

October 10, 2024

24-0289

Rules Bulletin > Housekeeping Bulletin

Distribute internally to: Legal and Compliance,
Registration, Retail, Senior Management

Rule Connection: IDPC Rules*Division:* Investment Dealer

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Amendment regarding individual Approved Person proficiencies

(repeal of IDPC Rule subsection 2603(2))

Executive summary

The Canadian Investment Regulatory Organization is repealing Investment Dealer and Partially Consolidated (IDPC) Rule subsection 2603(2) (the **Amendment**), effective immediately. The objective of the Amendment is to make a necessary change to conform the individual proficiency requirements of the IDPC Rules to those set out within National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103).

The Amendment has been classified by CIRO as a housekeeping rule change and the Recognizing Regulators have non-objected to this classification.

Background and matter

Relevant background

On November 24, 2022, the Canadian Securities Administrators (CSA) issued CSA Staff Notice 25-307 to announce that the Canadian Investment Regulatory Organization (CIRO)¹ was being recognized as a self-regulatory organization, effective January 1, 2023. As part of this notice, the CSA approved the following to be the initial CIRO rules:

- the IDPC Rules,
- the Mutual Fund Dealer Rules, and
- the Universal Market Integrity Rules.

Included within the IDPC Rules adopted at that time were a small number of revisions² designed to help accommodate the efficient movement of business lines, accounts and advisers between mutual fund dealers and investment dealers. One of these revisions was to include new IDPC Rule subsection 2603(2)

¹ CIRO commenced operations on January 1, 2023, using the name New Self-Regulatory Organization of Canada.

² Revisions were made to the previous IIROC Dealer Member Rules and adopted by CIRO as the IDPC Rules.

to set out the conditions under which mutual funds-only licensed individuals could continue to advise on exempt market products when they changed jobs to work at an investment dealer³. This subsection in essence permitted mutual funds-only licensed individuals who changed jobs to work at a dual registered dealer to continue to advise on exempt market products where they have the same or similar proficiencies to those required in NI 31-103 for a dealing representative sponsored by an exempt market dealer (**exempt market product proficiencies**)

Matter

We have recently been informed by CSA staff that:

- IDPC Rule subsection 2603(2) appears to permit mutual funds-only licensed individuals, who are sponsored by a dual registered dealer, to transact in exempt market products with only exempt market product proficiencies, and
- this result is a departure from the current NI 31-103 regime, as currently only mutual funds-only licensed individuals who are sponsored by a firm registered as both an exempt market dealer and a mutual fund dealer may transact in exempt market products with only exempt market product proficiencies⁴.

Discussion

Alternatives considered

In analyzing the policy options available to address this rules conflict, CRO staff determined that there was no near-term possibility that NI 31-103 will be amended to remove this conflict and so the only near-term option that could be pursued was to repeal the conflicting IDPC Rule provision.

Consultation with advisory committees

As the objective of the Amendment is to eliminate a conflict between a CRO rule requirement and a NI 31-103 requirement and we determined the only near-term option that could be pursued to resolve this conflict was to repeal the conflicting IDPC Rule provision, we did not consult with any of our advisory committees on this Amendment.

Effect on stakeholders

Repealing the conflicting IDPC Rule provision will impact a small number of registered individuals, but the impact on each affected individual will likely be significant. To help mitigate this impact, CRO is willing to consider granting exemptive relief to give affected individuals sufficient time to upgrade their proficiencies⁵ while they continue to advise on exempt market products during the upgrade period. Further, at some point in the near future, CRO will publish for public comment proposals to codify this exemptive relief and its related conditions.

³ The scenarios covered under IDPC Rule subsection 2603(2) include firms registered as an investment dealer only and firms registered as both an investment dealer and a mutual fund dealer (**dual registered dealer**).

⁴ Specifically, mutual funds-only licensed individuals who are sponsored by a dual registered dealer must have the proficiencies to transact in all securities in order to transact in exempt market products.

⁵ Affected individuals will be required to upgrade their proficiencies to those required to be able to advise on all types of securities for an investment dealer.

The Amendment and its classification

To address the rules conflict between IDPC Rule subsection 2603(2) and the equivalent requirements in NI 31-103, CIRO is repealing IDPC Rule subsection 2603(2). The Amendment eliminates an existing rules conflict between the IDPC Rules and NI 31-103 and does not introduce any new conflicts with applicable laws or the terms and conditions of CIRO's recognition.

Blackline and clean copies of the Amendment are set out in Appendix A and B, respectively.

The Amendment has been classified as a housekeeping rule change as it only impacts a small number of registered individuals, and the change is necessary to conform the requirements of the IDPC Rules to securities legislation requirements (in this case NI 31-103 requirements).

The Amendment does not relate to a IDPC Rule that CIRO, its Members, or its Approved Persons must comply with in order to be exempted from a requirement of securities legislation.

Supporting documents

[Appendix 1](#) -Blackline copy of the Amendment

[Appendix 2](#) -Clean copy of the Amendment