IIACACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Dear Sirs/Mesdames:

Re: Re-publication of Proposed IIROC Dealer Member Plain Language Rule Book (the "Proposals")

The Investment Industry Association of Canada (the "IIAC" or "Association") appreciates the opportunity to comment on the above noted Proposals. As in our response in July 2016, our submission focuses on matters that represent substantive change to the existing Rules. We are concerned that certain of these substantive rule changes were introduced through the PLR Proposals, rather than as standalone proposals with the benefit of clear policy rationale. Many of these provisions have significant compliance and operational implications and should be subject to a separate process.

Our comments are categorized by the series of Rules referenced.

2000 Series - Dealer Member Organization and Registration Rules

Re: 2157 - Shared office premises - While it is an existing requirement that the legal names of the entities sharing premises must be displayed in a prominent location such as the office entrance door or reception area, Dealer Members have not interpreted this requirement to apply to financial services entities that technically carried on business at the same location but for which there was no signage; i.e. insurance subsidiaries. These entities "carry on business" in a premise simply because certain dealing representatives are also licensed by the financial services entity, but there is no signage offering such services. We understand that IIROC staff have recently been taking the position that Rule 2400 provisions apply to such entities (in particular, the insurance subsidiaries). If there is no signage offering the services of such an entity and the only branch presence is the fact that an employee works there, we submit that it is unnecessary to require prominent legal name disclosure. Dealer Members have indicated that they

can comply with the remaining requirements of this rule, but feel that the prominent legal name disclosure is unnecessary.

Re: 2354(1) - Displaying the full legal name - The new requirement for a Dealer Member to include its full legal name on "materials used to communicate with the public" is a significant change from the existing requirement in Rule 29.7A(6), which only requires that legal name be included on contracts, confirms and account statements. This is quite different from the legal name requirements for Approved Persons in 29.7A(7), and should not be applied the same way. As a reminder, the definition of "Approved Person" does not include the Dealer Member itself in the existing or proposed rules. This provision was not identified as a substantive new requirement, and we are unaware of any evidence to support the necessity for this significant change. We recommend that the words "materials used to communicate with the public" be deleted from this section and replaced with the words "account statements and confirmations", consistent with the existing requirement in Rule 29.7A(6).

Re: 2475(18) and 2476(18) – Type 1 and 2 Introducing broker/carrying broker arrangements – These provisions introduce a requirement that for Type 1 and 2 IB/CB relationships, the introducing broker may accept a cheque in the carrying broker's name from a client whose account is carried by the carrying broker and deliver it to the carrying broker; or arrange for the carrying broker to pick it up on the day it is received by the introducing broker. This introduces a number of practical difficulties, as there are situations where this is not possible or advisable. For instance:

1. where cheques are post-dated;
2. where cheques are received in the mail without client discussing the cheque in advance or what account(s) its for;
3. where a client sends the cheque and indicates it should not be deposited until they give their specific directions to do so;
4. in the case of bank drafts / money orders - declarations of source of funds are often not included and have to be obtained separately;
5. where the account has not been opened yet;
6. where third party cheques (eg grandparent into RESP) are involved and require documentation of the relationship;
7. where the advisor and client have met, the cheque is issued but it has not been finalized which account to which it will be allocated;
8. where the firm requires a review of the source of funds for a cheque above a certain amount.

We recommend that the provision be amended to provide for timing that is "as soon as reasonably practicable given the circumstances".

Re: 2554(6) - Approval of Registered Representatives, Investment Representatives, Portfolio Managers and Associate Portfolio Managers and their obligations - This provision introduces a new requirement for an Associate Portfolio Manager to obtain pre-approval of their advice by a Portfolio Manager. We understand that this requirement aligns IIROC rules with section 4.2 of National Instrument 31-103. However, it is our position that IIROC Member Dealers currently undertake multiple reviews of advice that accomplish the same or arguably a better outcome as the pre-approval of advice would accomplish, without the additional delays, costs, and regulatory burdens that the pre-approval of advice would impose.

First, supervisors at the branch level carry out a daily suitability review of all trades, including those in managed accounts. We understand that this additional level of supervision exists only rarely in the advising firms with which the securities commissions are familiar.

Second, IIROC's trade surveillance requirements currently address the suitability assessment that a Portfolio Manager would undertake by pre-approving advice. In addition, other important filters are applied through the trade surveillance review, which non-automated advising firms would be hard pressed to accomplish through their typically manual pre-approval of advice by a Portfolio Manager.

Third, IIROC's requirement in Rule 1300.15A.(d) for the Designated Supervisor of Managed Accounts to review managed account at least quarterly to ensure the investment objectives are being diligently pursued ensure that each client's agreed upon asset allocation and other limitations are followed, just as the pre-approval of advice would accomplish.

Although the supervisor and trade surveillance suitability reviews take place shortly after the trade, IIROC Member Dealers can simply bust the trade to make the client whole if the trade is not suitable for the client. Therefore the slight difference in timing makes absolutely no difference to a client.

We are unable to identify an outcome that the pre-approval of advice would accomplish that the combined IIROC rules do not already accomplish, yet we have identified additional layers of review accomplished by IIROC rules that the pre-approval of advice is challenged to accomplish. Consequently we ask what regulatory outcome IIROC intends to achieve with this new requirement? If IIROC's intention is to align in form with section 4.2 of National Instrument 31-103, then we submit that the substance has already been achieved without the delays, costs, and regulatory burdens that will accompany the pre-approval of advice.

The concerns with the requirement for pre-approval are as follows.

1. Delays in placing trades that could act against a client's best interests will be inevitable, as Associate Portfolio Managers submit trades for review by a Portfolio Manager. For bulk trades, the allocation is completed and reviewed by supervisors and trade surveillance after the order has been filled. A review of the bulk trade itself without the allocation would be meaningless, so we assume the allocation will also have to be submitted to the Portfolio Manager for pre-approval, all of which takes time, and meanwhile the pricing may change to the disadvantage of clients.

2. If the Associate Portfolio submits any PRO trades after managed account trades that would have to be pre-approved, the PRO trades might accidentally go ahead of the managed account trades if the pre-approval is still ongoing when the PRO order is placed. It is unclear whether IIROC intends to amend the client priority rules to address this inadvertent problem, or if Dealer Members also will be required to both review these client priority issues as normal, as well as develop a mechanism or more likely an IT enhancement to prevent PRO trades from an Associate Portfolio Manager from inadvertently proceeding before the pre-approved managed account trades. PROs also include the family members of IIROC registrants, who should not be delayed more than is necessary for client priority to be achieved.

3. There will be significant costs associated with imposing the pre-approval of advice. Dealer Members with legacy IT systems or a centralized pre-approval of advice will want to develop the necessary IT enhancements to accommodate an entirely new order flow to include the pre-approval of advice for only some of their registrants. In addition, the business models of IIROC Dealer Members are not generally organized to accommodate the pre-approval of advice. Unless an Associate Portfolio Manager is part of a team that includes an established Portfolio Manager, the existing Portfolio Managers will generally be in competition for clients with their fellow Associate Portfolio Managers. We think that assigning Portfolio Managers to pre-approve advice of Associate Portfolio Managers with whom they have no business dealings will not only prove challenging but potentially compromise the very quality of the pre-approvals. Consequently, firms may often have no choice but to carry out centralized pre-approval of advice, which could entail increased headcount costs.

4. As we have submitted above, the pre-approval of advice appears to be redundant to the reviews that already take place pursuant to IIROC rules, adding to the regulatory burden of IIROC Dealer Members for no discernible benefit.

At a time when regulators are asking registrants to help them identify ways to eliminate regulatory burden and conspicuously supporting FinTech, we submit it would make good sense to recognize and support the excellent reviews that address what the pre-approval of advice would address and further, that have already been put in place at great expense for IIROC Dealer Members.

Re: 2602(3)(xiii) and(xiv) – Associate Portfolio Managers and Portfolio Managers - In the interests of fairness and to reduce regulatory arbitrage and confusion among investors, it is important that standards are harmonized and consistent among registrants conducting similar activities. We note that the CPH continues to be required for IIROC registered Portfolio Managers, but not for CSA registered individuals conducting the same activity.

We understand that IIROC's intention is that individuals in the Associate Portfolio Manager and Portfolio Manager categories will not be permitted to deal with clients in non-managed accounts unless they also obtain the proficiencies and approval of the Registered Representative category. We recommend that this be specified in the rule or in separate guidance if this is the case.

The Rules should, however, provide an automatic exemption from the CPH for Portfolio Managers who deal with managed accounts only, to allow the CFA Level One or greater, as this proficiency does contain an ethics component. It is noted a Portfolio Manager who wishes to also deal in non-managed accounts will be required to complete the CPH to qualify as a Registered Representative. If the exemption is not granted, we recommend that there be a transition period to allow the individuals to complete the CPH, particularly where the individual is moving from the CSA registration to an IIROC firm. This would help facilitate mobility between the platforms, and would ensure the individual Portfolio Manager's existing clients are able to transition with them. Given that the CSA does not have the CPH requirement, clients are not prejudiced or put at risk by allowing a reasonable transition period to allow the individual Portfolio Manager to complete this educational component. The requirement could be similar to the Registered Representative – Mutual Funds category of registrations, where the post-licensing requirement is 270 days to have the CSC and CPH course completed. Having this post-licensing requirement would ease the transition of Advising and Associate Advising Representatives transition to the IIROC platform.

Re: 2602(xvii) – Supervisor – Registered Representatives – We reiterate our position that the proficiency requirements for Supervisors of Registered Representatives dealing with institutional clients should differ from that for retail clients. As noted previously, the addition of the requirement to complete the Effective Management Seminar, and addition of two years of relevant supervisory experience represent significant additional criteria for this position. The functions and responsibilities of a supervisor on the retail side

are very different from one on the institutional side. It is not clear what issues or gaps these amendments are intended to address.

Re: 2602(xiii) – Supervisor RR or IR dealing with clients in Options - We seek further clarification on what IIROC deems relevant experience for Supervisors of Approved Persons trading in Options. If a Supervisor is not actively trading in Options, what would be deemed as relevant experience? IIROC has suggested that registrants do not park their licenses, but in essence a Supervisor that is required to be registered as a RR-Options and is not actively trading in this category is parking a license. We request that only the Investment Dealers Supervisors course and the Options Supervisors course along with the 2 years of supervisory experience be the required proficiency and experience requirements.

Re: 2602 (xxv) – Supervisor – Pre-approval of advertising, sales literature and correspondence – We re-iterate our concern that the degree of proficiency required in the Proposals is disproportionate to the responsibilities of this position. There is no suitability assessment, and no daily/monthly review is required in this role, as well, these individuals are not supervising Approved Persons. It is unclear why they should be subject to the completion of the EMS as a post-licensing requirement. The responsibilities of such individuals are non-technical and do not require the type of initial and ongoing training for supervisors of Approved Persons, trading or research. At a minimum, we recommend that an exemption from this requirement be obtained for Supervisors that deal with templated material that has been pre-approved, rather than new material that has been developed.

Re: 2602(xxx) – Chief Compliance Officer - We seek clarification as to what would suffice to qualify to fulfill the criteria of "providing professional services in the securities industry."

Re: 2607 (2)(i) - Transition of Registered Representatives (with a business type of portfolio management) into the new registration regime. The proposed rule provides a three month period for compliance from the date the IIROC Rules comes into effect. We would like to request that the time line be extended for a period of six months. Further, we seek clarification that no further review by IIROC will be done upon the Dealer Members submission of the Form 33-109 F2 via the National Registration Database to remove the business type of portfolio management and add the applicable category of Associate Portfolio Manager or Portfolio Manager. The wording in the proposed Rule 2607 (2)(i) suggests that dealers would have to make a request to IIROC as to whether an Approved Person should be approved as a Portfolio Manager or Associate Portfolio Manager and then file the 33-109 F2. Dealer Members would have the time allotment to review and then submit the Form 33-109 F2 via NRD to remove the business type of portfolio management and add the applicable category of Associate Portfolio Manager and Portfolio Manager.

Re: 2656 (2)(ii) – A Continuing Education participant may carry forward 10-hours of a single Professional Development (PD) course from the current CE Cycle into the following CE Cycle. We seek further clarification from IIROC if this rule amendment will be extended to include a single PD course currently worth 20 or 10-hours total. For example, the Effective Management Seminar (EMS) is currently accredited for 20 PD credits, would the credits from the EMS be considered eligible to carry forward into a future cycle?

Re: 2656 (3)(i) – Foreign CE courses can be used entirely for PD if the CE course relates to investment dealer business. We request that this rule be amended to include Canadian CE courses that are related to investment dealer business, offered and accredited by recognized designation associations, such as the CFA Institute and Financial Planning Standards Council.

Re: 2658(2) – We request that IIROC reconsider the requirement that the CE requirements for the full cycle must be completed unless an Approved Person enters the current CE program cycle within six months of the end of the current cycle. This is very onerous, in that completion of the CE requirements and, where applicable, the WME would be extremely difficult to complete if the individual has less than one year to do so. We recommend that if an Approved Person enters the CE program cycle within one year of the end of the cycle, the CE requirements should commence in the next CE program cycle. This would not prejudice investors, as the Approved Persons would have just completed the required courses in addition to the 90 day training program and would be consistent with the principal of IIROC's proposed rule 2606 which recognizes that the knowledge gained remains in place for three years. Additionally, we request that IIROC consider allowing participants to utilize the 30/90 day training programs towards the PD requirement.

Re: 2656(1)(ii) - Please confirm that the individual responsible for supervising the training and development within the Dealer Member, is not required to be a registered Supervisor. This is not currently a role requiring registration as it does not involve the direct supervision of registrants or their activities. As such, there should be no new requirement that the individual fulfilling this role, be registered as Supervisor.

Re: 2663(1) – Effective January 2018, the penalties for non-completion have been increased to $2500 on the sponsoring Dealer Member and the CE participant will be automatically suspended. We recommend that this increase in penalties not be imposed on Dealer Members and participants upon the completion of CE Cycle 6. CE participants should not be subject to this increase in penalties until the completion of CE Cycle 7 in January 2020.

Re: Implementation Period – We are concerned with the timeline provided, which indicates that the first two year CE cycle will commence on January 1, 2018. Given the time for re-publication and finalization of the Proposals, which will not likely take place until well into the second half of 2017, this will not provide sufficient time for firms to make the required changes. Until the Proposals are finalized, and firms know the exact changes they will have to make, it would be imprudent to adjust systems and budgets based on amendments in draft. We suggest that the first two year CE cycle commence on January 1, 2019 to provide sufficient time to accommodate the Proposals.

PLR 3000 Series - Business Conduct and Client Account Rules

Re: 3115(2)(v) – The replacement of the word 'and' with 'or' implies that the Dealer Member will no longer be required to pre-approve those arrangements. Please provide guidance to confirm if that is correct.

Re: 3202(1)(i) – We recommend that IIROC provide further guidance regarding why and when Dealer Members should not rely on the anti-money laundering regulation's (PCMLTFA) exemptions.

Re: 3210(1)(i)(c) – We believe the reference to Form 2 in this section should be deleted. There has been a lot of confusion over the years about whether certain elements currently appearing on Form 2 are required to be collected by Dealer Members, such as client fax number, family information including spouse's occupation, referral information, initial order, etc. This confusion could be avoided by deleting the reference to Form 2, and mandating any required documents in the Rules only. Also, the reference to "suitability" should be deleted from this clause, as it does not apply to institutional clients or to order execution only Dealer Members.

Re: 3211 – IIROC has not published any evidence or rationale to support this new substantive requirement. IIROC staff previously indicated in Notice 12-0109, that their view was that the suitability analysis starts before the order is even received, recommended or executed, which was the basis for suggesting that a Dealer Member *should* (not must) ensure that the account type (not product) is appropriate for the client. IIROC staff have expanded what was guidance on the suitability obligation to a new requirement that Dealer Members must now assess whether it is appropriate for the person to become a client at all, and must make a one-time determination of which products are appropriate for the client, notwithstanding that client circumstances might change, and different products may become available over time. The Joint Rule Review Protocol established under the Memorandum of Understanding for oversight of IIROC requires that rules for public comment must be published with a notice including such information as the possible effects of the rule on members, the costs of compliance,

alternative approaches considered, technological implications, and a comparison with other jurisdictions. IIROC has not provided any of this information, notwithstanding that the introduction of the "appropriateness" requirement will likely require material procedural and technological changes for Dealer Members. As a result, there is an argument that this Rule is *ultra vires* IIROC because it is offside the Joint Rule Review Protocol. If this proposed Rule is adopted nonetheless, an exemption should be available to Order Execution Only (OEO) Dealer Members, as they are exempt from all suitability obligations. The "appropriateness" requirement is a form of suitability analysis, which OEO Dealer Members are not currently equipped to evaluate. OEO Dealer Members should not be required to incur the procedural and technological costs necessary to meet an "appropriateness" obligation.

The proposed rule appears unnecessary and redundant, as firms already have robust policies, procedures and controls involving the review and approval of new accounts. Supervisors are already required to thoroughly review and approve each client and account accepted by the firm. Under this process, Supervisors are already assessing the individual KYC information and consider this information based on the type of account to be opened. Supervisors already review and approve accounts to trade in the suite of products and services offered by the Dealer Member. In addition, subsequent to the opening and acceptance of accounts, many firms may already implement additional standards or requirements that clients must meet, before they can transact in certain types of securities (options, hedge funds, private equity funds, private placements, structured notes or structured products, etc.). We believe that Dealer Members should be permitted to determine, if /when, an additional assessment should be performed in order to determine the suitability of certain account types and products for clients.

In the current state, the proposed rule is unclear and vague. It does not provide any further detail or guidance as to what factors must be taken into consideration when determining when an account type and product(s) are appropriate for the client. The rule contemplates conducting this assessment at the time of account opening, and does not speak to whether there is an ongoing requirement for the firm to conduct and document this assessment. If there is in fact, an expectation that this assessment will be ongoing, there is no indication as to when this must be conducted, how it is to be documented, and if a Supervisor must review and approve any changes. The proposed rule does not indicate if, or how firms can prevent or restrict clients from investing in products not subject to the appropriateness assessment. Is the expectation that firms will implement preventive, automated controls and systems? If so, this may result in significant technology costs and supervisory challenges.

Similarly, the proposed rule may be subject to wide interpretation of when a product may not be appropriate for the client, for example, what constitutes a risky, complex, or illiquid product. This is a very

context-specific determination, given that complex products may not always be inherently risky (for example, principal protected notes can be complex in terms of how they work, but they are relatively less risky due to the principal guarantee), and that otherwise risky products can be used to reduce risk (for example, a leveraged or inverse leveraged exchange traded fund can be used as a hedge for an index-linked product). In some cases, preventing clients from using some complex products typically deemed as higher risk can actually increase overall risk for the client (or at least not reduce risk).

Concerns Specific to the Order Execution Only Business Model - OEO accounts should be exempt from the new requirement to determine the appropriateness of whether or not a person should become a client of the Dealer Member and the scope of products and account types the client can access. We view the account appropriateness rule as effectively a suitability requirement as currently written. OEO firms are currently exempt from all suitability obligations, and accordingly do not collect the client information necessary to make a suitability determination. If OEO firms are required to collect more KYC information in order to satisfy an "account appropriateness" obligation, we have a number of potentially significant concerns: clients will be misled into thinking that a suitability determination will be made; OEO dealers will have to transition existing clients where they do not have this information currently, and they will require additional resources, technology changes, and personnel to collect and update this information. We would also be concerned about potential liability that arises as a result of the introduction of an "account appropriateness" obligation. For example, if an OEO firm determines that a particular type of security is appropriate for a client, and then the client suffers losses on that investment, will this give rise to a cause of action against the OEO dealer for an improper appropriateness determination?

While OEO firms might have internal policies concerning clients' eligibility for certain accounts or products and may perform due diligence on new products through a New Product Review Committee, this is not based upon any suitability or "appropriateness" obligation.

If IIROC wishes to introduce a new "account appropriateness" obligation for OEO firms, it should do so via formal rule-making and not by way of the Plain Language Rule Book project. Such a new obligation must be more specific about the extent of the "appropriateness" obligation. For example, a low standard of "appropriateness" would imply that it is sufficient to say that a trust account is appropriate for a trust client but not a corporate client, or that a margin account is appropriate for a client who wishes to borrow money. The suggestion that the "account appropriateness" obligation might extend further than this minimal level would create potentially significant problems for OEO firms, given that they do not collect the client information necessary to make a further investigation of "appropriateness", such as risk

tolerance, investment objective, time horizon, etc. An appropriateness standard represents a significant change to OEO firms and will require far more discussion and analysis in order to determine the impact on the OEO business model, including the product shelf, policies, procedures, and supervisory processes and controls. Introducing the significant new requirement as part of the PLR project provides neither, the clarity or appropriate time that OEO firms would require in order to fully and properly assess the impact.

Re: 3212 – While the rule more clearly clarifies what documents Dealer Members are required maintain, it is not clear whether retaining current copies of the relationship disclosure documents and terms and conditions that would have been provided to the client is sufficient – or if a copy and evidence of delivery of these documents to each client is required. This would require significant storage space.

Re: 3214(2) – This requirement requires further clarification. Currently, Dealer Members can review and approve a new account, where a properly completed New Client Form has been submitted and approved by a Supervisor. It is not uncommon however, for a Supervisor to approve a new account, while additional supporting documents are still outstanding. In these situations, the accounts are restricted, where the additional supporting documents are not obtained within a specified amount of time. The proposed rule as written, states that Dealer Members may no longer follow this practice and must have all account documents "in hand" at the time of approval. If this is the case, it represents a material change to the existing new account systems, policies and procedures. Dealer Members should be continued to be permitted to approve accounts upon receipt of properly completed New Account Forms, were supporting documentation not provided at the time of account approval can be obtained within a specific period of time. IIROC needs to clarify this apparently new requirement.

Re: 3215(3)(i) – The proposed rule is vague and open to interpretation. Further guidance should be provided in respect of the requirement to "verify the client information in the account application with the client as soon as practicable to ensure the information is correct…" What is IIROC's expectation as a reasonable period of time? Depending on the individual circumstances, registrants may be required to contact potentially hundreds of clients as part of this process. What does verify the information with the client mean in practical terms? Is the client required to provide written confirmation of the changes? As part of the normal account transition process, the inheriting registrant will contact each client as time permits, and through the discussions, will determine if the information reflected in the account application remains accurate. However, this does not mean that Dealer Members require written acknowledgement from clients. Currently, Dealer Members may follow different processes for managing

these transitions, which may include a review and attestation on an individual account application basis, or through a bulk attestation, evidencing these reviews.

Re: 3220(4) – These requirements are new and are vague and unclear. We ask that IIROC clarify their expectations. While we understand the intent, it is unclear what IIROC expects firms to do with the record of any identified persons with trading authority (TAs). Are TAs related to the account–holders to be identified? What does the proposed identification process consist of? Firms also will face operational challenges to identify and track TAs for multiple clients and accounts if they do not have automated systems for this purpose. We believe manual tracking will be difficult and impractical, requiring firms to develop automated systems and incur costs as a result. We believe in the circumstances, that it would be more reasonable to limit this requirement only to unrelated TAs with trading authority over a threshold number of accounts, rather than requiring every TA to be identified. Is it expected that firms will be required to implement supervisory controls and processes in order to monitor these situations? If so, will IIROC issue guidance or measurable standards as to when this situations may be problematic or inappropriate? Firms cannot be expected to effectively supervise these scenarios, in the absence of standards or guidance. Firms already have existing supervisory and oversight activities designed to identify potentially unusual or suspicious trading activity. These processes can identify suspicious or unusual trading, which might ultimately be traced to a particular individual who maintains authority over multiple client accounts. Firms should be able to rely on existing supervisory processes, rather than creating potentially complex and costly technology solutions to address potential inappropriate activities, which may already be identified through existing systems and controls. Again, this requirement will have a material impact on Dealer Members in terms of technology, costs, and resources, and we do not believe the proposed rule, as written, can be complied with, through reasonable means.

Re: 3246: This new requirement is redundant, given that Rule 3217 already requires the delivery of a leverage risk disclosure statement to the client. If IIROC expects Dealer Members to take additional steps, further guidance is necessary, and IIROC should articulate the reasons for the additional obligation. In particular, why does IIROC think that clients need to be made more aware of the benefits of margin trading? Is this a one-time determination, or does it apply to every margin trade that a client ever makes? Are there risks associated with a margin account that aren't addressed in the leverage risk disclosure statement?

Re: 3274(1)(iii), (iv) – These provisions indicate that the discretionary account agreement term must be for no more than 12 months and cannot be renewed. As suggested above we believe more flexibility is required, as this may disadvantage some firms and clients.

Re: 3275 – We question why proficiency provisions are included in this rule and not in the general proficiency related rule sections. We also question why registrants under the two-year requirement should not be permitted to exercise discretion, given that these accounts are already under heightened supervisory requirements under IIROC Rules.

Re: 3403(3)(i) – This provision should be included in section 3404 re: exceptions to suitability, and paragraph (ii) should be deleted.

Re: 3404(1)- The words "when accepting an order" *must be deleted* from this provision, because OEO Dealer Members are exempt from the non-trading related triggering events in 3402(1)(iii), which do not involve the acceptance of an order. IIROC dealers are currently exempt from suitability obligations in connection with non-trading related triggering events according to current rule 1300.1(t). Introducing a new triggering event-based suitability requirement for OEO dealers will significantly change the business models for OEO Dealer Members, and IIROC has not provided any rationale for doing this, nor has IIROC identified this as a new requirement in the PLR process.

Re: 3402 – This new suitability determination should clarify that the suitability review would only be triggered if it was a partial account transfer. If the client transfers their entire account and will no longer be a client of the firm, the firm does not need to conduct a suitability review of that client. Further as this is a new requirement, firms may need additional time to implement system changes to capture when this requirement is triggered. We suggest a materiality threshold for the suitability determination that applies where securities are received or delivered via deposit/transfer. Situations exist where individual securities are transferred out because they are delisted or no longer eligible for a registered plan account. Such securities have little or no value, so their removal has no effect on the suitability of the client's portfolio at all. Requiring a suitability review is such a situation has no benefit for the client.

Re: 3404(2)(i) - the word "and" between (i) and (ii) should be deleted because it suggests that a client must be an institutional client in order for the suitability exemption to apply. The word "or" would be more appropriate.

We suggest that a new subsection 3404(3) is added and the existing 3404(3) be renumbered to 3404(4). New subsection (3) would read: "A Dealer Member has no suitability obligation if the Dealer Member has reasonable grounds for concluding that the institutional client is capable of making an independent investment decision and independently evaluating the investment risk based on the following relevant considerations (i)–(vii) [from existing subsection (2)].

Re: 3504 – This new provision mandates that a "fee schedule" be provided for retail clients, which includes commissions, and only interest charges would be exempt from 60–day prior disclosure. This would be a material change with a new class of disclosure that would require updating and distributing a new fee schedule to all clients. There is no supporting rationale for the change and we question whether it would be acceptable to provide disclosure of commissions by indicating "as negotiated" since it is not practicable to include particulars when there is no specific commission formula and given the variances for different trades. When the client receives the trade confirmation and fee/charges report, the client will in any event receive the exact commission disclosure. This provision should be deleted as it would be costly to implement with no real benefit for clients. Many Dealer Members consider margin interest to be an "operating charge". It will be impractical to notify clients 60 days prior to an increase in margin interest rates, given that they are usually tied to market lending rates, which can change often. We suggest that 3504(1)(iv) include the words "other than margin interest rates" to the end of the sentence.

Further we believe 30-day prior disclosure is more appropriate than the 60-day prior requirement. It may be difficult to provide clients with 60-day prior disclosure for certain fees and 30-day prior still provides clients with sufficient time to review the fee.

Re: 3505 - Current Rule 900 applies only to in connection with the exercise of rights to subscribe for shares, which are listed on a recognized stock exchange which prescribes a fixed commission for trades of such shares. It is unclear why IIROC feels that the restriction on sharing service charges on rights exercises must be expanded to all securities in all circumstances. As drafted, proposed Rule 3505 will prohibit referral fees. In fact, given that most revenue that Dealer Members earn is in connection with payments received from clients, this arguably prohibits Dealer Members from paying third party service providers, IIROC membership fees, etc. This Rule should be deleted since Rule 900.1 has not been incorporated into the PLR.

Re: 3509 – We appreciate IIROC's decision to remove the premarketing certificate requirements and their efforts to reduce the regulatory burden members incur.

Re: 3603(5) – The original rule was limited to requiring a Dealer Member to provide for the education and training of registered and Approved Persons as to the Dealer Member's policies and procedures only

where pre–use review is not required, as well as follow–ups to ensure that such procedures are implemented and adhered to. The proposed rule is now expanded to a general requirement that appears to be too broad as when pre–use review is required it will be done by compliance. There is also the new requirement for "specific ongoing measures" to ensure compliance with policies and procedures. That would appear to relate to supervision and it is unclear what supervision measures are required if they are new; these measures should be directly referenced if they relate to the supervision rule.

Re: 3603(6) – This provision changes the original rule which requires 2 years for all advertisements, sales literature and related documents from the date of creation, and all correspondence and related documents for a period of 5 years from the date of creation. There is no rationale provided for this proposed extended retention period and it would appear to be unnecessary and create an extra burden without any noted benefit, given the lack of disciplinary matters associated with the activity which otherwise would justify a longer retention period.

Re: 3609(2) – We suggest revising the wording to allow firms to disclose or indicate where the information required for section (2) can be found.

Re 3613(1)(i) – We suggest that IIROC provide guidance on what is meant by "to what *extent* an analyst has viewed the issuer's material operations". Is disclosure that the analyst viewed the property sufficient? What further details are expected? Further we suggest that the wording be revised to state that the disclosure is only required if the analyst has viewed the operations, as the word "whether" triggers that a disclosure is required even if the analyst has not viewed the operations.

Re 3613 (1)(ii) – We suggest that the wording be revised to state "*if* the analyst has visited the issuer's operations, then whether or not the issuer has paid or reimbursed any of the analyst's travel expenses". An analyst may not visit the issuer in all circumstances and then there would not be any disclosure of reimbursement of travel expenses.

Re: 3624 - We appreciate IIROC's decision to remove the research report annual certification requirements and their efforts to reduce the regulatory burden members incur.

Re: 3703(1) – We recommend that IIROC include reference to the Rule for the time period required for the filings, rather than stating "within the time period… as prescribed by IIROC". The time periods

prescribed by Policy 8 (now Rule 3100) are in Member Regulation Notice from 2002. This change would provide clarity, and simplify compliance with the requirements.

Re: 3804(4) – We would suggest that the manner requested by IIROC be followed by "acting reasonably".

Re: 3808(1)(ii) - We agree with IIROC that it is not necessary to send statements where the only transactions were "dividend or interest payments". We suggest that IIROC extend similar treatment to ordinary cash distributions paid on mutual fund, limited partnership and trust units.

Re: 3816(2)(ix) - We recommend that IIROC provide an exemption from the requirement to disclose the relationship between the Dealer Member and a financial institution that sponsors a mutual fund, where the names of the Dealer Member and mutual fund are sufficiently similar to indicate that they are affiliated or related. A similar exemption is available in s. 14.12(3) of NI 31-103.

Re: 3904(3) (v) – This is new provision, and it is unclear what it means to have policies and procedures on timing of compliance notices, as it would depend on developments.

Re: 3909 – Please provide additional guidance as to IIROC's full expectations with respect to the role and responsibilities of the "Executive". It appears that IIROC now views a Designated Supervisor and Executive as having similar supervisory responsibilities with respect the system of controls, supervision, and policies and procedures within the Dealer Member. This seems unnecessary and redundant. Under current rules, each Designated Supervisor has very specific regulatory responsibilities and accountabilities for systems of supervision, controls, and appropriate policies and procedures. The Chief Compliance Officer, Chief Financial Officer, the Ultimate Designated Person and the Board or Directors, are also responsible for ensuring that there are appropriate systems of controls, supervision, policies and procedures, and to ensure that material issues of non-compliance are properly reported and addressed. Again, the new requirement seems unnecessary and redundant in consideration of the current structure of Dealer Members. We need to better understand IIROC's specific expectations as to how the Executive is expected to demonstrate how he/she must supervise and direct the activities of the Dealer Member, and its employees and Approved Persons, etc.

Re: 3970(3)(4) – This rule calls for "direct" supervision of an APM who can "only provide advice approved by a PM"; it is not clear what advice (verbal or written) can be given, what the responsibilities of the designated Supervisor for managed accounts are, and whether supervision would be similar to what is done for new PMs now. We request confirmation that there is no change with "direct" supervision, as some firms employ a centralized model for supervision of managed accounts. Notably, also, if IIROC

expects advice (both verbal and written?) to be subject to "pre-approval", firms will experience significant negative implications concerning how this business is run. Dealer Member Rule 1300.15(c) does not prescribe pre-approval of advice in respect to supervision of RRs with less than two years' experience managing accounts, and most firms employ "post-trade" review. There has been no rationale provided for this new proposed standard which will eliminate APM discretion over client accounts and require firms to overhaul supervisory systems to facilitate Supervisor pre-approval of all advice given by an APM. This will at least delay if not cause missed trade execution opportunities with no benefit to clients, while increasing costs due to new compliance responsibilities for PMs and operations systems required to track PM pre-approvals. In the circumstances, we believe this new proposed requirement should be deleted, failing which, IIROC should clarify its intention and provide the industry with the opportunity to provide feedback and comments on whether firms could implement such a Supervisory model and/or provide alternative suggestions.

Re: 3980(1)(iii) - The words "when accepting orders" must be deleted from this section. OEO Dealer Members are currently exempt from the suitability obligations tied to non-trading related triggering events, and they should continue to be exempt under the new rules.

4000 Series - Dealer Member Financial and Operational Rules

Re: 4136(1)(ii) – We reiterate our concern in our first submission that the following wording in this section is ambiguous: "Prohibiting the Dealer Member from opening new branch offices, hiring any new Registered Representatives, Investment Representatives, Portfolio Managers or Associate Portfolio Managers, opening any new client accounts, or changing in any material way the Dealer Member's inventory positions." We propose that the wording be updated to "changing in any material way the Dealer Member's inventory positions that would increase the risk exposure". Furthermore, we disagree with IIROC's position that "…*the current wording is adequate because a Dealer Member in early warning level 2 needs to be closely monitored by IIROC in order to ensure the Dealer Member's remaining regulatory capital is preserved. The suggested change would make the requirements more subjective and could lead to a situation where a Dealer Member makes material changes to its inventory positions which it may believe to be decreasing its risk exposure but, in fact, could be increasing its risk exposure from IIROC's perspective*". Our members understand margining rules and should therefore be allowed to decrease their risk exposure without IIROC's oversight.

Re: 4202, 4206-8 –The provisions state that "A Dealer Member must provide a summary statement of its financial position, when requested, to any client who has traded in his or her account with the Dealer Member within the past 12 months". As stated in previous submissions, we propose that the wording state: "to any client who has an active account with the Dealer Member" since a member may hold

securities and/or cash for a client account without having executed a trade in a period of 12 months. The same comment applies to the list of current Executives and Directors to be made available to clients. We require clarification with respect to why a client having assets held by a dealer would not be entitled to the same disclosures as any other client of the same dealer.

Re: 4270 to 4276 – Business Conduct/Professional Opinions – Sections of original Rule 29 have been awkwardly placed in the PLR 4000 Series. We question whether their inclusion in the proposed Financial and Operational Rules is intended and appropriate as they relate to transactional business conduct and request clarification in this regard. We suggest that they be submitted for review as part of the 3000 PLR series so that dealers can consider it in the appropriate context.

Re: 4318 – In respect of the portion that states "...subject to the restrictions of any applicable securities legislation..." became "...subject to the restrictions of any securities laws...", we believe the word "applicable" should be kept as members should only be subject to applicable securities law.

Re: 4350 (3)- In respect of the provision that states that a Foreign Custodian Certificate should be provided "in a form satisfactory to IIROC", we believe this item should be clarified so members understand what IIROC considers "satisfactory".

5000 Series - Dealer Member Margin Rules

Re: 5820(2)- Currently, if a guaranteed client refuses to consent to share statements with the guarantor, common dealer practice is to communicate the refusal to the guarantor and it is up to the guarantor whether they wish to continue to provide the guarantee or not. IIROC staff have introduced a new requirement that we must notify the guarantor that the guarantee will not be accepted. This new requirement presupposes that the guarantor always want statements for the guaranteed accounts, and that the guarantor will always want to cancel the guarantee if they don't receive guaranteed account statements. Members have found in practice that many guarantors decline to receive guaranteed account statements. We suggest that IIROC staff reconsider 5820(2), and leave it up to the guarantor to decide whether to terminate the guarantee where the guaranteed client won't consent to share statements.

As a general comment: In areas where the PLR introduces margin calculation adjustments, IIROC Dealer Members, or their service providers, should be afforded time to make the necessary system enhancements.

7000 Series - Debt Markets and Inter-Dealer Bond Brokers Rules

Re: 7201(2) – The wording in this section should be added to alert Dealer Members to the fact that the reported debt transaction data required under rule 7200 is also utilized by IIROC in carrying out its new debt transparency mandate (in addition to its debt market surveillance function). Specifically, certain debt data submitted by dealer members under the rule will be made public by IIROC as part of IIROC's recent designation as information processor for corporate debt markets.

Re: 7302 – It is unclear why 'inter-dealer bond broker' has been removed as a defined term.

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

Susan Copland