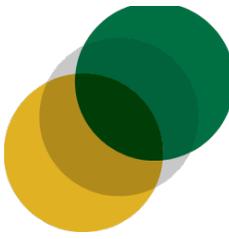


Now New Self-Regulatory Organization of Canada,
a consolidation of IIROC and the MFDA

New SRO Update

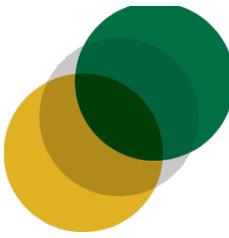
IFIC Operations Day
May 30, 2023

New SRO Update - Agenda



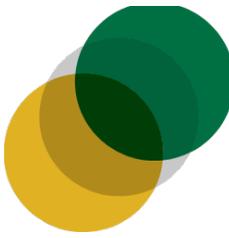
- New SRO integration work
- Rule Consolidation Project
- New dual-registered firm option
- Directed commission review work
- Account transfer rule
- Questions

New SRO integration work



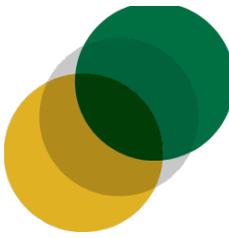
- General update:
 - Non-regulatory functions
 - Regulatory functions
- Integration work specific to Member Regulation Policy Department
 - Pre-close rule amendments (including dual-registration and introducing broker / carrying broker arrangements)
 - Former MFDA Policy Department and former IIROC Member Regulation Policy Department were combined on January 1, 2023, to form the New SRO Member Policy Department
 - Department is responsible for the development, interpretation and application of the New SRO Investment Dealer and Partially Consolidated (**IDPC**) Rules and New SRO Mutual Fund Dealer (**MFD**) Rules
 - Department integration work is now entirely focused on rule integration

Rule Consolidation Project – Rule development and implementation framework



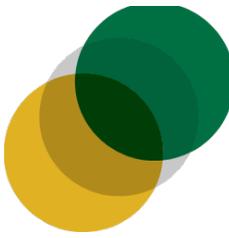
Framework consideration	Decision
Rule organization and numbering approach to be used	IDPC Rule numbering approach
Rule drafting convention to be used	Standard rule with, where applicable, alternative compliance approaches to accommodate business model differences
Rule drafting style to be used	Plain language
Rule consolidation implementation approach to be used	Phased

Rule Consolidation Project - Tentative timing



- Estimated that it will take two years for staff to develop consolidated rules and publish them for public comment
- More specific estimated timelines will be prepared once policy staff have completed their initial assessment of the rule drafting and consultation work involved with each phase of the project
- Should the consolidated rules include substantive changes that are in addition to the rule harmonization changes, this could add to the project rule development timeline
- The time taken by CSA staff to review and approve these rules for implementation will add to the timeline for this project

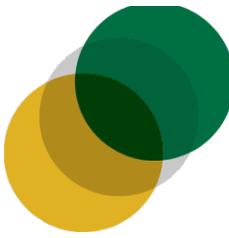
Rule Consolidation Project - Illustrative example - Phased rule implementation



Phase Timeline



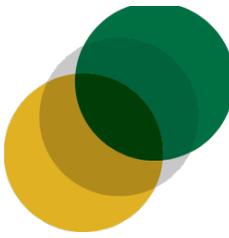
Rule Consolidation Project – Illustrative example - Rules to be adopted in each phase



- Creation of a fourth rule set – Dealer and Consolidated (DC) Rules
- **Phase 1 – Establish new rule set structure and general standards of conduct**
The first consolidated rule development phase will focus on the establishment of rules relating to:
 - the interpretation and application of the new rule set
 - general standards of conduct applicable to all activities of the dealer and their employees and Approved Persons

Note: The equivalent IDPC Rule and MFD Rule requirements will not be repealed until all phases of the DC Rules are implemented.

Rule Consolidation Project – Illustrative example - Rules to be adopted in each phase (continued)



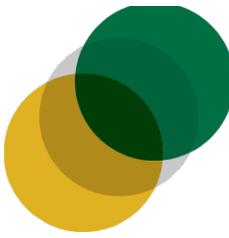
- **Phase 2 – Adopt rules to be retained that are unique to the IDPC or MFD Rules and are not deemed to be controversial**

Rules to be adopted in this phase include rules relating to:

- margin requirements
- debt markets and Inter-Dealer Bond Brokers (IDBBs)
- trading

Note: The equivalent IDPC Rule or MFD Rule requirements will be repealed when this phase and subsequent phases of the DC Rules are implemented.

Rule Consolidation Project – Illustrative example - Rules to be adopted in each phase (continued)

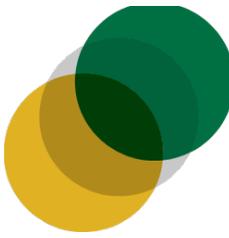


- **Phase 3 – Adopt rules to be retained that are common to the IDPC and MFD Rules and the differences are not deemed to be significant or controversial**

Rules to be adopted in this phase include rules relating to:

- membership and member business activity approval matters
- examination, investigation and enforcement rules
- clearing and settlement of trades and trade delivery standards

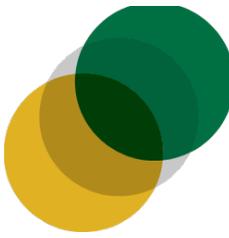
Rule Consolidation Project – Illustrative example - Rules to be adopted in each phase (continued)



- **Phase 4 – Adopt rules to be retained that are unique to the IDPC or MFD Rules and are deemed to be somewhat controversial**

Rules to be adopted in this phase include rules relating to:

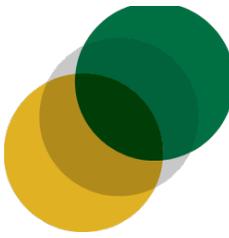
- approval and proficiency for individuals, where the adoption of a more expansive Approved Person regime may significantly impact mutual fund dealers
- continuing education, where both previous SROs had a different regime and regime changes are expected to directly impact a significant number of registered individuals
- managing significant areas of risk, where the mandatory adoption of principles-based supervision framework may impact smaller mutual fund dealers who have a small number of executives and may have segregation of duties challenges



- **Phase 5 – Adopt rules to be retained that are common to the IDPC and MFD Rules and the differences are deemed to be significant or controversial**

Rules to be adopted in this phase include rules relating to:

- financial solvency, where whether to maintain one capital formula or two must be assessed and determined
- books and records and client periodic and transaction reporting, where there are differences in the reporting requirements applicable to accounts with nominee name versus client name holdings
- client asset use, where there are significant differences in a dealer's ability to use client assets within their operations

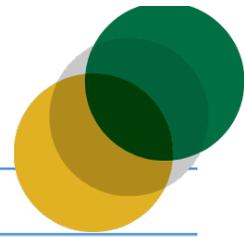


- **Phase 5 – Adopt rules to be retained that are common to the IDPC and MFD Rules and the differences are deemed to be significant or controversial** (continued)

Rules to be adopted in this phase include rules relating to (continued):

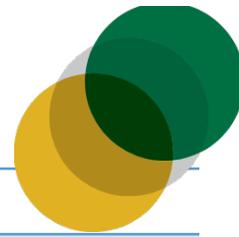
- outsourcing and service arrangements, where there are significant differences in permissible principal/agent arrangements, introducing broker/carrying broker arrangements, service arrangements and external custody arrangements
- sales conduct, where both consistency of rule wording and rule application needs to be agreed upon

Rule Consolidation Project - Illustrative example - Phased implementation – Current Interim Rules



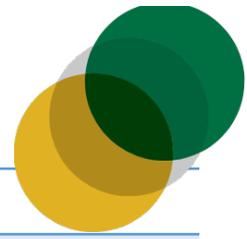
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	
General business conduct	General business conduct	
Managing significant areas or risk		
Membership and member business activity approval matters	Membership and member business activity approval matters	
Individual proficiency and continuing education	Continuing education	
Sales conduct	Sales conduct	
Trading		
Financial solvency	Financial solvency	
Operations - Clearing and settlement of trades and trade delivery standards	Operations - Clearing and settlement of trades and trade delivery standards	
Operations - Books and records and client periodic and transaction reporting	Operations - Books and records and client periodic and transaction reporting	
Operations - Client asset use	Operations - Client asset use	
Operations - Outsourcing and service arrangements	Operations - Outsourcing and service arrangements	
Margin requirements		
Debt markets and IDBBs		
Examination, investigation and enforcement rules	Examination, investigation and enforcement rules	

Rule Consolidation Project - Illustrative example - Phased implementation - Phase 1 Implementation



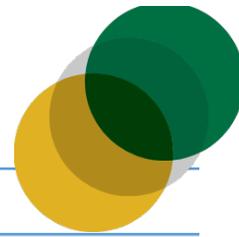
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	<u>Interpretation and application</u>
General business conduct	General business conduct	<u>General business conduct</u>
Managing significant areas or risk		
Membership and member business activity approval matters	Membership and member business activity approval matters	
Individual proficiency and continuing education	Continuing education	
Sales conduct	Sales conduct	
Trading		
Financial solvency	Financial solvency	
Operations - Clearing and settlement of trades and trade delivery standards	Operations - Clearing and settlement of trades and trade delivery standards	
Operations - Books and records and client periodic and transaction reporting	Operations - Books and records and client periodic and transaction reporting	
Operations - Client asset use	Operations - Client asset use	
Operations - Outsourcing and service arrangements	Operations - Outsourcing and service arrangements	
Margin requirements		
Debt markets and IDBBs		
Examination, investigation and enforcement rules	Examination, investigation and enforcement rules	

Rule Consolidation Project - Illustrative example - Phased implementation - Phase 2 Implementation



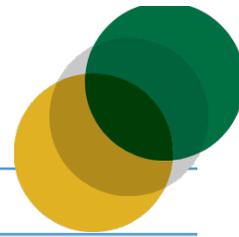
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	Interpretation and application
General business conduct	General business conduct	General business conduct
Managing significant areas or risk		
Membership and member business activity approval matters	Membership and member business activity approval matters	
Individual proficiency and continuing education	Continuing education	
Sales conduct	Sales conduct	
Trading		<u>Trading</u>
Financial solvency	Financial solvency	
Operations - Clearing and settlement of trades and trade delivery standards	Operations - Clearing and settlement of trades and trade delivery standards	
Operations - Books and records and client periodic and transaction reporting	Operations - Books and records and client periodic and transaction reporting	
Operations - Client asset use	Operations - Client asset use	
Operations - Outsourcing and service arrangements	Operations - Outsourcing and service arrangements	
Margin requirements		<u>Margin requirements</u>
Debt markets and IDBBs		<u>Debt markets and IDBBs</u>
Examination, investigation and enforcement rules	Examination, investigation and enforcement rules	

Rule Consolidation Project - Illustrative example - Phased implementation - Phase 3 Implementation



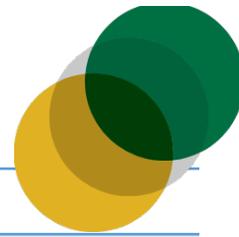
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	Interpretation and application
General business conduct	General business conduct	General business conduct
Managing significant areas or risk		
Membership and member business activity approval matters	Membership and member business activity approval matters	<u>Membership and member business activity approval matters</u>
Individual proficiency and continuing education	Continuing education	
Sales conduct	Sales conduct	
		Trading
Financial solvency	Financial solvency	
Operations – Clearing and settlement of trades and trade delivery standards	Operations – Clearing and settlement of trades and trade delivery standards	<u>Operations - Clearing and settlement of trades and trade delivery standards</u>
Operations - Books and records and client periodic and transaction reporting	Operations - Books and records and client periodic and transaction reporting	
Operations - Client asset use	Operations - Client asset use	
Operations - Outsourcing and service arrangements	Operations - Outsourcing and service arrangements	
		Margin requirements
		Debt markets and IDBBs
Examination, investigation and enforcement rules	Examination, investigation and enforcement rules	<u>Examination, investigation and enforcement rules</u>

Rule Consolidation Project - Illustrative example - Phased implementation - Phase 4 Implementation



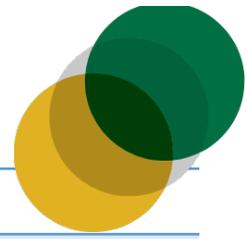
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	Interpretation and application
General business conduct	General business conduct	General business conduct
Managing significant areas or risk		<u>Managing significant areas or risk</u>
		Membership and member business activity approval matters
Individual proficiency and continuing education	Continuing education	<u>Individual proficiency and continuing education</u>
Sales conduct	Sales conduct	
		Trading
Financial solvency	Financial solvency	
		Operations - Clearing and settlement of trades and trade delivery standards
Operations - Books and records and client periodic and transaction reporting	Operations - Books and records and client periodic and transaction reporting	
Operations - Client asset use	Operations - Client asset use	
Operations - Outsourcing and service arrangements	Operations - Outsourcing and service arrangements	
		Margin requirements
		Debt markets and IDBBs
		Examination, investigation and enforcement rules

Rule Consolidation Project - Illustrative example - Phased implementation - Phase 5 Implementation



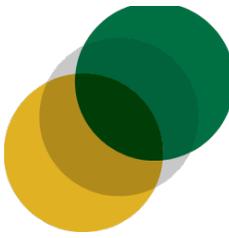
IDPC Rules	MFD Rules	DC Rules
Interpretation and application	Interpretation and application	Interpretation and application
General business conduct	General business conduct	General business conduct
		Managing significant areas or risk
		Membership and member business activity approval matters
		Individual proficiency and continuing education
Sales conduct	Sales conduct	<u>Sales conduct</u>
		Trading
Financial solvency	Financial solvency	<u>Financial solvency</u>
		Operations - Clearing and settlement of trades and trade delivery standards
Operations—Books and records and client periodic and transaction reporting	Operations—Books and records and client periodic and transaction reporting	<u>Operations - Books and records and client periodic and transaction reporting</u>
Operations—Client asset use	Operations—Client asset use	<u>Operations - Client asset use</u>
Operations—Outsourcing and service arrangements	Operations—Outsourcing and service arrangements	<u>Operations - Outsourcing and service arrangements</u>
		Margin requirements
		Debt markets and IDBBs
		Examination, investigation and enforcement rules

Rule Consolidation Project - Illustrative example - Phased implementation - Final Consolidated Rules



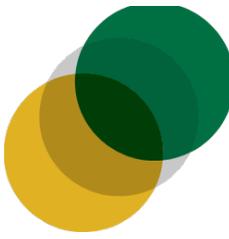
IDPC Rules	MFD Rules	DC Rules
		Interpretation and application
		General business conduct
		Managing significant areas or risk
		Membership and member business activity approval matters
		Individual proficiency and continuing education
		Sales conduct
		Trading
		Financial solvency
		Operations - Clearing and settlement of trades and trade delivery standards
		Operations - Books and records and client periodic and transaction reporting
		Operations - Client asset use
		Operations - Outsourcing and service arrangements
		Margin requirements
		Debt markets and IDBBs
		Examination, investigation and enforcement rules

New dual-registered firm option



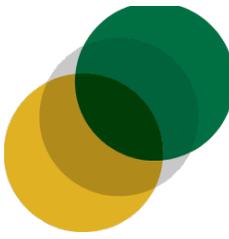
- Option for a firm to dual register as an investment dealer and a mutual fund dealer was adopted by New SRO as one of its pre-close rule amendments
- Under this option:
 - mutual funds only licensed individuals are not required upgrade their proficiencies to those of a full securities licensed individual
 - investment dealer business and mutual fund dealer business can be conducted within a single legal entity
- Firms that dual register are required to follow the IDPC Rules unless exemptive relief is granted
- Relatively few applications have been received to date

New dual-registered firm option



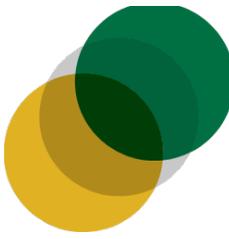
- Two types of requested dual-registered firm structures:
 - 1. Integrated** – single legal entity firm utilizes integrated systems, processes, supervisory and compliance structures and follows IDPC Rule requirements; operates in substance in the same manner as an investment dealer with the exception that its mutual funds only licensed individuals:
 - are registered as Mutual Fund Dealer Dealing Representatives, and
 - are not required to upgrade their proficiencies to those of a full securities licensed individual
 - 2. Divisional** – firm houses separate investment dealer and mutual fund dealer divisions within a single legal entity; operates in substance in the same manner as separate investment dealer and mutual fund dealer legal entities with separate systems, processes, etc. with the exception that certain corporate-level functions are assessed on an entity-wide basis (i.e. firm solvency assessment and reporting)

New dual-registered firm option



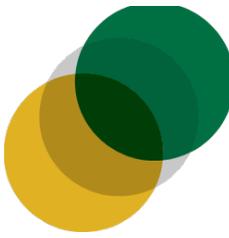
- Integrated firm applications are relatively easier to review as rule exemptions are not necessary to accommodate this structure
- Divisional firm applications are taking much longer to review as they contain requests for activities within the mutual fund dealer division to be exempted from the IDPC Rule requirements

Directed commission review



- Policy paper under development
- Paper will assess policy alternatives and recommend both an interim and long-term approach

Account transfer rule



- Current plans are to propose a harmonized account transfer rule within the current fiscal year
- Rule proposal will be pursued independently from Rule Consolidation Project
- Rule will likely:
 - require the use of an account transfer facility where this facility is available to the dealer (or it's carrying broker where appropriate)
 - Prescribe timelines for the receiving dealer (i.e., sending of request for transfer) and the delivering dealer (i.e., sending of asset list and transfer of account assets) to meet

New SRO
will become the
Canadian Investment Regulatory Organization (**CIRO**)
on June 1, 2023

Questions

