type of dealer and, as a result, there is no need to provide flexibility to order execution only dealers in meeting the obligation to provide pre-trade information on the fees and charges associated with ETF and closed-end fund purchase/sale trades.

COMMENTS RECEIVED ON PROPOSED AMENDMENTS THAT ARE SCHEDULED TO COME INTO EFFECT NO LATER THAN JULY 15, 2014

Pre-trade disclosure of charges - deferred sales charges (DSCs) and other charges

- Deferred sales charge (DSC) information is not available to Dealer Members in an electronic fashion (and furthermore any build to make that information available would be significant). Providing pre-trade disclosure of DSCs would be extremely challenging. It is recommended that Dealer Members be able to comply with the pre-trade disclosure requirements of this rule by using alternative means to address the requirement, for example, by providing a generic DSC schedule and a contact number for additional information.
- With regard to proposed Dealer Member Rule subsection 29.9(1), which provides that before a dealer member accepts an instruction from a client to purchase or sell a security in an account, the dealer must disclose to the client the actual amount or a reasonable estimate of the charges that the client will be required to pay, directly or indirectly, in respect of the purchase or sale ("Pre-Trade Disclosure Requirement"):
    - "Charges" - The proposed rule refers to disclosure of the "charges" that a client will incur in respect of a purchase or sale of a security, but does not define "charges." In keeping with the best practices discussed by IIROC in IIROC Rules Notice 12-0108, we interpret this to mean that firms are required to disclose applicable "transaction charge", as defined under proposed Dealer Member Rule subsection 200.1(h), as the intent appears to be ensuring that clients understand costs that they will incur in respect of the proposed transaction. A discussion of general fees or expenses incurred by clients would continue to be included in the Relationship Disclosure Document provided to all clients.

- "Reasonable estimate" - For the purposes of providing clients with a "reasonable estimate" of charges, we seek confirmation that the provision of an approximate percentage of purchase price, or basis points in the case of debt securities, representing the charges would be compliant with the Pre-Trade Disclosure Requirement.

IIROC staff response

IIROC staff believe that Deferred Sales Charge (DSC) information is readily available for each mutual fund and that there are no impediments to the communication of this information to a client before the Dealer Member accepts the client trade instruction. In the circumstance where DSC information and/or whether or not a DSC fee applies is unavailable/unknown for a particular proposed mutual fund transaction, we question why the transaction should take place until such information is available/known and, after taking this information into consideration, the transaction is determined to be appropriate.

IIROC staff do not believe that a generic DSC schedule meets the requirement in proposed Dealer Member Rule clause 29.9(1)(b) to provide the client with fund-specific DSC information in advance of the trade if the generic DSC schedule does not reflect the DSC information for specific mutual fund.

Regarding proposed Dealer Member Rule clause 29.9(1)(a):

- We believe it is clear in the proposed rule language that the term "charges" in the context of a rule that mandates the pre-trade disclosure of any charges applicable to a proposed purchase or sale transaction means transaction charges.
- A "reasonable estimate" of charges means an estimated dollar charge amount. Providing clients with an estimated charge percentage, or in the case of debt securities, an estimated basis points charge, would create unnecessary client confusion and we are aware of no reason why estimated percentage and basis points charges cannot be easily converted by the Dealer Member into an estimated dollar charge amount equivalent and provided to the client.

Disclosure of debt security compensation on trade confirmation

- Depending on how the debt security was sourced for the client, and the nature of the client's account, this statement may be inaccurate and/or misleading.

  "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."

  We recommend that the IIROC Rules should be revised to provide flexibility for Dealer Members by requiring a notification that is substantially the same as the above, modified as necessary to ensure accuracy. For example:

  "Dealer firm remuneration ~~has~~ may have 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, where applicable, ~~was~~ would be in addition to any commission that may have ~~this trade confirmation shows was~~ been charged to you."

- Regarding the requirement to include debt security transaction disclosure on trade confirmations under proposed Dealer Member Rule paragraph 200.2(l)(v)(C)(II), a Dealer Member is required to display the prescribed notification if the dealer applied a mark-up or mark-down or any service charge other than a commission. However we note that a dealer's IT system may not be capable of distinguishing, on an automated basis, whether the dealer has gained remuneration in addition to the commission in any given transaction. To display the notification as drafted for all debt security transactions may be inaccurate and/or misleading; for instance it may not be applicable to trades where a retail firm's bond desk seeks external sources for certain types of debt securities. Hence we support IIAC's recommendation that Dealer Members should have the flexibility to provide a substantially similar notification as modified to ensure accuracy, for example, by revising the notification to read a dealer firm remuneration "may have", instead of "has", been added to or deducted from the price of the security.
- Further, we are not aware of any requirements under the CRM2 Rules or otherwise as to the specific location of this notification, provided that it is included in a sufficiently clear manner.

IIROC staff response

Consistent with the response to question #14 in CSA Staff Notice 31-337, we agree that use of the language "may have been" is substantially the same as the prescribed language in proposed Dealer Member Rule paragraph 200.2(l)(v)(C)(II) where the dealer has determined, based on a review of its systems capabilities:

- That it is currently incapable of distinguishing, on an automated trade-by-trade basis, whether it has received remuneration in addition to the commission taken on the trade; and
- That either:
  - the capability cannot be developed; or
  - the cost to develop the capability renders it not feasible.

The commenter's statement that "we are not aware of any requirements under the CRM2 Rules or otherwise as to the specific location of this notification" suggests that the commenter intends to disclose the new debt trade confirmation notification language in a location other than on the front page/first page of the paper/electronic trade confirmation. While we agree that neither current nor proposed Dealer Member Rule 200 specify a location for each trade confirmation element on any trade confirmation that is issued, Dealer Member Rule section 29.7 prohibits the distribution of any correspondence to clients (including trade confirmations) which, among other things:

- "contains any untrue statement or omission of a material fact or is otherwise false or misleading" - *[Dealer Member Rule sub-clause 29.7(1)(a)]*; and/or
- "does not comply with any applicable legislation or the guidelines, policies or directives of any regulatory authority having jurisdiction." - *[Dealer Member Rule sub-clause 29.7(1)(g)]*

In the case of the new debt trade disclosure obligations to Retail Customers, the Dealer Member must disclose to the client:

- The dollar amount of either the gross commission or total compensation the Dealer Member earned on the trade; and
- Where gross commission is disclosed, a text notification indicating that additional compensation has been (may have been) taken on the trade.

With respect to the dollar amount disclosure requirement, IIROC expects that this amount would be disclosed on the front page/first page of the paper/electronic trade confirmation, along with all other trade-specific information required to be included on the trade confirmation.

With respect to the text notification, IIROC would prefer that this disclosure would also be provided on the front page/first page of the paper/electronic trade confirmation. However, if this is not possible due to trade confirmation space constraints, the text notification may be provided on a page other than the front/first page of the paper/electronic trade confirmation, provided that text is included on the front page/first page of the paper/electronic trade confirmation that directs the reader to the additional debt trade compensation disclosure information set out elsewhere on the paper/electronic trade confirmation. Without this text on the front/first page of the paper/electronic trade confirmation, clients could conclude that the only compensation they paid on the debt security trade was the "gross commission" amount and the trade confirmation would be considered to be "misleading" under Dealer Member Rule sub-clause 29.7(1)(a).

Disclosure of compensation on trade confirmations for other over-the-counter traded securities

- On the basis of comments in IIROC Notice 13-0300, we think that the revisions inadvertently may have removed (i) reference to retail clients (in general, IIROC has limited aspects of the IIROC Rules to retail clients) and (ii) the option to provide the prescribed notification only when it is applicable. The IIAC suggests that Dealer Member Rule clause 200.2(l)(vi) not be revised, generally leaving the original language that applies the rule to retail clients only with the option to display, only when applicable, the prescribed notification. A black-lined version of our recommended change, which would essentially restore the current wording, is provided below.

  "(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, where the amount of the mark-up or mark-down and other service charges applied by the Dealer Member has not been disclosed on the confirmation sent to retail clients, either of the following: ..."

IIROC staff response

IIROC staff agree that the amendments inadvertently excluded the reference to the additional compensation disclosure only applying to Retail Customers. Consequently, we will make the following revision to proposed Dealer Member Rule clause 200.2(l)(vi):

> "(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, 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 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).""

IIROC staff do not agree that there is a need to further amend proposed Dealer Member Rule clause 200.2(l)(vi) to indicate that text disclosure need only be provided "when it is applicable" because the current draft of the proposed rule:

- already gives Dealer Members the option of disclosing either the total amount of the compensation taken or providing the client with the text disclosure language; and
- in instances where no compensation is taken, we believe that the inclusion of the word "any" in proposed Dealer Member Rule sub-clause 200.2(l)(vi)(I) already permits Dealer Members to disclose nothing.

Attachment C
to Rules Notice 14-0133

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")

BLACK-LINE COMPARISON OF REVISED PROPOSED 2014 IIROC CRM2 AMENDMENTS TO PROPOSED 2014 IIROC CRM2 AMENDMENTS PUBLISHED FOR PUBLIC COMMENT IN IIROC RULES NOTICE 13-0300

Attachment C
to Rules Notice 14-0133

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. Reserved.

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 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,

(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,

(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 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); and

(F) Reserved.

(G) The total market value of all cash and security positions in the account.

(H) Reserved.

And

(iii) Reserved.

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) Reserved.

(f) Reserved.

(g) Reserved.

(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,

(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;

(l) **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~~marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the Corporation; the commission, if any, charged in respect of the trade; the fee or other charge, if any, 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,

Comment [rc1]:
IIROC Staff Comment
Housekeeping Change - A portion of the amendments made to Rule 200.1(h) through the issuance of IIROC Rules Notice 13-0231, *Trade Confirmation and Matching Requirements*, was inadvertently excluded from the proposed IIROC CRM2 Amendments published for public comment in IIROC Rules Notice 13-0300. This exclusion has now been rectified and the revisions have been determined by IIROC staff to be non-material.

(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:

(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 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, 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 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 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

Comment [rc2]:
IIROC Staff Comment
Housekeeping Change - Current Dealer Member Rule 200.1(h)(23) only applies to Retail Customers. The equivalent provision in proposed IIROC CRM2 Amendments published for public comment in IIROC Rules Notice 13-0300 inadvertently extended the scope of this requirement to all clients. This inadvertent scope broadening has now been rectified and the revisions have been determined by IIROC staff to be non-material.

(ix) Notwithstanding the provisions of this subsection 200.2(l), 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

(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(l) except:

(A) The day and the ~~stock exchange or commodity futures exchange~~marketplace or marketplaces upon which the trade took place, or marketplace disclosure language acceptable to the Corporation;

Comment [rc3]:
IIROC Staff Comment Housekeeping Change - A portion of the amendments made to Rule 200.1(h) through the issuance of IIROC Rules Notice 13-0231, *Trade Confirmation and Matching Requirements*, was inadvertently excluded from the proposed IIROC CRM2 Amendments published for public comment in IIROC Rules Notice 13-0300. This exclusion has now been rectified and the revisions have been determined by IIROC staff to be non-material.

(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 not required to be in the monthly statement pursuant to paragraph 200.2(l)(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(l); 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(l)(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**

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. Reserved.

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.

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) Reserved.

(f) Reserved.

(g) Reserved.

(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(l). 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 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."

Comment [rc4]:
IIROC Staff Comment
All that has changed with this provision is the effective date, which is now July 15, 2014.