

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 IIROC Rules Notice – Request for Comment – Requirement to Disclose Membership in IIROC as Dealer Member

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IIROC RULES NOTICE – REQUEST FOR COMMENT – REQUIREMENT TO DISCLOSE MEMBERSHIP IN IIROC AS DEALER MEMBER

Summary of nature and purpose of Proposals

On September 14, 2011, the Board of Directors (“Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of proposed amendments to Dealer Member Rule 700 (“Rule 700”), as well as a proposed new IIROC membership disclosure policy (“IIROC Membership Disclosure Policy”) (collectively, the “Proposals”) setting out a Dealer Member’s requirement to disclose their membership in IIROC.

The primary objectives of the Proposals are to promote and raise public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors assess the regulatory status of member firms and/or individual registrants.

Issues and Specific Proposals

Relevant History

In light of recent market events, IIROC recognizes the importance of providing information to investors about who it regulates. Toward that end, IIROC has taken steps to provide the investing public with relevant information.

In July 2009, IIROC produced the brochure called “*Why IIROC Matters to You, the Investor*” which describes the benefits of working with an IIROC-regulated firm and approved advisor. The brochure explains how IIROC sets and enforces rules regarding the proficiency, business and financial conduct of IIROC-regulated firms and their registered employees. It provides information on IIROC rules that firms must comply with to minimize the possibility of financial failure and protect client assets if a firm becomes insolvent, and explains how IIROC requires firms to have procedures to supervise client accounts and ensure that advice and transactions reflect clients’ needs and instructions.

In August 2010 IIROC introduced an easily accessible on-line report called *AdvisorReport*. *AdvisorReport* allows investors to quickly obtain relevant information on IIROC-regulated investment advisors. This service allows investors to immediately access current information on an advisor’s educational background, what functions and roles the advisor has received IIROC approval to perform as well as their disciplinary history, if any.

In addition to these resources, Dealer Member Rule 29.14 (“Rule 29.14”) requires Dealer Members to disclose membership in the Canadian Investor Protection Fund (“CIPF”) through the use of the CIPF membership symbol, brochure, decal and explanatory statement in certain circumstances, in order to increase awareness of the added security and protection when investing with an IIROC-regulated firm and advisor.

In furtherance of IIROC’s objectives, IIROC believes that it is appropriate to require Dealer Members to disclose their membership in IIROC to promote public awareness of the advantages of working with an IIROC-regulated firm, as well as to assist investors in their assessment of potential Dealer Members and/or individual IIROC registrants.

Current Rules

The current rules allow for the optional use of the IIROC name and logo (“IIROC Official Name and Logo”), provided that they are used in a way that complies with Rule 700. To ensure that the IIROC Official Name and Logo are being used properly, Dealer Members may be required to provide samples of materials bearing the IIROC Official Name and Logo upon IIROC’s request, and under certain circumstances, where improper IIROC Official Name and Logo use is identified, cease using the IIROC Official Name and Logo.

Proposed Rules

Proposals

As a result of the changes flowing from the Proposals, the IIROC Rule Book will no longer contain rules setting out the IIROC membership disclosure requirements applicable to Dealer Members. Instead, Dealer Members will be required to comply with the IIROC Membership Disclosure Policy which will be posted on the IIROC website and updated from time to time, as required. As part of the amendments being made to Rule 700, updates to Dealer Member Rule 22, *Use of Name or Logo: Liabilities: and Claims* ("Rule 22"), are also being made. The regulatory requirements set out in Rule 22 are covered in Article 15 of General By-Law No.1. Therefore, Rule 22 will be repealed.

A copy of the amendments to Rules 22 and 700 are included as Attachment A.

IIROC Membership Disclosure Policy

The IIROC Membership Disclosure Policy will set out the Dealer Member's obligation to disclose membership in IIROC as a Dealer Member, as well as other relevant information, including logo specifications, proper use of the IIROC acronym ("IIROC Official Acronym"), and instructions on how to order the IIROC decal and brochure ("IIROC Official Decal and Brochure"). More specifically, the IIROC Membership Disclosure Policy will require Dealer Members to:

- display the IIROC Official Decal at each Dealer Member business location to which clients have access;
- display the IIROC Official Logo on their website, if they have one;
- include the IIROC Official Logo on the front of each trade confirmation and account statement sent to a client; and
- distribute the current version of the IIROC Official Brochure to:
 - new clients at time of account opening; and
 - existing clients, upon request.

To assist IIROC staff in determining whether there is proper use of the IIROC Official Name, Acronym, Decal, Logo and Brochure in situations where their use is still optional, specifically in advertising materials, the policy also requires Dealer Members to produce samples of such materials that use or make reference to the IIROC Official Name, Acronym, Decal, Logo and Brochure, upon IIROC's request.

In addition, Dealer Members will be prohibited from using the IIROC Official Name, Acronym, Logo, Decal and Brochure in the following circumstances:

1. if IIROC decides that its use is detrimental to the public's interests or the interests of IIROC or its Dealer Members;
2. where use of the IIROC Official Name, Acronym, Logo, Decal or Brochure gives the impression that IIROC approves, endorses or guarantees a Dealer Member service or an investment product or is otherwise false or misleading;
3. in connection with a subject matter or activity that is not regulated by IIROC; or
4. upon the termination or suspension of its membership.

A copy of the IIROC Membership Disclosure Policy is attached as Attachment B.

IIROC Official Brochure

Similar to CIPF, the Proposals introduce the concept of an IIROC Official Brochure. The IIROC Official Brochure refers to any brochure or publication identified as such by IIROC for use by Dealer Members. The Proposals designate the current IIROC brochure entitled "*Why IIROC Matters to You, the Investor*" as the IIROC Official Brochure at this time.

Format of the IIROC Official Logo

The IIROC Official Logo has been designed taking into consideration the space limitations that exist on client trade confirmations and client account statements. The IIROC Official Logo differs from the IIROC corporate logo as it:

- includes the text “Regulated by” in order to inform the client of IIROC’s function; and
- is not bilingual in order to tailor the logo to the client’s preferred official language and, from a practical standpoint, not take up too much space.

The IIROC Official Logo must be used at a height of not less than 0.25 inches (as shown below), and must include a surrounding blank area equivalent to the height of the letter ‘I’ in IIROC. The IIROC Official Logo will be available in colour, as well as black and white and will appear as follows:



Comparison with Similar Regulatory Requirements

The Proposals are similar to the requirement to disclose membership in CIPF set out in current Rule 29.14. Specifically, Rule 29.14 requires Dealer Members to do the following:

1. display the CIPF symbol at certain business locations;
2. include the CIPF symbol on the front, and the CIPF explanatory statement either on the front or back, of each client trade confirmation and client account statement;
3. make the CIPF brochure available to its clients upon request; and
4. include the CIPF symbol on specific advertising materials, except in circumstances where use is optional.

In addition, Rule 29.14 requires Dealer Members to immediately cease identifying themselves as a member of CIPF in the event IIROC membership is terminated or suspended. The CIPF requirements are also set out in a disclosure policy (“CIPF Disclosure Policy”) which is posted on the CIPF website. A revised CIPF Disclosure Policy will become effective upon the approval of the Proposals. A copy of the revised CIPF Disclosure Policy can be found on the CIPF website at <http://www.cipf.ca/Private/Members/Policies/CIPFDisclosurePolicyPendingImplementation.aspx>.

Corollary Amendments to Rule 29.14

Currently, CIPF relies on IIROC to enforce the CIPF membership disclosure requirements through Rule 29.14. These disclosure requirements are determined solely by CIPF and subject to change pursuant to CIPF’s request. As per CIPF’s request, Rule 29.14 will be deleted, and in turn, new Dealer Member Rule 29.28 will refer Dealer Members to the CIPF Disclosure Policy, for detailed information regarding compliance with their CIPF membership disclosure requirements. A copy of the amendments to Rules 29.14 and new Dealer Member Rule 29.28 is included in Attachment A.

Rulebook Re-write

The Proposals will also be reflected in the plain language rewrite of the Dealer Member Rule Book. Upon final CSA and Board approval of the Proposals, the proposed plain language rules 2355, 2356 and 2357 (“Rules 2355, 2356 and 2357”) will be revised to reflect the Proposals. A blackline of the amendments to plain language Rules 2355, 2356 and 2357 is included as Attachment C.

Issues and alternatives considered

IIROC staff considered the possibility of maintaining the existing requirements; however, IIROC rejected this alternative as staff is committed to promoting and raising public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors determine the regulatory status of firms and individuals. IIROC staff also considered providing an exemption from the Proposals for ATs. IIROC staff concluded, however, that the application of the Proposals imposes no undue regulatory burden on ATs, given that the only requirement that will apply to them will be the obligation to disclose their membership in IIROC on their websites. IIROC staff believes that by requiring all Dealer Members to disclose IIROC membership investors are better able to make informed decisions regarding the selection of an advisor and Dealer Member, which in turn enhances investor protection and strengthens market integrity.

The Proposals were developed in consultation with IIROC advisory committees and CIPF, and have been drafted to address concerns relating to adequate transition periods and limited space on trade confirmations and account statements. IIROC’s commitment to set high quality regulatory and investment industry standards, protect investors and strengthen market integrity dictates that IIROC rules incorporate mandatory IIROC membership disclosure requirements for Dealer Members.

Proposals Classification

Statements have been made elsewhere as to the nature and effects of the Proposals, as well as analysis. The purpose of the Proposals is to:

- Promote the education and protection of investors.

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

Effects of the Proposals on market structure, Dealer Members, non-Dealer Members, competition and costs of compliance

The effects of the Proposals will be to promote and raise public awareness of the advantages of working with an IIROC-regulated firm and advisor, and to help investors determine the regulatory status of firms and individuals. The Proposals will not have any significant effects on Dealer Members or non-Dealer Members, market structure or competition. Furthermore, it is not expected that there will be any significant increased costs of compliance as a result of the Proposals.

The Proposals do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives. They do not impose costs or restrictions on the activities of market participants (including Dealer Members and non-Dealer Members) that are disproportionate to the goals of the regulatory objectives sought to be realized.

The IIROC Board has determined that the Proposals are not contrary to the public interest.

Technological implications and implementation plan

The most significant implications associated with the Proposals are related to the changes Dealer Members must make to account statements and confirmations. As such, the Proposals will be made effective on a date to be determined by IIROC staff after receiving notification of approval by the requisite provincial securities commissions, and subject to the following transition periods.

The Proposals will be subject to a 6 month transition periods, except with respect to account statements and confirmations in which case Dealer Members will be given 18 months to make any system changes before the Proposals become effective.

Request for public comment

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

Angie F. Foggia
Policy Counsel, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 1600, 121 King Street West
Toronto, Ontario, M5H 3T9

The second copy should be addressed to the attention of:

Manager of Market Regulations
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario, M5H 3T9
marketregulation@osc.gov.on.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website (www.iiroc.ca) under the heading "IIROC Rule Book – Dealer Member Rules – Policy Proposals and Comment Letters Received".

Questions may be referred to:

Angie F. Foggia
Policy Counsel, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
416.646.7203
afoggia@iiroc.ca

Attachments

Attachment A - Board Resolution and Proposed Amendments to Rules 700, 22, 29.14 and 29.28
Attachment B - IIROC Membership Disclosure Policy
Attachment C - Blackline copies of Plain Language Rules 2355, 2356 and 2357

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
REQUIREMENT TO DISCLOSE MEMBERSHIP IN IIROC AS DEALER MEMBER
BOARD RESOLUTION**

BE IT RESOLVED ON THE 14 DAY OF SEPTEMBER, 2011 THAT:

1. The English and French versions of the proposals regarding membership disclosure requirements, in the form presented to the Board of Directors:
 - a. be approved for publication for public comment for 60 days;
 - b. be approved for submission to the Recognizing Regulators for review and approval;
 - c. be determined to be in the public interest; and
 - d. be approved for implementation if there are no material public comments or material comments from the Recognizing Regulators.
2. The President be authorized to approve such non-material changes to the proposals prior to publication and/or implementation as the President considers necessary and appropriate.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
REQUIREMENT TO DISCLOSE MEMBERSHIP IN IIROC AS DEALER MEMBER
PROPOSED AMENDMENTS**

1. Dealer Member Rule 700 is repealed and replaced as follows:

**“RULE 700
MEMBERSHIP DISCLOSURE REQUIREMENTS IN THE CORPORATION FOR
DEALER MEMBERS**

700.1 A Dealer Member must disclose to its clients that it is regulated by the Corporation in accordance with requirements set out in the IIROC Membership Disclosure Policy.”

2. Dealer Member Rule 22 is repealed in its entirety.

3. Dealer Member Rule section 29.14 is amended as follows:

(a) The definitions of the terms “Advertising”, “CIPF”, “CIPF official explanatory statement”, “CIPF official brochure” and “CIPF official symbol”, as set out in subsection 29.14(a), are repealed.

(b) Subsections 29.14(b) through 29.14(i) are repealed.

4. A new Dealer Member Rule section 29.28 regarding the Canadian Investor Protection Fund’s membership disclosure requirements is enacted as follows:

“29.28 Membership Disclosure Requirements in the Canadian Investor Protection Fund for Dealer Members

A Dealer Member must disclose to its clients, in accordance with the CIPF Disclosure Policy membership in the Canadian Investor Protection Fund and the coverage available for eligible accounts.”



IIROC Membership Disclosure Policy
XXXX XX, 2011

1. **Definitions**

For the purpose of the IIROC membership disclosure requirements described herein, the term:

- (a) **“Advertising”** means any published material promoting a Dealer Member’s business, whether in written, audio or visual form, and includes materials available electronically.
- (b) **“IIROC Membership Disclosure Policy”** means the membership disclosure policy prescribed as such by IIROC for use by Dealer Members.
- (c) **“IIROC Official Acronym”** means «IIROC» for Investment Industry Regulatory Organization of Canada and «OCRCVM» for l’Organisme canadien de réglementation du commerce des valeurs mobilières.
- (d) **“IIROC Official Brochure”** means any publication prescribed as such by IIROC which explains the purpose of IIROC and which IIROC authorizes for public distribution.
- (e) **“IIROC Official Decal”** means any decal so prescribed by IIROC, from time to time, for use by Dealer Members.
- (f) **“IIROC Official Logo”** means the logo prescribed as such by IIROC, from time to time, for use by Dealer Members.
- (g) **“IIROC Official Name”** means IIROC, Investment Industry Regulatory Organization of Canada, OCRCVM or Organisme canadien de réglementation du commerce des valeurs mobilières.

2. **IIROC Official Decal**

The IIROC Official Decal must be clearly visible to clients at each business location to which the public has access. No Dealer Member shall be required to display the IIROC Official Decal until 30 days after the first day of operation as a Dealer Member.

IIROC will only accept orders for the IIROC Official Decal from the Dealer Member’s head office, which is responsible for ordering and distributing the IIROC Official Decal to each of its locations.

Dealer Members are required to order the IIROC Official Decal from IIROC by sending an email to secretary@iiroc.ca with the following information:

- (a) Dealer Member name
- (b) Contact name, address and phone number
- (c) Email address
- (d) Quantities required

Orders will be processed and sent by regular mail within one week of receipt of the order. Questions concerning the IIROC Official Decal can be sent to secretary@iiroc.ca.

3. **IIROC Official Logo**

Logo Specifications

The IIROC Official Logo (shown below in a low-resolution format that should not be used), must be clearly visible and reproduced directly from the IIROC website at www.iiroc.ca.

Black and White (English and French)



Colour (English and French)



Additional requirements:

- Font used must be not less than 6.35 millimeters (0.25 inches) in height.
- A separate black and white version must be used when the document/material is not being reproduced in colour.
- The IIROC Official Logo must include a surrounding blank area equivalent to the height of the letter 'I' in IIROC.

Client Account Statement and Client Trade Confirmation Requirements

Each Dealer Member shall include the IIROC Official Logo on the front of each trade confirmation and account statement that is sent to a client.

Website Requirements

If a Dealer Member has a website, it must include both the IIROC Official Logo and a link to the IIROC website at www.iiroc.ca.

Advertising Requirements

The use of the IIROC Official Logo in Advertising is optional. A Dealer Member must provide samples of any Advertising that use or make reference to the IIROC Official Name, Logo, Brochure and Decal upon IIROC's request.

4. **IIROC Official Name and Acronym**

Dealer Members are permitted to use the IIROC Official Name or Acronym. However, on the first instance of the use of the IIROC Official Acronym, it must be preceded by the IIROC Official Name. At no point is IIROC to be referred to as "The IIROC" or any other deviation from the IIROC Official Acronym.

5. **IIROC Official Brochure**

Each Dealer Member must distribute the current version of the IIROC Official Brochure to new clients, and make it available to existing clients upon request.

There are 2 ways to order the IIROC Official Brochure:

- (1) Go to the IIROC website and print copies:

English

www.iiroc.ca/English/MemberResources/Brochures/Pages/IIROCMattersInvestor.aspx

French

www.iiroc.ca/French/MemberResources/Brochures/Pages/IIROCMattersInvestor.aspx

- (2) Order directly from the printer:

SLG Commercial Printing
ATT: Dave Gibbons
106 East Drive
Brampton, ON L6T 1C1

Tel: 905.792.7887
Fax: 905.793.7796
Toll Free: 1.866.299.6685
Email: dave.gibbons@slgcp.ca

6. **Prohibitions**

Dealer Members are prohibited from using the IIROC Official Name, Acronym, Logo, Decal and Brochure in the following circumstances:

- (a) if IIROC decides that its use is detrimental to the public's interests or the interests of IIROC or its Dealer Members;
- (b) where use of the IIROC Official Name, Acronym, Logo, Decal or Brochure gives the impression that IIROC approves, endorses or guarantees a Dealer Member service or an investment product or is otherwise false or misleading;
- (c) in connection with a subject matter or activity that is not regulated by IIROC; and
- (d) upon the termination or suspension of its membership.

7. **IIROC Contact**

If you have any questions concerning the treatment of the IIROC Official Name, Logo, or Brochure, please contact Public Affairs at 416.943.6921 or at publicaffairs@iroc.ca.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
REQUIREMENT TO DISCLOSE MEMBERSHIP IN IIROC AS DEALER MEMBER
PROPOSED AMENDMENTS**

BLACKLINE OF PLAIN LANGUAGE RULES 2355, 2356 AND 2357

1. A blackline of the amendments to Plain Language Rules 2355, 2356 and 2357:

2355. Membership Disclosure Requirements in Compliance with Disclosure Policy of the Canadian Investor Protection Fund (CIPF) for Dealer Members

(1) ~~A Dealer Member must disclose to its clients, in accordance with the CIPF's Disclosure Policy, membership in the Canadian Investor Protection Fund and the coverage available for eligible accounts.~~

2356. Membership Disclosure Requirements Use of the Corporation name and logo for Dealer Members

(1) ~~A Dealer Member must disclose to its clients that it is regulated by the Corporation in accordance with requirements set out in the IIROC Membership Disclosure Policy.~~

(1) ~~A Dealer Member may only use the Corporation name in the following forms:~~

(i) ~~Dealer Member(s) of the Investment Industry Regulatory Organization of Canada;~~

(ii) ~~Membre(s) de l'Organisme Canadien de Réglementation du Commerce des Valeurs Mobilières;~~

(iii) ~~Dealer Member(s) of the Investment Industry Regulatory Organization of Canada – Organisme Canadien de Réglementation du Commerce des Valeurs Mobilières; or~~

(iv) ~~Membre(s) de l'Organisme Canadien de Réglementation du Commerce des Valeurs Mobilières – Investment Industry Regulatory Organization of Canada~~

(2) ~~When using the Corporation name in its office or on its windows, a Dealer Member must use the form required by this rule but, in smaller type than the name of the Dealer Member.~~

(3) ~~If a Dealer Member uses the Corporation logo in the form below together with the Corporation name, the size of the logo must give equal prominence to both the Corporation name and logo.~~

(4) ~~A Dealer Member must not use the Corporation name and logo in a manner that is misleading or confusing to the public.~~

2357. Corporation governance of its name and logo

(1) The Board may set certain terms and conditions for a Dealer Member's use of the Corporation name or logo.

(2) ~~The Corporation will prohibit a Dealer Member from using the Corporation name or logo and require the Dealer Member to destroy all materials that use the Corporation name or logo if:~~

(i) ~~the Corporation decides that the use of the name or logo is detrimental to the interests of the Corporation or its Dealer Members;~~

(ii) ~~the Dealer Member is no longer a Corporation Dealer Member; or~~

(iii) ~~the Corporation suspends or terminates the Dealer Member's membership.~~

(3) ~~When the Corporation requests, a Dealer Member must provide samples of letterhead, circulars, or other promotional materials that use the Corporation's name or logo.~~

(4) ~~The Corporation may prohibit a Dealer Member from using the Corporation name or logo and require the Dealer Member to destroy all materials that use the Corporation name or logo if:~~

- (i) ~~the Dealer Member fails to respond to a request for samples; or~~
 - (ii) ~~the Dealer Member does not comply with the requirements for using the Corporation name or logo.~~
- (25) A Dealer Member's use of the Corporation name or logo does not give the Dealer Member any proprietary interest in that name or logo.