

## Rules Bulletin

### Request for Comments

DC Rules

**24-0145**

**April 18, 2024**

**Comments Due By: July 17, 2024**

Contact:

Member Regulation Policy

Email: [memberpolicymailbox@ciro.ca](mailto:memberpolicymailbox@ciro.ca)

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## Rule Consolidation Project – Phase 3

### Executive Summary

The Canadian Investment Regulatory Organization (**CIRO**) is publishing for comment Phase 3 of its Rule Consolidation Project rule proposals.<sup>1</sup> The Rule Consolidation Project will bring together the two member regulation rule sets currently applicable to investment dealers<sup>2</sup> and to mutual fund dealers<sup>3</sup> into one set of member regulation rules applicable to both categories of CIRO Dealer Members.<sup>4</sup>

The objective of Phase 3 of the Rule Consolidation Project (**Phase 3 Proposed DC Rules**) is to adopt rules that are common to the IDPC and MFD Rules and have been assessed as not having a material impact on stakeholders.<sup>5</sup>

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<sup>1</sup> [Rules Bulletin 23-0089](#) published on June 30, 2023, announced the Rule Consolidation Project objectives, principles and roadmap. [Rules Bulletin 23-0147](#) and [Rules Bulletin 24-0007](#) proposed new rules as part of Phase 1 and Phase 2 of the Rule Consolidation Project.

<sup>2</sup> CIRO Dealer Members that are registered as an investment dealer or are registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Investment and Partially Consolidated (**IDPC**) Rules.

<sup>3</sup> CIRO Dealer Members that are registered as a mutual fund dealer and not registered as both an investment dealer and a mutual fund dealer are required to comply with the CIRO Mutual Fund Dealer (**MFD**) Rules.

<sup>4</sup> Where a CIRO Dealer Member is a participant in one or more of the markets overseen by CIRO they also must comply with the CIRO Universal Market Integrity Rules (**UMIR**). UMIR will not be consolidated with other CIRO Rules as part of this project and will continue as a separate CIRO Rule set.

<sup>5</sup> Important stakeholders that were considered include investors, the public, investment dealers and their Approved Persons and employees, mutual fund dealers and their Approved Persons and employees and CIRO itself.

The Phase 3 Proposed DC Rules involve the adoption of rules relating to:

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

#### **How to Submit Comments**

Comments on the Phase 3 Proposed DC Rules should be in writing and delivered by July 17, 2024 (90 days from the publication date of this Bulletin) to:

Member Regulation Policy  
Canadian Investment Regulatory Organization  
Suite 2600  
40 Temperance Street  
Toronto, Ontario M5H 0B4  
e-mail: [memberpolicymailbox@ciro.ca](mailto:memberpolicymailbox@ciro.ca)

A copy should also be delivered to the Canadian Securities Administrators (**CSA**):

Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

and

Capital Markets Regulation  
B.C. Securities Commission  
P.O. Box 10142, Pacific Centre  
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2  
e-mail: [CMRdistributionofSROdocuments@bcsc.bc.ca](mailto:CMRdistributionofSROdocuments@bcsc.bc.ca)

**Commentators should be aware that a copy of their comment letter will be made publicly available on the CIRO website at [www.ciro.ca](http://www.ciro.ca)**

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## 1. Background

One of the initial CIRO priorities is to consolidate the IDPC Rules and MFD Rules into one set of rules, the CIRO Dealer and Consolidated (**DC**) Rules, applicable to both investment dealers and mutual fund dealers.

The primary objectives of this consolidation work are:

- to achieve greater rule harmonization to:
  - ensure like dealer activities will be regulated in a like manner,
  - minimize regulatory arbitrage between investment dealers and mutual fund dealers,
- where practical and appropriate, adopt less prescriptive, more principles-based rule requirements to facilitate rules that are scalable and proportionate to the different types and sizes of dealer and their respective business models, and
- improve access to and clarity of the rules applicable to all CIRO Dealer Members.

Taking these objectives into consideration, the following decisions have been made relating to the structure and content of the DC Rules:

Matter	Decision
Rule organization structure and numbering approach	Use the IDPC Rule organization structure
Rule drafting convention	Standard rule with, where applicable, alternative compliance approaches to accommodate business model differences
Rule drafting style	Plain language
Rule development and implementation approach	Rules will be developed and implemented in five phases

The third phase of the Rule Consolidation Project focuses on:

- membership and member business activity approval matters (DC Rules 2100, 2200, 2300),
- clearing and settlement of trades and trade delivery standards (DC Rules 4700, 4800 and 4900), and
- examination, investigation and enforcement rules (DC Rule Series 8000 and DC Rules 9100 and 9500):

Rule Series	Title and Description
1000	<b>Interpretation and Principles Rules</b>
2000	<p><b>Dealer Member Organization and Registration Rules – provisions relating to:</b></p> <ul style="list-style-type: none"> <li>• <i>Ownership of a Dealer Member’s securities – DC Rule 2100</i></li> <li>• <i>Dealer Member organization – DC Rule 2200</i></li> <li>• <i>Principal and agent relationships – DC Rule 2300</i></li> </ul>

3000	<b>Business Conduct and Client Accounts Rules</b> – rules concerning business conduct (e.g. books and records), conflicts of interest, client accounts (e.g. account supervision), and dealing with clients (e.g. suitability obligations and complaints)
4000	<b>Dealer Member Financial and Operational Rules</b> – provisions relating to: <ul style="list-style-type: none"> <li>• <i>Operations – Business continuity and general trading and delivery standards – DC Rule 4700</i></li> <li>• <i>Operations – Trading and delivery standards for non-centrally cleared transactions, account transfers and bulk account movements – DC Rule 4800</i></li> <li>• <i>Other internal control requirements – Derivatives risk management – DC Rule 4900</i></li> </ul>
5000	<b>Dealer Member Margin Rules</b> – rules concerning margin requirements
6000	<b>Reserved</b> for future use
7000	<b>Debt Markets and Inter-Dealer Bond Brokers Rules</b> – rules concerning debt market trading activities and inter-dealer bond brokers
8000	<b>Procedural Rules - Enforcement</b> – provisions relating to: <ul style="list-style-type: none"> <li>• <i>Enforcement investigations – DC Rule 8100</i></li> <li>• <i>Enforcement proceedings – DC Rule 8200</i></li> <li>• <i>Hearing committees – DC Rule 8300</i></li> <li>• <i>Rules of practice and procedure – DC Rule 8400</i></li> </ul>
9000	<b>Procedural Rules - Other</b> – provisions relating to: <ul style="list-style-type: none"> <li>• <i>Compliance examinations – DC Rule 9100</i></li> <li>• <i>Alternative dispute resolution – DC Rule 9500</i></li> </ul>

## 2. Phase 3 Proposed DC Rules

To provide details of the Phase 3 Proposed DC Rules, the following documents have been included as appendices to this Bulletin:

- a clean copy of the Phase 3 Proposed DC Rules is included as [Appendix 1](#)
- a blackline comparison of the Phase 3 Proposed DC Rules to the equivalent IDPC Rules is included as [Appendix 2](#)<sup>6</sup>
- a table of concordance comparing the Phase 3 Proposed DC Rules to any existing equivalent requirements in the IDPC Rules, MFD Rules and National Instrument 31-103 *Registration*

<sup>6</sup> A blackline comparison of the Phase 3 Proposed DC Rules to the equivalent MFD Rules has not been included as it was determined, due to the decision to use the existing IDPC Rule approaches to rule organization, numbering and drafting language (i.e., plain language) that including the comparison would not assist in reviewing the proposed amendments.

*Requirements, Exemptions and Ongoing Registrant Obligations* (where applicable) is included as [Appendix 3](#).

In the next sections of this Bulletin, we summarize the key elements of the Phase 3 Proposed DC Rules, which in most cases are the adoption of existing rule provisions from the IDPC Rules, the MFD Rules or both sets of existing rules.

## **2.1 Membership and member business activity approval matters**

In this section of the Bulletin, we discuss the proposed amendments to rule requirements relating to:

- ownership of a Dealer Member's securities
- a Dealer Member organizing and managing its business activities
- a Dealer Member engaging an agent to conduct business activities on its behalf

that would represent a significant change to either the IDPC Rules or the MFD Rules. We also discuss how all proposed provisions differ from their corresponding IDPC Rule or MFD Rule provision in the Table of concordance found in [Appendix 3](#).

### **2.1.1 Ownership of a Dealer Member's securities (DC Rule 2100)**

#### **(a) Changes of ownership below 10%**

IDPC Rule section 2106 requires an investment dealer to notify CIRO and file a specific form at least 20 days before issuing or transferring non-publicly traded securities that will result in an acquirer owning less than 10% of the investment dealer's securities.

The MFD Rules do not require a similar notification and filing for mutual fund dealers.

Given this requirement is unique to the IDPC Rules, not required under securities laws, and would be overly burdensome for both mutual fund dealers to comply with and CIRO staff to administer, we propose to not include this requirement in the DC Rules.

#### **(b) Ownership of a significant equity interest**

We propose to adopt the IDPC Rule definition of "significant equity interest" which establishes at 10% or more the threshold for a Dealer Member to obtain Corporation approval before allowing a person to own such interest in the Dealer Member. (*DC Rule subsection 2102(1)*)

The MFD Rules currently set the significant equity interest threshold at 20% whereas the threshold under National Instrument 31-103 is set at 10%. Adopting the IDPC Rule definition of significant equity interest will harmonize CIRO's requirement for both categories of Dealer Members with the corresponding requirement under securities laws.

The investor application form required to be filed by a Dealer Member under DC Rule section 2107 is included in [Appendix 6](#).

## 2.1.2 Dealer Member organization (DC Rule 2200)

### (a) *Related companies*

The IDPC Rules require that an investment dealer, or an employee, Approved Person, or investor of an investment dealer must obtain Corporation approval before setting up or acquiring any interest in a related company<sup>7</sup> or associate.

The IDPC Rules also require that an investment dealer must obtain approval before creating a wholly owned subsidiary whose principal business is a securities or derivatives broker, dealer or adviser.

CIRO requires this approval to ensure an investment dealer and its related company are responsible for and guarantee each other's obligations to the investment dealer's client. In the event of an insolvency of the investment dealer or its related company, the surviving entity will be responsible to indemnify the Canadian Investor Protection Fund for client loss claims.

The MFD Rules do not have an equivalent approval requirement. However, under securities laws mutual fund dealers must give notice to the CSA at least 30 days before the proposed acquisition of 10 % or more of another registrant.

The cross-guarantee requirement found in the MFD Rules is similar to that in the IDPC Rules.

We adopted a modified version of the IDPC Rule provision as we believe mutual fund dealers should be subject to an equivalent approval requirement and where Dealer Members require an exemption from the cross-guarantee requirement, CIRO staff should have the ability to provide relief. (*DC rule section 2206*)

We have included a question later in this Bulletin asking for your views on whether we should also require commonly owned investment dealers and mutual fund dealers to cross-guarantee each other.

The guarantee form required to be filed by a Dealer Member under DC Rule section 2206 is included in [Appendix 7](#).

### (b) *Business other than securities or derivatives*

The IDPC Rules generally require an investment dealer to obtain CIRO approval before carrying on any business other than securities or derivatives activities. However, CIRO approval is not required if:

- the investment dealer owns an interest in a corporation and is not responsible for that corporation's liabilities, and

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<sup>7</sup> A "related company" is defined under Phase 1 Proposed DC Rule 1200 to be a Dealer Member that is related to another Dealer Member through at least 20% common ownership of both Dealer Members (directly or indirectly).



- notifies CIRO before acquiring an interest in the non-securities or non-derivatives corporation.

The MFD Rules require a mutual fund dealer to notify CIRO before it engages in any business, other than the sale of investment products.

We adopted a modified version of the IDPC Rule provision that would require Dealer Members to obtain CIRO approval before carrying on any business other than securities or derivatives activities except where the Dealer Member owns an interest in a corporation and is not responsible for that corporation's liabilities. (*DC Rule section 2215*)

As a result, notification would no longer be required for where the Dealer Member proposes to own an interest in a corporation carrying on any business other than securities or derivatives activities and is not responsible for that corporation's liabilities.

**(c) Shared office premises**

The IDPC Rules have specific requirements for investment dealers sharing office premises with other regulated Canadian financial service entities that are involved in financial activities.

The MFD Rules do not have equivalent requirements and it is far more common for mutual fund dealers affiliated with banks or insurance companies to use the branch network/office premises of their affiliate bank/insurance company to meet with clients.

Given the importance of the shared office premises requirements to limit client confusion and ensure privacy and confidentiality of records are maintained, we generally adopted a modified version of the IDPC Rule provisions that would be applicable to all Dealer Members (*DC Rule subsection 1201(2) "shared office premises" and section 2216, subsection 2217(3) and sections 2218 and 2219*).

The one exception is the requirement to disclose the full legal name of each institution sharing offices (*DC rule subsections 2217(1) and 2217(2)*), which we have retained as only being applicable to investment dealers sharing office premises with other regulated Canadian financial service entities. We are not proposing that this requirement apply to mutual fund dealers sharing office premises with other regulated Canadian financial service entities as we believe:

- the burden associated with requiring this disclosure at each branch/office location where there are only one or a small number of mutual fund dealer advisors present would be significant, and
- prominently disclosing the mutual fund dealer name in a branch/office with predominantly bank/insurance company employees would likely do little to address potential client confusion as to which company they are dealing with and may in fact increase confusion.

**(d) Membership disclosure policy**

On July 13, 2023, CIRO published an update on membership disclosure requirements for both investment dealers and mutual fund dealers.<sup>8</sup> The purpose of the update was to provide information to Dealer Members regarding the transition of the membership disclosure from their predecessor self-regulatory organizations to the CIRO name and logo by December 31, 2024.

The update further highlighted that Dealer Members should continue to comply with the specific membership disclosure requirements that are applicable to their registration category as there are differences in requirements for investment dealers and mutual fund dealers.

We have included a question later in this Bulletin asking for your views on the key differences between the current membership disclosure requirements for each category of Dealer Members and the approach we should adopt to harmonize these requirements.

A proposed membership disclosure policy required to be followed by a Dealer Member under DC Rule section 2285 is included in [Appendix 5](#).

**2.1.3 Principal and agent relationships (DC Rule 2300)**

In this section we incorporated the existing investment dealer and mutual fund dealer rule requirements relating to principal and agent relationships. No changes have been proposed to these requirements at this time as a separate policy project<sup>9</sup> is underway to determine how to expand the permissible use of personal corporations to conduct non-registerable and registerable activities on a sponsoring Dealer Member's behalf.

**2.2 Operations – Business continuity, trading and delivery standards, account transfers, account movements and derivatives risk management**

In this section of the Bulletin we discuss the proposed amendments to rule requirements relating to:

- the establishment and maintenance of a business continuity plan,
- trading and delivery standards, including standards applicable to all transactions and standards applicable to non-centrally cleared transactions,
- account transfers and account movements, and
- derivatives risk management.

None of these proposed rule amendments are expected to introduce a significant change to the existing IDPC Rule or MFD Rule requirements.

We also discuss the rationale in regards to provisions that have been retained or are dependent on decisions made in subsequent phases of the Rule Consolidation project or

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<sup>8</sup> [Rules Bulletin 23-0102](#).

<sup>9</sup> [Rules Bulletin 24-0029](#).

other existing projects. Also included in the proposed rules are amendments associated with the Derivatives Rule Modernization and T+1 Settlement projects which will become effective prior to the implementation of Phase 3 of the Rule Consolidation Project.<sup>10</sup>

### **2.2.1 Business continuity plan (DC Rule 4700)**

We propose to adopt the IDPC rule provisions regarding business continuity plans. Under MFDR 2.9 Internal Controls, mutual fund dealers must establish and maintain adequate internal controls. This requirement extends to developing and implementing a business continuity plan. The MFDA has previously provided guidance to dealers on implementing an appropriate business continuity plan which is consistent with the IDPC rules, including the requirement to perform periodic testing and review of the policy. Adopting the IDPC provisions would formalize the requirements for mutual fund dealers and is expected to be of minimal impact.

The requirement to have the business continuity plan approved by an appropriate Executive, a registration category that is exclusive to investment dealers, has not been modified at this time. Decisions regarding differences in registration categories are to be addressed in a later phase of the rule consolidation project.

In this section we have also adopted amendments associated with the Derivatives Rule Modernization project and added the French translation of defined terms.

### **2.2.2 Trading and delivery standards applicable to centrally cleared transactions (DC Rule 4700)**

We propose to adopt the IDPC rule provisions for trading and delivery standards applicable to centrally cleared transactions with minor amendments. We have also renamed the section to specify that the rules in this section apply only to centrally cleared transactions.

We do not anticipate material impact to mutual fund dealers as they generally engage an investment dealer to trade and clear securities on their behalf. However, if a mutual fund dealer were to become a participant of The Canadian Depository for Securities Limited (CDS) and engage in the trading of securities that settle through CDS, they would be subject to these requirements such as broker-to-broker trade matching.

We have also modified the defined terms in this section by removing terms (participant, settlement service) which are redundant and moving others to the relevant section of the rules.

Finally, in this section we have also adopted amendments associated with the T+1 Settlement project and added the French translation of defined terms.

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<sup>10</sup> The [T+1 settlement amendments](#) and [Stage 1 of Derivatives Rule Modernization amendments](#) will become effective on May 27, 2024 and September 28, 2024, respectively.

### **2.2.3 Trading and delivery standards applicable to specific transactions (DC Rule 4700)**

We propose to introduce a new Part C to DC Rule 4700, trading and delivery standards applicable to specific transactions, to clarify that this set of rules applies to certain specific transactions.

We have also made additional amendments to specify between requirements that apply to certain specific centrally cleared transactions, which would apply to Dealer Members that are participants of CDS, and requirements that would apply to other specific transactions that may be either centrally or non-centrally cleared.

In this section we have also added relevant definitions that were originally located in 4700 Part B (CDS depository eligible transactions).

### **2.2.4 Trading and delivery standards for non-centrally cleared transactions (DC Rule 4800)**

We propose to adopt the IDPC rules for trading and delivery standards for non-centrally cleared transactions. Throughout this section amendments have been added to reflect the amendments related to the T+1 settlement project.

Mutual fund dealers that trade non-centrally cleared securities would be subject to these requirements.

In this section we have also added relevant definitions that were originally located in 4700 Part B (good delivery securities, qualified Canadian trust company).

### **2.2.5 Account transfers and bulk account movements (DC Rule 4800)**

We propose to adopt the IDPC rules for accounts transfers and bulk account movements with minor amendments as follows:

- add the phrase “under the Corporation requirements” where a receiving Dealer assumes responsibility of margining transferred accounts, to clarify that the margining approach is based on CIRO’s requirements. (*DC Rule Section 4863*)
- remove the word “published” when referring to the Dealers’ fee schedule as the fee schedule may be provided directly to a client and not necessarily be published. (*DC Rule Section 4864*)

We propose to retain the IDPC definitions where there is overlap between the IDPC and MFD rules, to maintain consistency in the rule drafting style.

We do not anticipate material impact to mutual fund dealers as transfers of mutual funds are primarily completed via transfer form or through FundSERV, for which the standards are addressed via DC Rule section 4860, Non-certificated mutual funds.

Mutual fund dealers that are participants of CDS ATON are already required to meet the standards set forth in DC Rule sections 4852-4859 as a condition of using the transfer facilities of CDS. Mutual fund dealers that are not a participant of CDS ATON can continue to complete securities transfers via transfer form.

Adopting the IDPC provisions for bulk account movements is expected to provide additional flexibility to mutual fund dealers with regards to movement of accounts due to a change in the parties responsible for the account. Currently, bulk account movements for mutual fund dealers are limited to transactions where the delivering dealer member ceases to carry on business.

As there is a separate project to modernize transfer practices between investment dealers and mutual fund dealers, amendments related to that project will be made separately from the rule consolidation project.

#### **2.2.6 Derivatives risk management (DC Rule 4900)**

We propose to adopt the IDPC rules provisions for derivatives risk management. Mutual fund dealers will be subject to these requirements if trading in derivatives.

Throughout this series there are requirements which must be overseen by an appropriate Executive, a registration category that is exclusive to investment dealers. No modification to these requirements has been made at this time. Decisions regarding differences in registration categories are to be addressed in a later phase of the rule consolidation project.

Within this rule series we have also included amendments associated with the Derivatives Rule Modernization project.

### **2.3 Examination, Investigation and Enforcement Rules**

In this section of the Bulletin, we discuss proposed amendments to the examination, investigation and enforcement rules that would represent a significant change to either the IDPC Rules or the MFD Rules. We discuss how all proposed provisions differ from their corresponding IDPC Rule or MFD Rule provision in the Table of concordance found in [Appendix 3](#).

#### **2.3.1 Hearing Office**

We propose to adopt the new defined term “Hearing Office” to refer to CIRO staff who are authorized to administer enforcement and other proceedings. This term reflects CIRO’s current structure where there are multiple individuals who fulfill this function. Under the IDPC Rules, these staff are referred to as the “National Hearing Officer” and under the MFD Rules, this function is carried out by the “Secretary”. (*DC Rule subsection 1201(2)*)

#### **2.3.2 Examination and Investigation Rules (DC Rules 8100 and 9100)**

We adopted existing IDPC Rule provisions which have two distinct sets of rules to govern CIRO’s:

- enforcement investigations (*DC Rule 8100*), and
- compliance examinations (*DC Rule 9100*).

This approach differs from the MFD Rules, which have a single rule to govern both examinations and investigations (MFD Rule 6).

Where enforcement investigations and compliance examinations are addressed in a single rule, the distinction between an enforcement investigation and a compliance examination can be blurred. In contrast, by adopting two sets of rules, we make clear that compliance examinations are aimed at regulatory compliance, rather than disciplinary matters.

While proposed DC Rules 8100 and 9100 parallel each other in many ways, they have the following differences:

- DC Rule 8100 authorizes enforcement staff to compel attendance of individuals whereas DC Rule 9100 merely authorizes compliance staff to require their questions be answered,
- DC Rule 9100 expressly authorizes compliance staff to refer information obtained in the course of an examination to CIRO enforcement staff or other CIRO staff and to take any other appropriate action, and
- DC Rule 8100 specifies that individuals have the right to counsel when compelled to answer questions and enables CIRO to make confidentiality orders in relation to an investigation.

### **2.3.3. Limitation period (DC Rules 8100 and 8200)**

We adopted the IDPC Rules' limitation period that provides that Regulated Persons<sup>11</sup> remain subject to our examination, investigation and enforcement rules for six years following the date they cease to be a Regulated Person. Under the MFD Rules, this period is five years. We are maintaining the IDPC Rules' limitation period to allow CIRO staff to pursue wrongdoing over a longer period.

Also consistent with our IDPC Rules, we propose limiting CIRO's ability to commence a proceeding to those events that occurred within the last six years as opposed to the current MFD Rule limitation period which is five years from the date upon which a Regulated Person ceased to be a Dealer Member or held the relevant position with the Dealer Member. This approach would be consistent with securities laws and provides Regulated Persons with certainty on when an enforcement action can be commenced for specific events.

### **2.3.4. Admissibility of witness testimony and other evidence (DC Rule 8200)**

We adopted the existing IDPC Rule provision that allows hearing panels to admit into evidence any oral testimony or other evidence whether or not it is given or proven under oath or affirmation. (*DC Rule subsection 8203(3)*)

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<sup>11</sup> As set out in General By-law No. 1, section 1.1:

"Regulated Persons" means persons who are or were formerly (i) Dealer Members, including for greater certainty, members of the Corporation's predecessors, (ii) members, users or subscribers of or to, or other entities that are allowed to trade directly on, Marketplaces for which the Corporation is the regulation services provider, (iii) the respective Approved Persons and other representatives of those persons set out in subsection (i) and (ii), and (iv) other persons subject to the jurisdiction of the Corporation.

While the MFD Rules require witnesses testify under oath or affirmation, in practice there is little difference between the two requirements. For the most part, witnesses do testify under oath or affirmation in investment dealer enforcement proceedings. On the mutual fund dealer side, hearing panels can always waive this requirement where warranted.

In deciding which approach to maintain, we chose the IDPC Rules one as it allowed for the fairest and most expeditious conduct of enforcement proceedings.

### **2.3.5. Settlement hearings (DC Rule 8200)**

We adopted the existing IDPC Rule provision that provides that all settlement hearings are closed to the public. (*DC Rule subsection 8203(3)*)

The MFD Rules allow the hearing panel to determine whether a settlement hearing should be public. By keeping these hearings private, we would maintain the confidentiality of the settlement negotiation process. Settlement hearing information would be made public after the settlement offer is accepted.

We also adopted the existing IDPC Rule provision that requires hearing panels provide written reasons for rejecting a settlement agreement, and that those reasons are available to subsequent hearing panels who consider a settlement based on the same or related allegations and charges, but not made public or referred to in a subsequent disciplinary hearing. (*DC Rule subsection 8215(8)*)

The MFD Rules allow the hearing panel to determine whether to issue reasons for rejecting a settlement agreement. We propose adopting the IDPC Rules approach so that all hearing panel rejections can be treated in the same manner.

### **2.3.6. Sanctions (DC Rule 8200)**

#### **(a) Maximum fines**

We propose increasing the maximum fine a CIRO hearing panel can impose to \$10 million per offence, from \$5 million under both the existing IDPC Rules and the MFD Rules. (*DC Rule subsections 8209(1)(iii) and 8210(1)(iii)*)

CIRO hearing panels have previously approved settlement agreements where respondents agree to payments of more than \$5 million, including upwards of \$10 million.

Our proposal would not only allow our hearing panels to order sanctions consistent with those payments but would also have an increased deterrent effect.

#### **(b) Specific sanctions**

We adopted the existing IDPC Rule provisions that provide the types of sanctions that a hearing panel can impose, including disgorgement. (*DC Rule subsections 8209(1)(ii) and 8210(1)(ii)*)

While the existing IDPC Rules specifically provide for disgorgement, and the MFD Rules do not, disgorgement orders can be included in the global fine under the MFD Rules. This change would add clarity for mutual fund dealers and their Approved Persons.

In a separate project, we will propose a process for returning disgorged funds to investors.

**(c) *Hearing panel powers***

Under the IDPC Rules, hearing panels can suspend, prohibit, revoke or bar an individual Regulated Person's approval with CIRO. This power is consistent with CIRO's ability to approve individuals at investment dealers as "Approved Persons". In contrast, under the MFD Rules, hearing panels can suspend, prohibit, revoke or bar an individual Regulated Person's authority to conduct securities-related business. This difference is because CIRO does not directly approve individuals at mutual fund dealers.

To address this difference, we adopted a modified version of existing IDPC Rule provisions that allow hearing panels to prohibit, revoke or bar an individual Regulated Person's approval or authority to conduct securities-related business. (*DC Rule clauses 8210(1)(iv), (vi), (vii) and (viii)*)

As such, hearing panels will have the necessary powers to sanction individuals.

**(d) *Appointing Monitors***

We adopted a modified version of an existing MFD Rule provision that lists considerations for a hearing panel when exercising its discretion to appoint a Monitor.<sup>12</sup> (*DC Rule subsection 8209(4)*)

While both the IDPC Rules and the MFD Rules allow hearing panels to appoint Monitors when sanctioning Dealer Members, the MFD Rules include a list of considerations for the hearing panel. We maintained that list for transparency and fairness.

**(e) *Sanctioned individuals***

We propose barring Regulated Persons from hiring or engaging in any capacity and remunerating any individuals who are subject to a bar or suspension during the period of the bar or suspension. Under this prohibition, Regulated Persons would still be able to pay remuneration to a sanctioned individual that is:

- consistent with the scope of activities permitted under the sanction, or
- pursuant to an insurance or medical plan, an indemnity agreement relating to legal fees or as required by arbitration awards or court judgment.

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<sup>12</sup> A Monitor is defined in DC Rule subsection 1201(2) as "A person appointed under section 8209 or 8212 to monitor a Regulated Person's business and affairs and to exercise powers granted by a hearing panel."



Under the IDPC Rules, Regulated Persons are prohibited from engaging an individual who is permanently barred from employment with an investment dealer. Under the MFD Rules, there is no specific prohibition, however, in practice Regulated Persons cannot engage any individuals to perform securities-related business where they have been barred or suspended from doing so.

We are proposing to expand this prohibition for both investment dealers and mutual fund dealers to address certain practices of concern. The United States of America's Financial Industry Regulatory Authority (FINRA) also has a similar prohibition. Of note, this proposed prohibition would only apply to Regulated Persons and would not apply to their affiliates or other third parties who employ the suspended individuals. *(DC Rule subsections 8210(5) through (8))*

### **2.3.7. Temporary Orders, Protective Orders and Applications in Exceptional Circumstances (DC Rule 8200)**

#### **(a) General approach**

Under the IDPC Rules, CIRO's Enforcement Staff can apply to a hearing panel for:

- a temporary order, which is granted for 15 days without notice to the respondent in circumstances where the time required for a hearing could be prejudicial to the public interest, or
- a protective order, which is granted with notice to the respondent and imposes regulatory requirements, including terms and conditions, when a Regulated Person cannot carry on business without protective measures to prevent investor harm.

Under the MFD Rules, CIRO's Enforcement Staff can make an application to sanction a Regulated Person without notice in certain exceptional circumstances where deemed to be in the public interest.

We adopted the IDPC Rules' temporary orders and protective orders provisions because they provide hearing panels and CIRO's Enforcement Staff with more options. *(DC Rule sections 8211 and 8212)*

#### **(b) Changes to interim orders**

We propose allowing hearing panels the ability to issue protective orders when Dealer Members have not complied with their terms and conditions, similar to their current ability under both IDPC Rules and MFD Rules to issue orders where the Dealer Member has not complied with the conditions of a sanction. *(DC Rule sub-clause 8212(2)(ix)(c))*

We also propose removing the existing ability of hearing panels to issue interim orders against a mutual fund dealer where they have failed to meet these CIRO requirements:

- maintain the minimum required capital,
- file with CIRO a copy of their financial report at the end of each fiscal month,
- file with CIRO copies of their annual financial statements,
- maintain a Financial Institution Bond or mail insurance,
- rectify the circumstances causing them to be designated in early warning by CIRO, or comply with terms and conditions imposed on them after they were designated in early warning by CIRO, or
- carry out any written agreement with CIRO to take action to comply with any CIRO requirement.

Instead, we adopted CIRO's current ability to issue terms and conditions against Investment Dealer Members and extended it to also include Mutual Fund Dealer Members. (*DC Rule section 9208*)

As such, CIRO will be able to address these matters through terms and conditions, as opposed to through an enforcement proceeding. This change will expedite these processes. We discuss terms and conditions further in section 2.3.13 below.

We also propose allowing a hearing panel to issue a protective order when a Regulated Person has been charged with contravening a law related to theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation or unauthorized trading where the hearing panel determines that such charge likely brings the capital markets into disrepute. While hearing panels have a similar power currently under the MFD Rules, this would be a change to the IDPC Rules. (*DC Rule clauses 8212(2)(vii) and 8212(3)(v)*)

#### **2.3.8. Review of Hearing Panel Decisions (DC Rule 8200)**

We adopted the IDPC Rule provisions that provide that parties to a disciplinary hearing can apply to the local securities regulatory authority for a review of a final hearing panel decision. Under the MFD Rules, parties can apply to CIRO's Board for a review. However, CIRO's Board's mandate does not include reviewing hearing panel decisions. (*DC Rule section 8217*)

#### **2.3.9. Hearing Committee Composition (DC Rule 8300)**

Currently, hearing committee members must reside in the district to be a part of that district's hearing committee. While it is important for industry members to reside in the district, as they have an understanding of the unique considerations for that district, it is not as necessary for public committee members to reside in that district. Also, more hearings are being conducted virtually, reducing the importance of having hearing panel members reside in the same district as the hearing. As such, we

propose only industry committee members be required to reside in the district. Public committee members could reside in other districts. *(DC Rule subsection 8303(2))*

#### **2.3.10. Form of Hearings (DC Rule 8400)**

An increasing number of our hearings take place virtually. In many instances, virtual hearings allow CIRO's enforcement proceedings to be more expeditious and cost-efficient for parties. As such, we propose eliminating the distinction between oral in person hearings and electronic hearings. Under this approach, an oral hearing could be conducted either virtually or in person. Respondents and Enforcement Staff would be able to apply for the hearing to be held virtually or in person, or in both forms simultaneously. Parties could object to the form of hearing, and the hearing panel would be able to order the hearing proceed in a specific form (virtually, in person or a mix of the two). *(DC Rule section 8409)*

#### **2.3.11. Electronic Delivery (DC Rule 8400)**

For consistency with current business practices, we propose allowing electronic delivery for all documents required to be served under our Rules of Procedure.

#### **2.3.12. Other changes to the Rules of Procedure (DC Rule 8400)**

##### ***(a) Specific procedures***

The IDPC Rules contain rules for certain procedures whereas the MFD Rules are silent on these matters. These include rules for:

- deemed undertakings, *(DC Rule section 8420)*
- orders to attend and issue of summons, and *(DC Rule section 8421)*
- adjournments. *(DC Rule section 8422)*

In these instances, we adopted the IDPC Rules' procedures as they allow for greater procedural transparency and efficiency.

##### ***(b) Specific requirements, options or steps***

In other instances, the IDPC Rules or the MFD Rules have requirements, options or steps for proceedings that the other rulebook does not have. Generally, we adopted whichever process allowed for greater transparency and efficiency.

For example, the MFD Rules require that the notice of hearing advise the respondent they may be self-represented or represented by counsel or agent. The IDPC Rules do not have this requirement. We adopted the MFD Rules' requirement as its clearer for respondents. *(DC Rule clauses 8414(2)(ix) and (x))*

##### ***(c) Timelines***

While the MFD Rules and the IDPC Rules have similar steps in their proceedings, the timelines may be different. Generally, we adopted whichever timeline would result in a more expeditious proceeding. For example, under the IDPC Rules, respondents must be given 7 days' notice of a settlement hearing, and under

the MFD Rules, they must be given 10 days' notice. In this case, we adopted the 7 days' notice as it is more expeditious.

#### **2.3.13. Terms and Conditions (DC Rule 9200)**

Under the IDPC Rules, CIRO can impose terms and conditions on a Dealer Member's membership but must allow the Dealer Member an opportunity to be heard. This authority is intended to address scenarios where there are outstanding compliance issues that require CIRO to act, but do not justify disciplinary proceedings. We adopted this process and expanded it to mutual fund dealers. *(DC Rule section 9208)*

If a dealer's circumstances warrant suspension or revocation of its membership, and thus its registration, it will be treated as a disciplinary proceeding subject to CIRO's enforcement rules in Series 8000.

As part of Phase 4 of the Rule Consolidation Project, we will propose the process for a Dealer Member's opportunity to be heard following a terms and conditions decision.

#### **2.3.14. Arbitration (DC Rule 9500)**

Under the IDPC Rules, Investment Dealer Members are required to participate in CIRO's arbitration program. As such, their clients can request their disputes with their dealer be resolved through arbitration. The MFD Rules do not have an equivalent program or requirement. We propose requiring all Dealer Members participate in our arbitration program. This will provide clients with more options to resolve disputes with their dealer.

In a separate project, we will propose changes to our current arbitration program.

#### **2.3.15. Information sharing with the OBSI (DC Rule 9500)**

The IDPC Rules prohibit the OBSI from sharing information with CIRO relating to their investigation and review of complaints against Investment Dealer Members whereas the MFD Rules do not contain an equivalent prohibition. Given this prohibition is inconsistent with the OBSI's Terms of Reference we adopted the MFD Rules approach. *(DC Rule section 9504)*

### **3. Impacts of the Proposed DC Rules**

#### **3.1 Impact assessment approach**

As the Rule Consolidation Project is being pursued in five phases, and the combined impact of the project can only be assessed once development of all five phases has been completed, it would be misleading for us to assess the impact of each phase in isolation from the other phases or to make an assessment of the combined impact of the five project phases until all phases have been developed.

To provide you with some impact information in the interim, we will identify the impacts specific to each project phase, as each project phase is published for public comment and provide an overall Rule Consolidation Project impact assessment once all 5 phases have been developed.

### 3.2 Specific impacts of Phase 3 Proposed DC Rules

We have assessed the impact the material changes being introduced as part of the Phase 3 Proposed DC Rules as having an overall positive impact on investors and CIRO Staff, neutral for investment dealers and minor negative for mutual fund dealers. While there could be some negative impacts to mutual fund dealers, we concluded these impacts were outweighed by the positive impacts the Phase 3 Proposed DC Rules would have. A complete impact analysis of the Phase 3 Proposed DC Rules is attached as [Appendix 4](#).

### 3.3 Regional and specific stakeholder group impacts

We have identified no regional impacts associated with the Phase 3 Proposed DC Rules.

## 4. Alternatives to rule consolidation considered

We did not consider any alternatives to rule consolidation, such as maintaining separate rules for investment dealers and mutual fund dealers as, based on the feedback provided in response to CSA Position Paper 25-404, *New Self Regulatory Organization Framework*, we determined that there is general cross-stakeholder support for rule consolidation.

## 5. Questions

While comment is requested on all aspects of the Phase 3 Proposed DC Rules, comment is also specifically requested on the following questions:

### Question #1 - Process used for publishing for public comment

Many of comments received as part of the first phase of our Rule Consolidation Project indicated that once the initial publication of the five phases is complete, any subsequent republication of the proposed rules should be as an entire rulebook (i.e. not as separate phases). Should we republish the entire set of proposed Dealer and Consolidated Rules prior to their approval?

### Question #2 - Implementation

Many of comments received as part of the first phase of our Rule Consolidation Project indicated the Dealer and Consolidated Rules should be implemented all at once (and not in phases). Should we implement the entire set of proposed Dealer and Consolidated Rules at the same time? How long a period should we allow for the implementation of the proposed Dealer and Consolidated Rules?

### Question #3 - Cross-guarantee requirements

To ensure a level playing field for investment dealers and mutual fund dealers, we have proposed to require cross-guarantees between Dealer Members and their related companies. The term "related company" is exclusively used to explain the relationship between Dealer Members (through at least 20% common ownership of both Dealer Members (directly or indirectly)). The result of adopting this amended IDPC and MFD rule requirement is that commonly owned investment dealers and mutual fund dealers will have to cross-guarantee each other.

Does requiring cross-guarantees between investment dealers and mutual fund dealers cause undue burden? If yes, please explain.

#### Question #4 - Membership disclosure policy

The current membership disclosure requirements applicable to investment dealers and mutual fund dealers have the following key differences:

- the mutual fund dealer policy requires that both the CIRO logo and a link to the CIRO website be included on account statements, whereas the investment dealer policy only requires the CIRO logo (the proposed Membership Disclosure Policy found in [Appendix 5](#) extends the mutual fund dealer requirement to all Dealer Members)
- the investment dealer policy requires that the CIRO decal be displayed at all public-facing business locations, whereas the mutual fund dealer policy does not have a similar requirement (the proposed Membership Disclosure Policy found in [Appendix 5](#) removes this requirement for all Dealer Members)
- the investment dealer policy requires that the CIRO official brochure be provided to clients at account opening or upon request, whereas the mutual fund dealer policy does not have a similar requirement (the proposed Membership Disclosure Policy found in [Appendix 5](#) extends the investment dealer requirement to all Dealer Members)

Do you agree with the changes highlighted above and the proposed Membership Disclosure Policy found in [Appendix 5](#)? If not, please explain.

#### Question #5 - Account transfers

Our assessment of the proposed harmonization of the transfer requirements suggests minimal impact to dealer members. Do you agree with this assessment? If not, what potential challenges do you anticipate?

#### Question #6 - Trading and delivery standards

We believe that harmonizing trading and delivery standards for securities will be of minimal impact to Dealer Members' current practices. Do you agree? Why or why not?

#### Question #7 - Maximum fine

To deter Regulated Persons from misconduct, we propose increasing the maximum fine a CIRO hearing panel can impose to \$10 million per offence, from \$5 million. Do you agree with our proposal to increase the maximum fine a CIRO hearing panel can impose? Why or why not?

#### Question #8 - Sanctioned individuals

To help ensure that individuals do not engage in any activities that defeat the purpose of any CIRO sanction they might receive, we propose barring Regulated Persons from hiring or engaging

in any capacity and remunerating any individuals who are subject to a bar or suspension during the period of the bar or suspension. Under this prohibition, Regulated Persons would still be able to pay remuneration to a sanctioned individual that is:

- consistent with the scope of activities permitted under the sanction, or
- pursuant to an insurance or medical plan, an indemnity agreement relating to legal fees or as required by arbitration awards or court judgment.

Under the IDPC Rules, Regulated Persons are prohibited from engaging an individual who is permanently barred from employment with an investment dealer. Under the MFD Rules, there is no specific prohibition, however, in practice Regulated Persons cannot engage any individuals to perform securities-related business where they have been barred or suspended from doing so.

Do you agree with our proposal to expand the activity restrictions on sanctioned individuals? Why or why not?

## 6. Policy Development Process

### 6.1 Regulatory Purpose

We took the public interest into consideration when developing the Proposed DC Rules and we believe the proposals achieve their intended objective of ensuring that like dealer activities will be regulated in a like manner while minimizing regulatory arbitrage between investment dealers and mutual fund dealers.

We also believe the Proposed DC Rules will foster public confidence in capital markets by ensuring all CIRO Dealer Members will be held to standards of conduct that foster fair, equitable and ethical business standards and practices.

### 6.2 Regulatory Process

The Board of Directors of CIRO (**Board**) has determined the Proposed DC Rules to be in the public interest and on March 20, 2024, approved them for public comment.

We consulted with the following CIRO advisory committees on this matter:

- Investor Advisory Panel
- Conduct, Compliance and Legal Advisory Section (CCLS)
- Financial and Operations Advisory Section (FOAS)

After considering the comments received in response to this Request for Comments together with any comments of the CSA, CIRO staff may recommend revisions to the Phase 3 Proposed DC Rules. If the revisions and comments received are not material in nature, the Board has authorized the President to approve the revisions on CIRO's behalf and the revised Proposed DC Rules will be subject to approval by the CSA. If the revisions or comments are material, CIRO staff will submit the Proposed DC Rules, including any revisions, to the Board for approval for republication or implementation, as applicable.

### 6.3 CIRO advisory committee feedback

We've received overall positive feedback regarding the Phase 3 Proposed DC Rules from our advisory committees except for our proposals:

- to extend the mutual fund dealer requirement to include both the CIRO logo and a link to the CIRO website on account statements to all Dealer Members – this proposal received mixed reviews as certain advisory committees thought the change might increase traffic to the CIRO website but would not improve investor awareness of CIRO, whereas one advisory committee indicated that this change would increase investor awareness of CIRO and the resources that CIRO has to assist investors;
- to increase the maximum fine a CIRO hearing panel can impose to \$10 million per offence, from \$5 million – this proposal received mixed reviews as certain advisory committees indicated that this increase was unnecessary as in their view the current maximum fine continues to be a significant misconduct deterrent, whereas one advisory committee indicated that this increase was necessary to maintain a significant misconduct deterrent; and
- to prohibit Regulated Persons from hiring or engaging in any capacity and remunerating any individuals who are subject to a bar or suspension during the period of the bar or suspension - this proposal received mixed reviews as certain advisory committees indicated that this expansion of the hiring prohibition was unnecessary, while one advisory committee indicated that this expansion was necessary to ensure that the effectiveness of the regulatory sanction against the individual was not undermined.

## 7. Appendices

[Appendix 1 – Phase 3 Proposed DC Rules \(clean\)](#)

[Appendix 2 – Phase 3 Proposed DC Rules \(blackline\)](#)

[Appendix 3 – Table of Concordance](#)

[Appendix 4 – Impact Analysis of the Phase 3 Proposed DC Rule](#)

[Appendix 5 – Corporation Membership Disclosure Policy \(as required under DC Rule section 2285\)](#)

[Appendix 6 – Investor Application Form \(as required under DC Rule section 2107\)](#)

[Appendix 7 – Cross-Guarantee Agreement Form \(as required under DC Rule section 2206\)](#)



## **Appendix 4 – Impact Analysis of the Phase 3 Proposed DC Rules**

### **Impact Assessment Table**

In the impact assessment table below, we list:

- the major policy elements of the Phase 3 Proposed DC Rules,
- a description of the intended policy benefits of each element, and
- an assessment of its impact on clients, investment dealers, mutual fund dealers, and CIRO itself.

### **Conclusions**

We concluded that, if approved, the Phase 3 Proposed DC Rules would result in reduced potential for regulatory arbitrage by harmonizing:

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

We have assessed the impact of the changes being introduced as part of the Phase 3 Proposed DC Rules as having an overall positive impact on clients, Dealer Members and CIRO staff. While there could be some negative impacts to investment dealers and mutual fund dealers, we concluded these impacts were outweighed by the overall positive impacts the Phase 3 Proposed DC Rules would have.

### **Cost Estimate**

We do not know the dollar magnitude of the collective impacts of the Phase 3 Proposed DC Rules, and we cannot determine it without detailed stakeholder feedback. For example, the harmonization of the current membership disclosure policies may require Dealer Members to change their existing practices to implement the new proposed membership disclosure policy. However, the Phase 3 Proposed DC Rules are not expected to have any significant incremental costs to Dealer Members and clients.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<b>Membership and member business activity approval matters</b>					
<i>Notification of changes of ownership below 10%</i>	Ensure a level playing field for investment dealers and mutual fund dealers and reduce burden on Dealer Members and CIRO by removing the requirement to notify CIRO of changes of ownership that are not significant	<i>Neutral</i> – Clients of either type of Dealer Member are not expected to be impacted	<i>Minor positive</i> – Investment dealers will no longer be required to notify CIRO of changes of ownership below 10%	<i>Neutral</i> – No change for mutual fund dealers	<i>Minor positive</i> – CIRO staff will receive less notifications from Dealer members, which will free up time to review more significant membership matters
<i>Ownership of a significant equity interest in a Dealer Member</i>	Ensure a level playing field for investment dealers and mutual fund dealers by requiring Dealer Members to obtain CIRO approval before allowing a person to own a significant equity interest (greater than 10%) in a Dealer Member	<i>Neutral</i> – Clients of either type of Dealer Member are not expected to be impacted	<i>Neutral</i> – No change for investment dealers	<i>Minor negative</i> – Mutual fund dealers will be required to obtain CIRO approval before allowing a person to own 10% or more in a Dealer Member. The current threshold is set at 20%.	<i>Minor negative</i> – CIRO staff will receive more investor approval request, which will increase the administrative work required to process these applications
<i>Approval and cross-guarantee requirements for Dealer Member related companies</i>	Ensure a level playing field for investment dealers and mutual fund dealers by requiring cross-guarantees between Dealer Members and their related companies and ensures the surviving entity will be	<i>Minor positive</i> – Clients of either type of Dealer Member will indirectly benefit from the cross-guarantees between Dealer Members and their related companies in the event of insolvency as CIPF will	<i>Minor negative</i> – Investment dealers will be required to obtain CIRO approval and to enter into a cross-guarantee agreement before setting up or acquiring interest in a related company or before creating a	<i>Minor negative</i> – Mutual fund dealers will be required to obtain CIRO approval and to enter into a cross-guarantee agreement before setting up or acquiring interest in a related company or before creating a subsidiary	<i>Minor negative</i> – CIRO staff will receive more approval request, which will increase the administrative work required to process these applications

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
	responsible to indemnify the CIPF for client loss claims in the event of insolvency	be indemnified for client loss claims	subsidiary whose principal business is securities or derivatives-related activities, including a related mutual fund dealer	whose principal business is securities or derivatives-related activities, including a related investment dealer	
<i>Carrying on business other than securities or derivatives-related business</i>	Ensure a level playing field for investment dealers and mutual fund dealers by requiring Dealer Members to obtain CIRO approval before carrying on any business other than securities or derivatives business except where the Dealer Member owns an interest in a corporation and is not responsible for that corporation's liabilities	<i>Neutral</i> – Clients of either type of Dealer Member are not expected to be impacted	<i>Minor positive</i> – Investment dealers will no longer be required to notify CIRO when it owns an interest in a corporation and it is not responsible for that corporation's liabilities	<i>Minor negative</i> – Mutual fund dealers will be required to obtain CIRO approval before carrying on any business other than securities or derivatives business except where it owns an interest in a corporation and it is not responsible for that corporation's liabilities	Minor negative – CIRO staff will receive more approval request, which will increase the administrative work required to process these applications
<i>Shared office premises</i>	Ensure a level playing field for investment dealers and mutual fund dealers by imposing specific requirements Dealer Members must adhere to when sharing office premises with other regulated Canadian financial service entities that are involved in financial activities	<i>Positive</i> – Clients will benefit from the requirements for Dealer Members to limit client confusion and ensure privacy and confidentiality of records are maintained	<i>Neutral</i> – No change for investment dealers	<i>Minor negative</i> – Mutual fund dealers will have to ensure clients clearly understands which legal entity they are dealing with, ensure client privacy and confidentiality of records are maintained, and establish, maintain and apply adequate supervisory policies and procedures	<i>Minor Positive</i> – CIRO staff who monitor compliance with shared office premises will have consistent requirements

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Membership disclosure policy</i>	Ensure a level playing field for investment dealers and mutual fund dealers by harmonizing CIRO's membership disclosure requirements	<i>Positive</i> – Clients will benefit from harmonized requirements that will make it clear they are dealing with a CIRO regulated Dealer Member and ensure they receive the CIRO official brochure “How CIRO protects investors”	<i>Minor negative</i> – Investment dealers may have to include CIRO's website on client account statements	<i>Minor negative</i> – Mutual fund dealers may have to provide clients with the CIRO official brochure	<i>Minor Positive</i> – CIRO staff who monitor compliance with the membership disclosure policy will have consistent requirements
<b>Clearing, settlement of trades and trade delivery standards</b>					
<i>Harmonization of business continuity plan requirements</i>	Standardize BCP rules for investment dealers and mutual fund dealers	<i>Neutral</i> – We do not anticipate any impact to clients	<i>Neutral</i> - We do not anticipate any impact to investment dealers	<i>Neutral</i> – We do not anticipate material impact to mutual fund dealers given previous MFDA-issued guidance on establishing BCP plans	<i>Minor Positive</i> – CIRO staff who monitor compliance with business continuity will have consistent requirements
<i>Harmonization of trading and delivery standards</i>	Standardize trading and delivery standards for investment dealers and mutual fund dealers and reorganize rules to clarify the application of the requirements	<i>Neutral</i> – We do not anticipate any impact to clients	<i>Neutral</i> - We do not anticipate any impact to investment dealers	<i>Neutral</i> – We do not anticipate material impact to mutual fund dealers. Relevant rules relating to centrally cleared and non-centrally cleared transactions will apply to mutual fund dealers who trade in these securities.	<i>Minor Positive</i> – CIRO staff who monitor compliance with trading operations will have consistent requirements
<i>Harmonization of account transfer requirements</i>	Standardize account transfer practices	<i>Neutral</i> – We do not anticipate any impact to clients	<i>Neutral</i> - We do not anticipate any impact to investment dealers	<i>Neutral</i> – We do not anticipate material impact to mutual fund dealers as most	<i>Minor Positive</i> – CIRO staff who monitor compliance with transfer practices will

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
				transfers occur outside of CDS or via FundSERV. Existing CDS ATON participants are not expected to be impacted.	have consistent requirements
<i>Harmonization of bulk account transfer requirements</i>	Standardize practices for bulk account transfers	<i>Neutral</i> – We do not anticipate any impact to clients	<i>Neutral</i> - We do not anticipate any impact to investment dealers	<i>Minor Positive</i> – We anticipate positive impact to mutual fund dealers as the IDPC Rules provide more flexibility with regards to bulk account transfers.	<i>Minor Positive</i> – CIRO staff who monitor compliance with transfer practices will have consistent requirements
<i>Harmonization of Derivatives Risk Management requirements</i>	Standardize practices for derivatives risk management	<i>Neutral</i> – We do not anticipate any impact to clients	<i>Neutral</i> - We do not anticipate any impact to investment dealers	<i>Neutral</i> – We do not anticipate any impact to mutual fund dealers	<i>Minor Positive</i> – CIRO staff who monitor compliance with derivatives risk management will have consistent requirements
<b>Examination, investigation and enforcement rules</b>					
<i>Introducing a new “Hearing Office” defined term to refer to CIRO staff who administer enforcement proceedings, to replace “National Hearing Officer” in the IDPC Rules and “Secretary” in the MFD Rules.</i>	All CIRO staff who administer enforcement proceedings will be referred to jointly as the Hearing Office, reflecting CIRO’s current structure.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Minor Positive</i> – CIRO staff who administer enforcement proceedings will have consistent responsibilities.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Adopting two distinct sets of rules to govern CIRO's compliance examinations and enforcement investigations.</i>	Ensure a clear distinction between compliance examinations and enforcement investigations.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> - We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> - mutual fund dealers will benefit from clearer distinction between compliance examinations and enforcement investigations.	<i>Minor positive</i> - Compliance and Enforcement Staff will have appropriate powers to carry out their mandate.
<i>Implementing a 6-year limitation period.</i>	Allow CIRO to enforce on a former Regulated Person's rule violations for 6-year period from when they ceased to be a Regulated Person.	<i>Minor positive</i> - CIRO Enforcement Staff will be able to pursue disciplinary measures on former mutual fund dealers and their Approved Persons over longer periods of time.	<i>Neutral</i> - We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Neutral</i> - CIRO Enforcement Staff will be able to pursue disciplinary measures on former mutual fund dealers and their Approved Persons for 6 years after they cease to be approved with CIRO, which is longer than the current 5-year period. However, CIRO would only be able to pursue disciplinary measures for 6 years following the events giving rise to the misconduct.	<i>Net positive</i> - CIRO Enforcement Staff will be able to pursue disciplinary measures on former mutual fund dealers and their Approved Persons for 6 years after they cease to be approved with CIRO.
<i>Allowing hearing panels to admit into evidence any oral testimony or other evidence that has not been given or proven under oath or affirmation.</i>	Allow CIRO enforcement proceedings to operate more expeditiously.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> - We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> - Enforcement proceedings may be more expeditious if the hearing panel allows such evidence.	<i>Minor positive</i> - Enforcement proceedings may be more expeditious if the hearing panel allows such evidence.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Settlement hearings to be conducted privately.</i>	Ensure settlement negotiations are conducted privately, as they often involve sensitive information.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> – Settlement negotiations between CIRO and mutual fund dealers will be kept confidential, respecting the respondent’s privacy.	<i>Minor positive</i> – Settlement negotiations between CIRO and mutual fund dealers will be kept confidential, respecting CIRO Enforcement Staff’s privacy.
<i>Hearing panels to produce written reasons for rejecting a settlement agreement, and that those reasons are made available to a hearing panel considering a settlement on the same or related allegations and charges, but not made public.</i>	Ensure greater transparency and allow subsequent hearing panels to operate more effectively.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> – Subsequent hearing panels will be able to address settlement agreements more effectively.	<i>Minor positive</i> – Subsequent hearing panels will be able to address settlement agreements more effectively.
<i>Increase the maximum fine a hearing panel can impose from \$5 million to \$10 million.</i>	Allow hearing panels to increase the amount they can fine Regulated Person, to better deter rule violations.	<i>Minor positive</i> – Regulated Persons may be less likely to violate CIRO’s investor protection rules.	<i>Net negative</i> – investment dealers may face higher fines if they are sanctioned.	<i>Net negative</i> – mutual fund dealers may face higher fines if they are sanctioned.	<i>Net positive</i> – Would increase the deterrent effect associated with violating CIRO rules.
<i>Clarify that hearing panels can order disgorgement and other types of sanctions.</i>	Clarify which sanctions a hearing panel can order, increasing transparency.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> – mutual fund dealers will benefit from clearer rules.	<i>Minor positive</i> – CIRO Enforcement Staff will benefit from clearer rules.
<i>Allow hearing panels to prohibit, revoke or bar an individual Regulated</i>	Provide hearing panels with the necessary powers to sanction	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate any impact on investment dealers.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers.	<i>Neutral</i> – CIRO hearing panels will maintain their existing powers.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Person's approval or authority to conduct securities-related business.</i>	investment dealer and mutual fund dealer individuals.		The proposed DC Rule is consistent with the IDPC Rules.	The proposed DC Rule is consistent with the MFD Rules.	
<i>Require hearing panels to consider specific factor when appointing a monitor.</i>	Clarify what hearing panels must consider before appointing a monitor to oversee a Dealer Member's business.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Minor positive</i> – Hearing panel decisions to appoint a monitor will be more transparent.	<i>Neutral</i> – We do not anticipate any impact on mutual fund dealers. The proposed DC Rule is consistent with the MFD Rules.	<i>Neutral</i> - We do not anticipate any impact on CIRO.
<i>Prohibit Regulated Persons (Dealers and Approved Persons) from hiring or compensating sanctioned individuals.</i>	Ensure sanctioned individuals are not indirectly conducting securities-related business. Increase deterrent effect of sanctions.	<i>Net positive</i> – Clients will not be serviced in any way by a sanctioned individual.	<i>Net negative</i> – While investment dealers currently can't hire individuals who have been permanently barred from the industry, they would now not be able to hire or compensate any sanctioned individual (while they are sanctioned).	<i>Net negative</i> – While mutual fund dealers can't hire sanctioned individuals from carrying on securities-related business (as these individuals cannot carry on such business), they would not be able to hire them in any capacity or compensate them.	<i>Net positive</i> – Deterrent effect of increased sanctions and there is less chance of sanctioned individuals indirectly servicing clients, allowing us to better protect investors.
<i>Allow hearing panels to issue temporary orders.</i>	Allow hearing panels to grant temporary orders (for 15 days) without notice to a respondent in instances where the time required for a hearing would be prejudicial to the public interest.	<i>Net positive</i> – Hearing panels would be able to impose temporary orders in the public interest.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Net positive</i> – When an order is issued against a mutual fund dealer or one of their Approved Persons without notice, it would only be for 15 days.	<i>Net positive</i> – Allows CIRO Enforcement Counsel more options.



Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Allow hearing panels to issue protective orders.</i>	Allow hearing panels to grant a protective order, including terms and conditions, when a Regulated Person cannot carry on business without protective measures to prevent client or investor harm.	<i>Net positive</i> – Hearing panels would be able to impose orders to prevent client harm.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Net positive</i> – When an order is issued against a mutual fund dealer or one of their Approved Persons for an unlimited amount of time, they will be provided with notice.	<i>Net positive</i> – Allows CIRO Enforcement Counsel more options.
<i>Allow hearing panels to issue protective orders when dealers fail to comply with terms and conditions.</i>	Ensure Dealers comply with terms and conditions.	<i>Net positive</i> – Ensure Dealers comply with terms and conditions, including those designed to protect clients.	<i>Net negative</i> – If Dealers do not comply with their terms and conditions, CIRO Enforcement Staff may seek a protective order.	<i>Net negative</i> – If Dealers do not comply with their terms and conditions, CIRO Enforcement Staff may seek a protective order.	<i>Net positive</i> – Provides CIRO with an additional tool to enforce terms and conditions.
<i>Remove hearing panels' ability under the MFD Rules to issue orders against mutual fund dealer where they have failed to:</i> <ul style="list-style-type: none"> <li>• <i>maintain the minimum required capital,</i></li> <li>• <i>file their monthly financial report,</i></li> <li>• <i>file their annual financial statements,</i></li> <li>• <i>maintain a Financial Institution Bond or mail insurance, or</i></li> </ul>	Address non-compliance in these areas more efficiently.	<i>Net positive</i> – Terms and conditions will allow CIRO to bring dealers into compliance faster than a disciplinary proceeding, ensuring we are more effective at protecting investors.	<i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Net positive</i> – Where Dealers are in non-compliance in these areas, CIRO may pursue terms and conditions instead of a formal disciplinary proceeding. Mutual fund dealers will still be provided with an opportunity to be heard.	<i>Net positive</i> – CIRO staff will be able to issue terms and conditions as opposed to commencing a disciplinary proceeding.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<ul style="list-style-type: none"> <li>• <i>rectify the circumstances causing them to be in early warning or comply with terms and conditions imposed after they were in early warning.</i></li> </ul> <p><i>Instead, deal with these areas through terms and conditions instead.</i></p>					
<p><i>Allow hearing panels to issue a protective order when a Regulated Person is charged with contravening a law relating to serious misconduct.</i></p>	<p>Allow hearing panels to issue orders where a Regulated Person is charged with serious misconduct, instead of waiting for a conviction, so they can act in the public interest.</p>	<p><i>Net positive</i> – Hearing panels can issue a protective order in situations where a Regulated Person may have engaged in serious misconduct, allowing them to protect clients.</p>	<p><i>Minor negative</i> – Currently, hearing panels can issue a protective order only where a Regulated Person is convicted of serious misconduct. This would allow hearing panels to issue such orders where investment dealers are charged with serious misconduct.</p>	<p><i>Neutral</i> – We do not anticipate any impact on mutual fund dealers. The proposed DC Rule is consistent with the MFD Rules.</p>	<p><i>Net positive</i> – Enforcement Staff can seek a protective order where a Regulated Person is charged with serious misconduct.</p>
<p><i>Parties to a disciplinary proceeding can apply to the local securities regulatory authority for a review of a CIRO hearing panel decision.</i></p>	<p>Allow parties to request a review of a hearing panel decision. Ensure reviews are conducted by the securities regulatory authority, as opposed to CIRO’s board of directors. Securities regulatory authorities have the</p>	<p><i>Neutral</i> - We do not anticipate any impact on clients.</p>	<p><i>Neutral</i> – We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.</p>	<p><i>Neutral</i> – We do not anticipate an impact on mutual fund dealers as it is consistent with current practices since Board review process is rarely used by mutual fund dealers, and CIRO’s Board does not</p>	<p><i>Net positive</i> – CIRO’s Board will be able to focus on corporate governance matters.</p>

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
	expertise and infrastructure to conduct these reviews. Allow CIRO's Board to focus on corporate governance matters.			have the expertise to perform this function.	
<i>Allow public hearing members of hearing committees to reside out of district.</i>	Open the pool of public hearing panel members to help districts which do not have as many members.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Minor positive</i> – There will be a larger pool of hearing panel members in each district, which will help expedite disciplinary proceedings.	<i>Minor positive</i> – There will be a larger pool of hearing panel members in each district, which will help expedite disciplinary proceedings.	<i>Net positive</i> – We will expand the hearing committee pools for all districts, making it easy to put together a hearing panel.
<i>Allow oral hearings to proceed either in person or virtually, with parties requesting which form.</i>	Allow greater flexibility to make the hearing process more accommodating and efficient.	<i>Net positive</i> – Allow clients who are witnesses to participate in hearings more easily.	<i>Net positive</i> – Allow greater flexibility in how hearings are conducted, allowing them to be more accommodating and efficient.	<i>Net positive</i> – Allow greater flexibility in how hearings are conducted, allowing them to be more accommodating and efficient.	<i>Net positive</i> – Allow greater flexibility in how hearings are conducted, allowing them to be more accommodating and efficient.
<i>Allow electronic delivery for all documents required to be served under CIRO's rules of procedure.</i>	Allow greater flexibility to make disciplinary proceeding more accommodating and efficient.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Net positive</i> - Allow greater flexibility in how documents are filed, making the process more accommodating and efficient.	<i>Net positive</i> - Allow greater flexibility in how documents are filed, making the process more accommodating and efficient.	<i>Net positive</i> - Allow greater flexibility in how documents are filed, making the process more accommodating and efficient.
<i>Allow CIRO to impose terms and conditions on dealers, with an opportunity to be heard.</i>	Allow CIRO to address outstanding dealer compliance issues without going through a disciplinary proceeding.	<i>Minor positive</i> – Dealers' compliance issues will be addressed more efficiently, which can address areas of potential client harm.	<i>Neutral</i> - We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor positive</i> – Dealers can deal with compliance issues without having to go through a disciplinary proceeding, and still get an opportunity to be heard.	<i>Minor positive</i> - Allow CIRO to address outstanding dealer compliance issues without going through a disciplinary proceeding.

Description of proposed requirement	Related intended benefits	Impact on clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Require all dealers participate in CIRO's arbitration program.</i>	Provide more dispute resolution options for clients.	<i>Net positive</i> – Clients who have a dispute with their dealer will have the option to bring it to arbitration for a binding result.	<i>Neutral</i> - We do not anticipate any impact on investment dealers. The proposed DC Rule is consistent with the IDPC Rules.	<i>Minor negative</i> – Dealers will be required to participate in CIRO's binding arbitration program. Where the arbitrator finds in favour of a client, the dealer would be required to compensate them.	<i>Minor positive</i> – CIRO's arbitration program will be open to more individuals, increasing its usage.
<i>Allow the OBSI to share detailed information with CIRO.</i>	Improve communication between OBSI and CIRO, ensuring important information is shared.	<i>Neutral</i> - We do not anticipate any impact on clients.	<i>Neutral</i> – We do not anticipate this will have a significant impact on investment dealers.	<i>Neutral</i> - We do not anticipate any impact on mutual fund dealers. The proposed DC Rule is consistent with the MFD Rules.	<i>Net positive</i> – We would have more information on Dealer's complaints, allowing us to be more effective.

## Appendix 5 – Corporation Membership Disclosure Policy (as required under DC Rule section 2285)

### CIRO Membership Disclosure Policy

#### 1. Introduction

This policy establishes minimum requirements for disclosure of CIRO Membership pursuant to subsection 2285(1) of the Dealer and Consolidated Rules. The purpose of this Policy is to promote client awareness of the regulatory oversight exercised by CIRO in respect of *Dealer Members* and their *Approved Persons*.

#### 2. Definitions

For the purpose of the disclosure requirements described in this policy, the term:

“**CIRO Advisor Report**” refers to CIRO’s searchable database that allows investors to research the background, qualifications, and disciplinary history on advisors and other Approved Persons sponsored by CIRO-regulated Dealer Members by generating an electronic report.

“**CIRO Disclosures**” refers to the CIRO Logo and CIRO Official Brochure, collectively.

“**CIRO Logo**” means the logo prescribed by CIRO, from time to time, for use by Dealer Members.

“**CIRO Official Brochure**” means any publication prescribed by CIRO, from time to time, which explains how CIRO protects investors, and which CIRO authorizes for public distribution.

“**CIRO Website**” refers to [www.ciro.ca](http://www.ciro.ca) (for English) or [ocri.ca](http://ocri.ca) (for French)

#### 3. Advisor Report

- (a) Each Dealer Member that provides products or services to retail clients must include a hyperlink and clearly visible reference to the Advisor Report on the homepage of the Dealer Member’s website and on any other Dealer Member webpage that includes a profile of a CIRO regulated investment advisor.
- (b) Each CIRO regulated investment advisor that provides products or services to retail clients must include a hyperlink and clearly visible reference to the Advisor Report on the homepage of their own website, where applicable.

#### 4. CIRO Logo

Dealer Members must use the CIRO Logo to satisfy all CIRO membership disclosure requirements set out in this policy. Specifically, a Dealer Member must include the CIRO Logo and a link to the CIRO Website on the Dealer Member’s homepage. Where the Dealer Member website or internet presence is part of a combined financial institution group website, the CIRO Logo must be included on Dealer Member’s main webpage.

Unless prohibited under section 6 of this policy, use of the CIRO Logo is optional in all other circumstances and available for general use by Dealer Members.

##### 4.1 CIRO Logo specifications

The CIRO Logo must be clearly visible and reproduced directly from the format provided below or as made available on CIRO’s website.

Black and White (English and French)



Colour (English and French)



Additional requirements:

The minimum size for reproduction is 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.

**4.2 Client Account Statements**

Each Dealer Member must include the CIRO Logo and a link to the CIRO Website on the front of each account statement that is sent to clients.

**5. CIRO Official Brochure**

The CIRO Official Brochure is entitled “How CIRO protects investors”. Dealer Members must provide an electronic or hard copy of the current version of the CIRO Official Brochure to:

- new retail clients at the time of account opening, and
- existing retail clients upon request.

A PDF version of the CIRO Official Brochure is available in English and French and is located on the CIRO Website. Dealer Members are responsible for the cost of providing a hard copy of the CIRO Official Brochure to retail clients.

If required, a hard copy of the CIRO Official Brochure is available in French and English and can only be ordered directly from CIRO.

## **6. Prohibitions**

CIRO may direct a Dealer Member to cease using the CIRO Disclosures in the following circumstances:

- (a) if CIRO decides that its use is detrimental to the public's interests or the interests of CIRO or its Dealer Members; and
- (b) upon suspension of its membership.

A Dealer Member is prohibited from using the CIRO Disclosures in any of the following circumstances:

- (a) where use of the CIRO Disclosures approves, endorses or guarantees a Dealer Member service or an investment product,
- (b) where use of the CIRO Disclosures is false or could reasonably be expected to deceive or mislead any person;
- (c) upon the termination of its membership, and
- (d) in connection with a subject matter or activity that is not regulated by CIRO.

Upon request by CIRO, a Dealer Member must provide samples of any materials that use or make reference to the CIRO Disclosures.

## **7. CIRO Contact**

If you have any questions regarding the use of CIRO Disclosures, please contact Corporate communications and Public Affairs at [publicaffairs@ciro.ca](mailto:publicaffairs@ciro.ca) or Member Regulation Policy at [memberpolicymailbox@ciro.ca](mailto:memberpolicymailbox@ciro.ca).