



Attachment C – Impact assessment

Background

As outlined elsewhere in this notice, IIROC has performed a review of its Dealer Member rules (IIROC Rules) to determine:

- inconsistencies between the IIROC and CSA rules that would be created should proposed NI 93-101 and NI 93-102 be adopted;
- areas where scope of application of IIROC's derivatives-related rules is either unclear or too narrow and could benefit from rule scope clarification amendments;
- areas where IIROC's derivatives-related rules are out of date, taking into consideration recent rule revisions announced by other jurisdictions/bodies, and could benefit from rule enhancements; and
- areas of inconsistency within the IIROC Rules between the regulation of securities-related activities and the regulation of derivatives-related activities that are not justified and could benefit from rule amendments to address these inconsistencies.

IIROC has also recently announced the implementation of its plain language rules, which has not only resulted in more clearly stated rule requirements but also helped identify inconsistencies in the regulatory treatment of both listed and over-the-counter (**OTC**) derivatives.

The objectives/intended benefits of the proposed amendments arising from IIROC's Derivatives Rule Modernization project are to:

- ensure our rules continue to be materially harmonized with the equivalent CSA rule requirements as they apply to securities and derivatives;
- more clearly specify which of the core regulatory obligations apply to securities, listed derivatives and OTC derivatives; and
- eliminate inconsistencies in the regulatory treatment of securities, listed derivatives and OTC derivatives, where justified.

Two important considerations/objectives in developing these proposed amendments were that all rule amendments pursued should:

- where possible and appropriate, avoid the creation of new regulatory arbitrage situations and reduce or eliminate existing regulatory arbitrage situations; and
- result in the consistent regulation of all securities-related and derivatives-related activities occurring within a Dealer Member.

Impact Assessment

In the attached table we have listed the major policy elements of these proposals, along with a description of the intended policy benefits of each element and an assessment of its impact on clients,



IIROC Dealer Members and IIROC itself. In summary, we have assessed that the approval of the proposed amendments will result in:

- Neutral to positive impacts on clients in all areas;
- Minor negative impacts on Dealer Members resulting from the extension of the cumulative loss limit to all derivatives accounts, the changes to the derivatives risk disclosure requirements, the formal introduction of highly-leveraged investment product approval requirements, the changes to the BCP requirements and the need to update firm policies and procedures in certain areas;
- Neutral to positive impacts on Dealer Members resulting from the simplification of the derivatives-related definitions, the expansion of clients eligible to become “institutional clients” and the streamlining to the “market value” definition for the purposes of daily account position valuation; and
- Minor negative impacts on IIROC when the proposals are implemented, our field examination programs are revised to reflect the amendments, and our field examination reviews are conducted to determine levels of compliance with the amendments.

The dollar magnitude of the collective impacts of these proposed amendments is not known and won't be known without detailed stakeholder feedback.

Question #8

Have we identified all of the proposal provisions that will materially impact clients, Dealer Members or IIROC? If no, please list other proposal provisions that you believe will materially impact one or more parties and why.

Question #9

Overall, IIROC has qualitatively assessed that the benefits of these proposals exceed their costs. Do you agree with IIROC's assessment? If so or if not, please provide reasons why.



Description of proposed amendment	Related intended benefits	Impact on clients	Impact on Dealer Members	Impact on IIROC
<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 IIROC 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.</p> <p>Allows certain non-individual clients to qualify as an “institutional client” for their specific hedging activities, if they wish to be categorized as such. Qualifying hedging activities would include</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 management exceed a certain threshold; and • sophisticated non-individual hedgers who will 	<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 Dealer Members to use one definition in determining client sophistication for the securities, listed derivatives and over-the-counter derivatives business lines.</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>



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	<p>IIROC-approved activities involving securities, listed derivatives and OTC derivatives.</p> <p>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>have the option of being treated as an “institutional client” for those accounts with qualifying hedging activity.</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.</p> <p>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 than a day to exhaust all valuation approaches; and • be prohibitively expensive for firms to do and clients would end up bearing these expenses. 	<p><i>Positive</i> - These changes are positive to Dealer Members 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> – IIROC 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>



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		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.		
<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. Dealer 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> - IIROC already examines Dealer 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. 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.	<i>Positive</i> – The extension of the cumulative loss limit to all derivatives accounts 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	<i>Minor negative</i> - Some revisions to policies and procedures, supervisory responsibilities, and client documents/disclosures. The extension of the cumulative loss limit to all derivatives accounts will impose a new obligation on firms not currently required	<i>Minor negative</i> - IIROC will need to examine for compliance with the cumulative loss limit restriction for all derivatives accounts (rather than just futures accounts). IIROC will need to finalize the drafting of the new Derivatives Risk Disclosure



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		<p>be more relevant to clients transacting in all types of listed and over-the-counter derivatives.</p>	<p>to impose this restriction on accounts other than futures accounts.</p> <p>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 Dealer Members to distribute this statement to existing clients in order to mitigate the negative impacts of this new requirement.</p> <p>Dealer Members already apply the other changes to over-the-counter derivatives.</p>	<p>Statement. The initial drafting work for this new statement has already been performed.</p> <p>IIROC already examines Dealer 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 IIROC approval before offering highly-leveraged products</i></p>	<p>Harmonizes IIROC requirements with 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><i>Positive</i> - IIROC already has been granted this power by certain CSA jurisdictions for contracts for difference products offered to retail clients by our Dealer Members.</p> <p>The codification of this power and the broadening of its</p>	<p><i>Minor negative</i> - IIROC already has 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</p>	<p><i>Net positive</i> - Will provide IIROC a tool to 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>



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		<p>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.</p> <p>While it is anticipated that IIROC will rarely use this power, it is important that IIROC 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>over-the-counter products, even though IIROC 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><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 obligations apply where the account transacts in and holds derivative positions, security positions or both derivative and security positions.</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 requirements focus only on the client reporting obligations for options and futures transactions and positions.</p>	<p><i>Minor negative to neutral</i> - Dealer Members already maintain records and report to clients on all derivatives transactions, positions and accounts.</p>	<p><i>Neutral</i> – IIROC has noted no significant situations where Dealer Members are not currently providing adequate client reports. As a result, we do not anticipate having to perform additional examination work once these amendments are implemented.</p>



Description of proposed amendment	Related intended benefits	Impact on clients	Impact on Dealer Members	Impact on IIROC
<p><i>Modification of existing financial and operational requirements (other than margin)</i></p>	<p>Facilitates ongoing investor access to their derivative and security account positions.</p>	<p><i>Neutral to minor positive</i> – Requiring that a Dealer Member’s BCP must be invoked when a “significant impairment” to client access to their assets or ability to liquidate their assets occurs is a positive as it helps ensure that any such impairments in client access or ability to liquidate their assets are rectified as soon as possible/practical.</p>	<p><i>Minor negative</i> - It could be argued that the proposed changes to the BCP requirements represent a significant negative to Dealer Members, due to the introduction of a specific requirement for the firm to invoke their BCP when a “significant impairment” to client access to their assets or ability to liquidate their assets occurs; we’ve assessed this impact as “minor negative” as we believe that Dealer Members are already hyper-sensitive to these types of business disruption events for both firm reputational risk and ongoing business viability risk reasons.</p>	<p><i>Neutral</i> - IIROC already follows up with firms when significant business disruption events occur.</p>
<p><i>Extension of existing registration requirements to over-the-counter derivatives</i></p>	<p>Facilitates the maintenance of consistent proficiency levels for all individuals dealing in or advising on derivatives.</p>	<p><i>Positive</i> – Amendments clarify that registration/approval is required where the individual is conducting any type of securities or derivatives business with clients.</p>	<p><i>Neutral</i> - Dealer Members that transact in over-the-counter derivatives are already subject to these registration and approval requirements as a condition of their membership.</p>	<p><i>Neutral</i> – IIROC already expects client facing individuals be approved and meet specific proficiency requirements when offering over-the-counter derivatives.</p>