

Appendix 3 – Impact assessment

Description of proposed amendment	Related intended benefits	Impact on clients	Impact on <u>Investment Dealer</u> Members	Impact on <u>CIRO</u> HROC
<p><i>Introduction of general defined terms relating to derivatives (i.e. derivative, listed derivative and over-the-counter derivative)</i></p>	<p>Facilitates objective of more clearly specifying which of the core regulatory obligations apply to securities, listed derivatives and OTC derivatives by moving away from product specific definitions and related regulatory requirements, where possible.</p>	<p><i>Neutral</i> - Clients are generally unfamiliar with the current definitions used within the IDPC rules for specific derivative products. As a result, simplification of these definitions will have little to no impact on clients.</p>	<p><i>Neutral to net positive</i> - While there will be some required revisions to firm policies and procedures and client documents, we believe that firms will also benefit considerably from the shift to regulating by broad product category (i.e., securities, listed derivatives and over-the-counter derivatives) rather than by specific product. This change is likely to reduce compliance costs and make our rules easier to understand and comply with.</p>	<p><i>Neutral to net positive</i> - Changes will facilitate less emphasis on product-specific examination procedures and greater emphasis on business line examination work.</p>
<p><i>Proposed new inclusions in definition of “institutional client”</i></p>	<p>Eliminate the existing inconsistent assessment of non-individual and individual client sophistication by allowing certain individual clients to qualify as an “institutional client”, if they wish to be categorized as such. Allows certain non-individual clients to</p>	<p><i>Neutral to positive</i> - Two categories of clients that will benefit from the proposed changes to the “institutional client” definition are:</p> <ul style="list-style-type: none"> • sophisticated individual clients who will have the option to be treated as an “institutional client” provided their assets under 	<p><i>Neutral to net positive</i> - As firms will be given the option to categorize qualifying individual clients as “institutional clients”, these changes will only impact those firms who decide to pursue this option. These changes will also continue to allow <u>Investment Dealer</u> Members to use one definition in determining</p>	<p><i>Minor negative</i> - There will be some required enhancements to examination procedures to ensure that individuals that will now qualify as “institutional clients” have been properly assessed as being sophisticated for the appropriate transactions, positions and accounts.</p>

	<p>qualify as an “institutional client” for their specific hedging activities, if they wish to be categorized as such. Qualifying hedging activities would include CIROHROC-approved activities involving securities, listed derivatives and OTC derivatives. Both proposed inclusions would apply to all clients in order to ensure that client sophistication assessments are consistently applied to all dealer securities and derivatives business lines.</p>	<p>management exceed a certain threshold; and</p> <ul style="list-style-type: none"> sophisticated non-individual hedgers who will have the option of being treated as an “institutional client” for those accounts with qualifying hedging activity. 	<p>client sophistication for the securities, listed derivatives and over-the-counter derivatives business lines.</p>	
<p><i>Revised definition of “market value”</i></p>	<p>Facilitates a consistent and practical approach to daily client reporting for all of their derivative and security positions. Eliminates unnecessary burden elements within the current account position valuation requirements.</p>	<p><i>Net positive</i> - These changes are net positive to clients as, although it could be argued that the use of a less precise approach for valuation would negatively impact the accuracy of market value information provided to clients on a daily basis, requiring that firms use all valuation approaches on daily basis would:</p> <ul style="list-style-type: none"> not be practical as it normally takes longer 	<p><i>Positive</i> - These changes are positive to <u>Investment Dealer Members</u> as they will allow the use of a more practical/streamlined valuation approach when determining “market value” on a daily or intra-day basis thereby reducing compliance costs.</p>	<p><i>Neutral</i> – CIROHROC already considers the practical challenges of determining position market values on a daily basis as part of the market value testing work that is done within its examination work.</p>

		<p>than a day to exhaust all valuation approaches; and</p> <ul style="list-style-type: none"> • be prohibitively expensive for firms to do and clients would end up bearing these expenses. <p>It has therefore been concluded that permitting the use of a more practical/streamlined valuation approach to determining “market value” on a daily or intra-day basis is a net positive for clients.</p>		
<i>Extension of existing sales conduct requirements to derivatives</i>	Facilitates the consistent regulation of all securities-related and derivatives-related activities. Clarifies that core regulatory obligations are generally derived from the type of account offering the client receives and not derived from the types of products made available within each account offering.	<i>Positive</i> - Making it clear that the core regulatory requirements that are applicable to a particular account service offering apply all account transactions and positions, irrespective of whether they are security or derivative transactions or positions, provides important increased clarity to the clients regarding the firm obligations that are owed to them.	<i>Minor negative to neutral</i> - Some revisions to policies and procedures, supervisory responsibilities, and client documents/disclosures. <u>Investment Dealer</u> Members already apply the core regulatory requirements that are applicable to the account service offering to all transactions and positions that occur/are maintained within the account.	<i>Neutral</i> - CIRO HROC already examines <u>Investment Dealer</u> Members for compliance with the applicable core regulatory requirements on an account basis rather than by type of product.
<i>Extension of existing derivative sales conduct requirements to over-the-counter derivatives</i>	Facilitates the consistent regulation of all derivatives-related activities.	<i>Positive</i> – The extension of the cumulative loss limit to all derivatives accounts, <u>except for options or similar derivative contracts</u>	<i>Minor negative</i> - Some revisions to policies and procedures, supervisory responsibilities, and client documents/disclosures.	<i>Minor negative</i> - CIRO HROC will need to examine for compliance with the cumulative loss limit restriction for all

	<p>Standardizes derivatives loss limit restrictions and risk disclosures to ensure that all derivative products offered to retail clients are subject to the same regulatory protections.</p>	<p><u>or where it is a hedging account</u>, is an important investor protection enhancement. As the new Derivatives Risk Disclosure Statement will cover issues relevant to all derivative transactions and positions, the document will be more relevant to clients transacting in all types of listed and over-the-counter derivatives.</p>	<p>The extension of the cumulative loss limit to all derivatives accounts, <u>except for options or similar derivative contracts or where it is a hedging account</u>, will impose a new obligation on firms not currently required to impose this restriction on accounts other than futures accounts. A new Derivatives Risk Disclosure Statement (covering listed and over-the-counter derivatives) will need to be provided to clients. This statement will replace the existing Risk Disclosure Statement for Options and Futures that was implemented by the IDA in 1999. Adequate time will be given to <u>Investment Dealer</u> Members to distribute this statement to existing clients in order to mitigate the negative impacts of this new requirement. <u>Investment Dealer</u> Members already apply the other changes to over-the-counter derivatives.</p>	<p>derivatives accounts, <u>except for options or similar derivative contracts or where it is a hedging account</u> (rather than just futures accounts). <u>CIRO#ROE</u> will need to finalize the drafting of the new Derivatives Risk Disclosure Statement. The initial drafting work for this new statement has already been performed. <u>CIRO#ROE</u> already examines <u>Investment Dealer</u> Members for compliance with the applicable core regulatory requirements for both listed and over-the-counter derivatives.</p>
<p><i>Codification of requirement to obtain</i></p>	<p>Harmonizes <u>CIRO#ROE</u> requirements with</p>	<p><i>Positive</i> - <u>CIRO#ROE</u> already has been granted this</p>	<p><i>Minor negative</i> - <u>CIRO#ROE</u> already has</p>	<p><i>Net positive</i> - Will provide <u>CIRO#ROE</u> a tool to</p>

<p><u>CIRO#RØC</u> approval before offering highly-leveraged products</p>	<p>product approval requirements introduced in Europe that resulted in the ban of offering of binary options and the introduction of leverage restrictions on the offering of contracts for difference.</p>	<p>power by certain CSA jurisdictions for contracts for difference products offered to retail clients by our <u>Investment</u> Dealer Members. The codification of this power and the broadening of its scope to include all highly-leveraged products introduces an important regulatory check that can help ensure that highly-leveraged products with little to no likelihood of profitability aren't offered to retail clients. While it is anticipated that <u>CIRO#RØC</u> will rarely use this power, it is important that <u>CIRO#RØC</u> has this power to intervene, particularly in situations where no other domestic regulator has the power to intervene (such as where a firm is proposing to offer a foreign-produced highly-leveraged product to retail clients).</p>	<p>approval authority over the introduction of highly-leveraged over-the-counter derivatives to retail clients. Because the proposed amendments would extend to authority to cover all highly-leveraged listed and over-the-counter products, even though <u>CIRO#RØC</u> intends to use this power extremely rarely, this new requirement may on occasion delay or prevent the offering of certain highly-leveraged domestic and foreign-based investment products to retail clients.</p>	<p>prevent in extremely rare cases the offering of a highly-leveraged investment product that has been determined to be unsuitable for all retail clients.</p>
<p><i>Extension of existing financial and operational requirements to derivatives</i></p>	<p>Facilitates the consistent regulation of all securities-related and derivatives-related activities. Clarifies that baseline client reporting</p>	<p><i>Neutral to minor positive</i> – The amendments result in greater clarity of the client reporting obligations for all derivative transactions and positions; the current</p>	<p><i>Minor negative to neutral</i> - <u>Investment</u> Dealer Members already maintain records and report to clients on all derivatives</p>	<p><i>Neutral</i> – <u>CIRO#RØC</u> has noted no significant situations where <u>Investment</u> Dealer Members are not currently providing</p>

	obligations apply where the account transacts in and holds derivative positions, security positions or both derivative and security positions.	requirements focus only on the client reporting obligations for options and futures transactions and positions.	transactions, positions and accounts.	adequate client reports. As a result, we do not anticipate having to perform additional examination work once these amendments are implemented.
<i>Modification of existing financial and operational requirements (other than margin)</i>	Facilitates ongoing investor access to their derivative and security account positions.	<i>Neutral to minor positive –</i> Requiring that an <u>Investment Dealer Member notifies CIRO when it encounters a significant business disruption situation and when it invokes its business continuity plan is a positive as it will allow CIRO to monitor disruptions Dealer Member’s BCP must be invoked when a “significant impairment”</u> to client access to their assets or ability to liquidate their assets occurs is a positive as <u>and it helps ensure that any such impairments in client access or ability to liquidate their assets are rectified as soon as possible/practical.</u>	<i>Minor negative -</i> It could be argued that the proposed changes to the BCP requirements represent a significant negative to <u>Investment Dealer Members</u> , due to the introduction of a specific requirement for the firm to <u>notify CIRO when it encounters a significant business disruption situation and when it invokes its business continuity plan.</u> invoke their BCP when a “significant impairment” to client access to their assets or ability to liquidate their assets occurs; <u>We’ve assessed this impact as “minor negative” as we believe that Investment Dealer Members are already hyper-sensitive to these types of business disruption events for both firm reputational risk and</u>	<i>Neutral to net positive -</i> CIRO#ROC already follows up with firms when significant business disruption events occur. <u>The proposed changes introduce clarity and consistency on the type of events on which CIRO expects to be notified, describe information expected to be included in the notifications and ensure the timeliness in the communications. This will enhance CIRO’s ability to assess and monitor arising situations both at a Dealer Member level, or identify an arising trend within a group of Investment Dealer Members or across the industry as a whole.</u>

			ongoing business viability risk reasons. <u>The added requirement to notify/communicate such occurrences to CIRO is reasonably structured and we do not anticipate it would be burdensome for this step to be incorporated in the current procedures of Investment Dealer Members.</u>	
<i>Extension of existing registration requirements to over-the-counter derivatives</i>	Facilitates the maintenance of consistent proficiency levels for all individuals dealing in or advising on derivatives.	<i>Positive</i> – Amendments clarify that registration/approval is required where the individual is conducting any type of securities or derivatives business with clients.	<i>Neutral - Investment Dealer Members</i> that transact in over-the-counter derivatives are already subject to these registration and approval requirements as a condition of their membership.	<i>Neutral – CIRO#ROC</i> already expects client facing individuals be approved and meet specific proficiency requirements when offering over-the-counter derivatives.
<u>Codifying reliefs previously granted by the Board of CIRO:</u> (i) <u>exempting executing broker operating under a ‘give-up agreement’ from delivering trade confirmations and month-end statements to the respective</u>	<u>Harmonizes the position adopted through these reliefs to all Investment Dealer Members to whom these situations apply.</u>	<i>Neutral</i> – <u>We do not expect these amendments to affect clients as most firms involved in such operations are already exempted, subject to the conditions imposed at the time the exemptions were granted.</u>	<i>Neutral to net positive</i> – <u>Most Investment Dealer Members involved in these types of operations would already benefit from the exemptions. Going forward, Investment Dealer Members involved in such operations will not be required to apply for exemptive relief.</u>	<i>Neutral to net positive</i> – <u>CIRO will not have to undertake the process of seeking Board approval for Investment Dealer Members seeking an exemption from these requirements as the carve-out will already be embedded in the rules.</u>

<p>(ii) <u>institutional clients, and exemption from the requirement to issue the annual performance and fee/charge reports to retail clients who wishes to transact in futures, foreign exchange contracts and contracts for difference</u></p>				
--	--	--	--	--

[Appendix 4](#) – Revised Proposed Amendments to the IDPC Rules (Clean)

[Appendix 5](#) – Revised Proposed Amendments to the IDPC Rules (Blackline)